Event Transcript
Inclusive Capitalism: What Business and Labor Can Do for Quality Employment

Dominic Barton, McKinsey & Company
R. Thomas Buffenbarger, International Association of Machinists and Aerospace Workers
Dick Gephardt, Former House Democratic Leader
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Unedited rush transcript

Adam Posen: Welcome this afternoon to the Peterson Institute for International Economics. I'm Adam Posen, President of the Institute and we are for the second time in a week stretching our boundaries a bit. Last week some of you at least were here for a day long conference on ethics and globalization. If you were not, I encourage you to go to the Institute's website and see some of the very exciting discussions or listen to some of the very exciting discussions or look for the e-book which should be out in a matter of a couple weeks.

Today we continue to stretch a bit because the world is not as lovely a place in some ways as some of us tried to think it was in 2004 and part of our job here at the Institute is to try to understand that and make something of it, make something better of it ideally.

Today, as many of you are aware and that's why you're here, we're here to talk about inclusive capitalism and inclusive capitalism is a concept that sounds a bit vague, but actually has more to it specifically and in content than many people think and that definition has been given in many ways by the Henry Jackson Task Force on inclusive capitalism which Dominic Barton of McKinsey and Lynn Forester de Rothschild of E.L. Rothschild and our Board have led and I was proud to be a member of that Task Force.

You've got a brochure on your chairs from the Henry Jackson Initiative, which is administered out of the Henry Jackson Society in London, sorry to make it that complicated. Alan Mendoza, who is I believe the President of the Henry Jackson Society, forgive me if I got the title wrong because I know him as Alan, will be speaking briefly a little bit later about that. But in terms of content today, we are very privileged to working together with Dominic and Lynn to have an outstanding group of speakers to try to provoke us further into what practically can be done to make the

capitalism we have in the U.S., as well as elsewhere function better for the long term, function better for both the workers and the businesses in it.

Some of you saw, I hope and if not you should pick up outside, the op-ed that Lynn Rothschild and I had in the Wall Street Journal I guess a little over a week ago that I think set out some of the basic points very much in keeping with the thrust of the Task Force.

One thing which we did not go into enough detail about and we're using today to start, is to think about ways that labor and management can collaborate for the long term for training of workers, for matching of workers for investing workers, but also then workers investing in their businesses. Here at the Peterson Institute for International Economics obviously we're aware that there are other models out the world. There are places like Sweden and Germany and then in a very different way Japan, who have taken that path and today we're going to start with a panel with Dick Gephardt, who of course has been a leader in Congress and more recently a leader on actual practice of management/labor collaboration and that's played a key role in some of the restructuring of our auto industry in recent years, which has been such a huge success and benefit, in my opinion, to the American people and with him is our Thomas Buffenbarger, as President of the International Association of Machinists, which has been a union that has under his leadership been at the forefront of trying to be forward looking and working with management and engaging in constructive collaboration for the sake of long term jobs and long term productivity.

After that discussion and we will open it for discussion following the speakers remarks, we will have Alan from the Henry Jackson Initiative to tell you a little bit more about that and then turn a second panel which Lynn will chair with Dominic Barton of McKinsey. For many people in this room, Dom needs no introduction, let's just say he is the man who leads the management gurus, but for purposes of this discussion, he's also the person who did a very insightful article for Harvard Business Week, I guess what, about three years ago now on long term investing and he's going to be paired with James Leech, who's head of Ontario Teacher's Pension Plan, which for those of you in the corporate governance business, is what we want CalPERS or [inaudible 00:04:28.8] to be when they grow up and trying to be the responsible stakeholder while getting profits for its retirees and then briefly after that I'm going to talk about some new research that relates this to the Institute's undertaking.

Sorry to stake up all that up front, but our goal again is to get the audience engaged and get people up here and for that reason we're going to sit family style, so if I could ask Dick and Thomas to join us up front, we'll get started.

Adam Posen: Management labor collaboration sounds good, what does it mean in practice, what are the benefits, is this just about labor peace? Well since nobody strikes anymore, duh, who cares about labor peace? So many cynical things can be said, but as I mentioned, particular at the end of the leadership of Dick Gephardt, we've seen some astonishing instances of really constructive effort in the industrial sector, in this country and I was wondering if you could talk to us about your experiences there over the last few years and how you think things are moving forward.

Dick Gephardt: Sure. Thank you so much for having me here and I want to commend Dom and Lynn and the whole staff of this great organization for addressing this really important issue for everyone in the world, not just for people in America and Europe, and tell you that when the private sector on its own addresses serious problems, you can obviate the need for sometimes government regulation, which usually messes it up or doesn't do it as well as the private sector can do it on its own.

So I really commend you for addressing this subject because we all know that it's on the minds of everyone probably in the world and it does need to be addressed and we need to find sensible, positive solutions, which I truly believe and I know you believe do exist.

I thought maybe the way to start my part of the discussion was to spend a minute on kind of getting up to 30, 40, 50,000 feet and trying to remember why we are where we are. Why are we having these problems, these challenges and the answers are obvious and we all know them. We're in now what I think everyone accepts is a truly global economy. Borders of countries mean far less than they ever have and I won't be alive, but I think at sometime in the future there may be a lot less borders, certainly for capital and other things than we have today.

Secondly, we've had an information communication technology revolution which is extraordinary and so if you just think about those two phenomena and you can easily understand how standard of living becomes a very important issue, especially in developed countries. It's always a problem in underdeveloped countries, but now it becomes a big problem in developed countries because we know that if countries like America and Germany and other developed countries in the world have to really compete head to head in a world marketplace, either they've got to become a lot more productive than they are, or they're going to lose their standard of living. That's just obvious from the facts of what has happened.

Secondly, technology now moves quickly across the world. I have a friend who's a labor economist in University of California at Berkeley and I have

talked to him often about the auto industry and he told me 10 years ago that the auto plants in Mexico had much better technology than the plants in Detroit or Ohio or St. Louis where I'm from and that the workers, because of computer training and other information programs, were as, if not more productive than the UAW workers in the United States and so they could produce as good a product as we can produce in the United States at far lower wages and be fully competitive with anything that could be done in the United States.

So these two phenomenon; lack of borders, worldwide economy that we all understand is here and going to be here forever and information technology and just technology of being put out in the world very quickly, very easily, really equalizes this competition in the entire world and finally, you know I keep saying to people, the biggest fact in the world today is that half the world's population that doesn't have our standard of living is trying to get our standard of living overnight. It puts tremendous pressure on resources, energy, water; everything that you know is going on today in China, and India, and Vietnam, and across the rest of the world, South America. So that drives up the price of commodities long haul and makes it harder for everybody to compete, but certainly even developed countries to compete.

So given this fact situation that I think we all well understand, I guess I looked at your three pathways and I think that they're absolutely correct and I think having this discussion on long term governance, longer term thinking by corporations, how to educate workers and the third, are really the right things to be talking about and I guess what I'd like to bring into the discussion today is maybe tweaking two of those in a further direction and the tweaking that comes from my experience is that in addition to those three, we need to find effective ways to engage and empower workers not only in America, and in Europe but all over the world, so that we have the opportunity to increase the size of the economic pie and not have a continuing acrimonious win-lose discussion over diminishing slices of a diminishing pie. Because that discussion is self-defeating and it ends in ruin for everybody and I think our experience shows that if the proper attention is effectively paid to this idea of truly engaging workers in every way and I'm going to get into that in specific detail. Then we can go on the virtuous cycle of increasing the pie and the slices of the pie for everybody.

What are the learnings that we've had? Now my son is here and another gentleman by the name of Ricardo Gonzalo are at the back of the room here. We work together every day and working with companies and unions or sometimes when they don't have unions, but we work with companies and employees in trying to figure out how to better engage the

workforce, empower the workforce to be more motivated, more effective and more productive and so what are some learnings?

I'm going to give you three, at the end three specific cases so you know exactly what I'm talking about, but I wanted to kind of line out some threads that I've thought of that come out of our work.

Number one; you've always got to remember that as all people are different, all companies are different. It's very, I think wrong to make allness statements about this or any other area because every company you come into is in a different state of evolution with regard to their employees. Some employers we work with have fabulous relationships with their employees and have had for a long time. But they want to take it to the very highest level. They want maximum engagement and productivity and we have things that we do with those kinds of folks.

Other companies we come into are--they don't even talk to their employees. I mean they have a horrible relationship. They've had strikes and violence and difficulty and so you start from a very different place in trying to build toward the culture that you want and think is necessary.

Second; on the whole I think we think American businesses and I suspect European businesses; I'm not an expert on Europe so I can't say, but I think on the whole American businesses probably don't have a very good record on the whole of successfully engaging their employers. Gallup did a survey of employees in the United States a year or so ago and what they found was that only 11% of American employees believe they are truly, intellectually and physically engaged in the enterprise for which they work.

When I heard this statistic, I thought of the old study where a psychiatrist said to us that human beings only use 10% of their brain, imagine how powerful it would be if we used 20% of our brain and so when I heard this figure I thought, my God, if we could get to 20% of the employees being engaged, think of the wealth creation that would be experienced here in the United States or anywhere that it's done.

So not a good record on the whole, but certainly room for improvement and the fourth thing I'd say is that while finance, and marketing and the other things that we so well teach in our business schools and our MBA programs are I think are well taught and well understood. We find the subject of employee engagement is largely in the backwater of most curricula of most business schools. It's seen as soft stuff, as maybe if you want to go into HR, that's what you'd talk about, but that's not what CEO's worry about and to us that's really the wrong assumption. In fact, we would turn it on its head and make employee engagement and the

culture of a company be the most important factor in achieving productivity and profitability.

Our experience uniformly in all the cases we worked in has been that employee engagement and empowerment is the most important variable factor in maximizing shareholder profit and corporate success.

In other words if you can figure out how to get everyone focused on the goal of increasing the size of the pie so that ultimately people have the potential of getting a bigger slice of a bigger pie, you have magic and I'm not using that word loosely. We have seen cases where this all finally happens and they just, the employees knock the cover off the ball to use a baseball analogy.

Successful engagement we find must begin with getting the culture right first. Where that happens as I said a minute ago, you get marvelous results. I just cited three studies, we can get you the detail on this; a Harvard study over 11 years, revenue growth in companies with highly engaged employees. They grew by 682% versus 166% for companies with unengaged employees, so almost a 5 or 6-fold increase in revenue for those companies.

The Towers Watson study in 2010; high engagement companies had operating margins three times higher than nonengaged employee companies and if you look at the 100 best places to work, which I think some academic group studies year after year, you find that their market value, their stock price doubled the S&P 500.

So there are voluminous studies to indicate that what we're talking about really does yield the result of a growing pie and growing slices of a larger pie.

So what we found is that you've got to get the culture right first and so we've seen a lot of cases here and I'm sure in Europe where management thinks if we just share the profits or we do stock options or we do these economic incentives, that will really incite the employees to be high in productivity, high in performance and what we've found is that that's not true. You've got to get the culture right first, then you can deal with all the other issues. If you don't get the culture right, you're never going to deal with the rest of it.

Successful culture always first includes mutual respect resulting in trust. Now that sounds like a really soft concept that an HR person would talk to you about, but case after case, time after time, we have seen this is the initial threshold step that has to be taken by both sides in order to get to the rest of the issues to build the ultimate culture that you need.

Sometimes it's as simple as just saying to the CEO, "You have to have a personal relationship with the head of the workers". I mean, it's so ludicrous that it's even hard to bring it up sometimes, but it's true. People don't talk to one another in part because they don't respect one another and in some cases they hate one another. And if you're starting from hatred, you're way back, you got a long way to go to get to a successful culture.

So number one; respect on both sides, for both sides leading to trust, leading to communication. A second successful culture always includes transparent information communication to employees on the metrics of the business. It also involves asking employees for honest and constant input on how to better manage the affairs on the plant or the company or the division and ways to jointly succeed.

We had one CEO that we worked with say to us, "You know I used to, before I started doing this with the employees and asking their help and getting their opinions and giving them the metrics and sharing my worries", he said, "I used to go home every night and I was the only one that laid awake at night, sweating out this business, could we make payroll, were we going to succeed". He said, "I almost--was to commit suicide" and he said, "Now the problems are no easier, but I got 3000 people lying up awake at night with me". What a difference, what a multiplier. It has had everybody in the enterprise pulling in the same direction.

Third, most employees work for psychic reward more than financial reward and I want to restate that because usually when I say this to people they look at me like, "Yeah, that's more of that soft stuff that you HR people talk about". We have found it to be true time and time again. Everybody wants to make money, don't mistake what I'm saying. Everybody wants to make more money, I get that, they get that. But what they most want is the feeling that they're contributing to an important cause and they're making an important contribution to that cause. That's what they want, it's self image. It's the feeling that I'm involved in something useful, interesting and important. I'm not just a robot. I'm not someone that takes orders from people. I'm involved, I'm listened to, I get information, my brain is involved in this enterprise not just my hands or my back. I'm really in it and this applies to services just as much as manufacturing.

Everything I'm saying applies to any business it doesn't matter. The difference is the people and are you inspiring and motivating and engaging and empowering the people.

Once the culture is right, concepts like incentive or variable pay becomes easy and well accepted because when people understand the business and understand the contribution that they're making and understand the results that are being created day by day, month by month, year by year, it is logical to people to be paid on the basis of the performance of the entire enterprise and so people, unions, are much less excited about asking for guaranteed pay increases and much more ready to help their members accept variable and incentive pay.

And on that score I want to say that, I'm going to show you some bias here, I came from a union household, my Dad was a teamster, and so that's where I grew up. He would say to me often, "We have food on the table and you have clothes on your back because I'm represented by a union that gets me fair wages for my hard work" and I've never forgotten that and never will because I really think it was true. He didn't have a high school education, he drove a truck. Best job he ever had and after 10 years his back went out and he had to do other things in which he didn't make nearly as much money.

So I believe in unions. I believe in workers being represented and what I want to say to you is that sometimes we run into companies where they think the total answer to their challenges or problems is to get rid of the union. The union's the problem, they're the real fly in the ointment, if we could just get them out of the way, and we could do what we want to do with these workers. It's just wrong-headed and what we've found is, you'll hear from my good friend Tom Buffenbarger in a minute, often unions can be a great help in working with management to move in the direction that I'm talking about; improving the culture and getting people to be more productive and more profitable and more pleased with their employment.

So the ultimate goal is to get your employees to perform and if anybody here's a football fan, I got to use a football analogy from yesterday and the day before. So you know you watch these NFL games on Sunday and as they go through the season they all go out there and do their best, but they're not really throwing themselves into it if you will. If you saw the Ravens game versus Denver or you saw the game yesterday with Atlanta versus Seattle, you saw four teams that I suspect were giving it all their intellectual and physical capability to the nth degree. That's the goal everyday with every employee of every company in the world and it can be done. It is not impossible. People can be inspired. They can be motivated and lastly, one of the things we've found is that, and here I can only speak about American workers, but I suspect workers everywhere are kind of the same; Americans love to compete. They love sports and they love being on a winning team and they're very independent thinkers and they love to solve problems and they love to help one another succeed in a

common goal and that's really all we're talking about here and that, if achieved, creates miracles.

Three quick, really quick case studies, because I've talked too long; number one an aerospace company in Wichita, Kansas, I'll name it, it's Spirit AeroSystems. When I got out of Congress I got asked by a private equity fund to see if I could help them get a contract with the machinists, so I said before I do that, I've got to call my friend Tom Buffenbarger, whose been my friend for 30 years and ask him if he thinks this is a good thing for me to do and he obviously said yes and so we went to work and to make a long story short, we had to get concessions on wages and health care and pension and the whole nine yards and so Tom helped us get that done and then we said to one another, "How do we get the votes" something that I always worried about, "Of these workers to approve this contract" and he said, "Well maybe we give them stock and if you do an IPO sometime later, maybe they can see the light at the end of the tunnel for all their concessions".

Well we did that, a year or so later, we did an IPO and every machinist, there were about 7000 of them out there then, I think there's about 12,000 now, got about 60, 70, 80,000 grand in stock apiece and then we followed that with lots of information and lots of involvement and lots of engagement. About a year ago, Tom helped us get a 10 year contract, unheard of in manufacturing with lots of incentives, lots of bonuses if the productivity increases that we were seeing kept on and they have and it's all been positive and in my view it's a magical story of how if you really engage people you can really get tremendous results.

At Gephardt Group we've been working at a telecom company, one of the biggest. Their challenge is how to compete with cable and so they have cable people that drive trucks out of a garage all over the country and our job was to try to figure out how to motivate them because as you all probably know when the cable people come, the performance is not very good and they often have to come back two or three times and it's just usually a disaster and so what Matt and Ricardo came up with is, let's talk to the cable people. Let's find out what their problems are and what their concerns are and so after a lot of interviewing and pulling out of them ideas for how to do this better, we've kind of come up with a plan to in short that make them into seal teams and now they govern themselves and they decide on the schedule themselves and they help one another out in the field, which they never did before and so rather than giving them orders every morning and then using GPS to see that they did what they were ordered to do, they now have their own head on how to do this more successfully and the results have been fantastic.

Finally, we worked for the last two years in an aluminum plant in rural West Virginia. They make the skin for Airbus and Boeing. They had a really tough labor relationship, almost to the point where management and employees wouldn't talk to one another, would not communicate, had no respect for one another, no willingness to work together. We went to the worst part of the plant; we interviewed employees over a six month period and got ideas from them. When we first asked for these ideas, they said, "We've given them, these ideas for 20 years and they never listen to us, they don't talk to us" and so we got management, they had new management. We got them to implement many of these ideas and productivity has increased markedly, almost doubled in this part of the plant and now we rolling out this same method throughout the enterprise and again, this is a case where we're trying to change the culture before we go on to these other economic issues, which we think will flow once we're able to put it throughout the entire enterprise.

So with that, I've talked too long. I want to turn it back to my friend Tom Buffenbarger, who has vastly more experience with this than I have and has seen the things that we're talking about happen in other plants all over the United States.

Adam Posen: Well, thank you, Dick. That was fantastic and, in many ways, far more hopeful than what many of us in Washington and in the corporate world are usually exposed to. So Tom, if I can ask you, is life really that good and we've all just been missing the trick? And I don't mean that disingenuously. I mean, I remember my first economics class 28 years ago. I was assigned a book called *What Do Unions Do?* by Freeman and Medoff; and it made many of the same points—not as articulately; it was economists, after all—but many of the same points as Dick that treating with respect, communication, giving workers autonomy resulted in productivity gain; and yet somehow that's not received wisdom. So is this realistic? Is this aspirational? How do you view this?

Tom Buffenbarger: Well first, thank you for the invitation to be here. It's an honor to be among you and I'm going to learn from you as much as I can share because I've never done one of these events with this Institute.

Steve Weisman: That's our honor, by the way. Thank you.

Tom Buffenbarger: Well, much of what Dick Gephardt has relayed to you I could easily paraphrase myself because we have known each other for a very long time. We've worked toward common ends in many different arenas.

But what I'm amazed about, to begin with, is if I could ask a question of you? How many of you in here believe Jack Welch deserves all the

adulation he gets as a great manager? ... Wow. Thank you. I know I'm in a friendly crowd.

I just think that it's pretty amazing that now, at this point in time, we're talking about this issue, at this level, about worker empowerment and inviting workers in to help move forward any enterprise.

A little history of my union is we were founded 125 years ago this year in a railroad pit in Atlanta, Georgia, in a hole in the ground; and what were the workers looking for, as 19 machinists came together, working for the Southern Railway, was respect.

So to your point, Dick, psychic reward was the first driver of what united a group of 19 very individualistic people. Sure they wanted a pay increase and they wanted to improve the widow's mite—a little benefit for when a worker was killed on the job. These were the days before labor laws, insurance programs, pensions, etc. What they wanted was very little. The primary driver was respect for the job they did; and if you can think back, the high technology of the day in 1888 was transportation by rail.

A hundred and twenty-five (125) years later--well, last year, when this union moved with the times ... you've all seen space shuttles launch. Have you ever seen the camera shot where all the sparks fly at the base of the shuttle as it ignites the engines that lift the shuttle? First of all, that shuttle's built by our members, maintained by our members, serviced by our members and it's an IAM member whose button—finger on the button—ignites the sparks that sends the shuttle on its mission. My, how we have changed with the times; and the technology of which the members of the union I'm privileged to serve manage has changed considerably.

We've always been on the cutting edge, and for 125 years we've negotiated tens of thousands of contracts over those years. We maintain currently an 8000-contract database and it's amazing that, over those 125 years, the same root issue is Number One: respect and dignity on the job. Wages, benefits, the other rules of engagement with employers, really are the secondary tier of relationships.

So "Here we come; what can we do?" As I understand one of the issues to discuss. How do we invite the workers to be more participative in this idea of a capitalistic enterprise? The references to what goes on in Europe, in Germany resonate with me and the members of my union.

When World War II ended, President Truman dispatched one of my predecessors, Harvey Brown, to Germany to rebuild the German Labor Movement and rebuild its labor relations structures.

People like me were shot by Adolf Hitler. Unions were relegated to, you know, refugee status. Those who saw a post-war world knew that there was a valuable, relevant role for unions. They enjoyed respect prior to "the Bad Days." How do you bring it back? How do you give the workers in a war torn part of the world a sense to reengage again? And it was to give the workers respect, not just from their would-be employers, but also the recognition that would come from the government that would develop afterwards.

The same was true in Japan. Unions finally found a root in post-World War II Japan; and thus, out of the misery grew some pretty enviable systems that we have been fighting for decades to emulate in the United States. And one of the very attractive parts of the relationship between Labor and Management in Western Europe is this fact that they spend a lot of time working jointly or collaboratively on solutions to the problems they face either in manufacturing or servicing their parts of the global economy. We've been looking for partners to do that in the United States for a long time; guys like Jack Welch.

And a little bit about me. I come from General Electric, jet engines. I know Jack Welch and I know he's the spawn; and once we get by them and can find the employers willing to engage us as partners, good things happen.

Dick mentioned Spirit Aerosystems, and he used a key word because this was a tough situation. It was a Boeing facility. Boeing sold it off thinking their worldwide supply chain could take care of anything they would need in the future. The company that formed after that was named, renamed Spirit Aerosystems—still and to this day Boeings' largest supplier for critical components, it's one of the finest, in my terms, machine shops in the world with the quality of workers, their skills and their dedication. But they were hurt after working their lifetimes for Boeing, who had been there since World War II in Wichita, they were hurt deeply that Boeing could, in their terms, wad them up and throw them away like a piece of paper.

We knew something had drastically happened there. It was going to continue manufacturing products as long as they could deliver on time and a quality product; and with Dick's help and with a visionary manager who had been a Boeing manager, who could have stayed with the company, but chose to remain in Wichita with the new firm. We took a giant step. We brought all the employees together and the leadership of the employees, groups—both management, the engineering union, and those represented by the machinists; and we all sat together in a common room and after decades of strife and dueling, the plant manager and myself looked at each

other in front of everybody and said, “We’re going to start anew and we’re going to start today by trusting one another.”

It was as quiet in that room with a couple thousand people—and you remember that, Dick—as it is right now. A lot of skeptics, everyone in that room, it didn’t matter what their background was, everyone was a skeptic to this. If we were going to develop trust though, it had to come from the top, and the people, the workers no matter what they do, had to see that and had to hear it; and then it was incumbent upon myself and upon Jeff Turner, the CEO, to make it happen.

And with Dick’s help, we made that happen. It is a work in progress. It is still happening all these years later, and it can’t stop if we’re going to make it all successful. It is a never-ending story and yes, our workers took a $2 an hour wage concession; they took a lesser health care plan. The pension we did okay on because they’re in the union pension plan. And the workers were rewarded for taking a leap of faith. Their work, their dedication, their ideas, their participation, the company’s willingness to listen and implement ideas caused a big payout in the first year it was available. The car and truck dealerships in Wichita were the happiest people in town because everyone bought a new vehicle. It was a great example to use.

There were a lot of skeptics to this idea and then we ended up—and it’s all related to Spirit—with our Boeing negotiations. We’re Boeing’s largest union. And you’ll remember in 2008 we unfortunately had a strike that lasted 42 days. Somehow we’re blamed for a three-and-a-half year delay delivering a new airplane.

But one of the things that Boeing wanted was a long term agreement; they wanted no conditions on it or obligations on their part, so it was rejected. Well, we eventually came to terms with Boeing. Everyone went back to work, production was restarted, and Boeing once again went to the press and said, “We need a 20-year Labor Agreement.” No obligations on their part; they just wanted peace with the machinists, their bad boys and girls, for 20 years.

Now we knew in the union, but the company never asked us. We understood the value of a little longer term agreement, especially when we’re on the threshold of bringing a lot of new products to market with very new, untested technologies. We did sit down with them and we bargained; and Boeing walked away from the table, leaving us in a lurch, saying it could never be done.

All the while, the CEO of Spirit and his team of managers understood that even by sitting down and talking with Boeing on something longer than a

three-year contact, the union had an open mind. On the heels of the collapse of the Boeing long term negotiations, we sat down with Spirit and worked out a ten year contract that was accepted by the membership. Boeing said it couldn't be done and told the managers of Spirit that it was a waste of time. "Why do you want a ten-year agreement?" Because of all the reasons we understood.

That agreement went into place, and Boeing then had a problem. Boeing was always saying they could never depend on their suppliers because of negotiations, because of the threat of strikes, other issues. Now we had turned the tables that the suppliers couldn't always depend on Boeing because of the threat of strike and other issues, and Boeing asked us to come back to the table. Of course it was tied to a Labor Board Charge because Boeing had decided to build a plant in South Carolina which is their right to do so, but the reasons they stated publicly they shouldn't have stated.

We came out with a new, long term 11-year agreement with the Boeing Company when they thought it couldn't be done. All tied wages and benefit improvements, all the conditions of the labor agreement are tied to the productivity of the workers, but more importantly and what helped sell that--that was the largest ratification vote in our 80 years with Boeing—74% of the workers voted to accept that contract; normally it's one or two votes that separate a decision—because in that contract, it's recognized the workers are going to participate in how we build these airplanes from this point forward. Those workers have ideas, how to produce—especially a new high tech airplane coming off the lines. They know how to position things such as the plane and where and what gets put on the airplane at what point of production.

And once it was implemented and changes could be affected, now we're cranking out 787s despite the current news you're hearing. There's a lot more 787s out there and it's a new airplane where bugs—like a new model car—there's bugs. But with that process proving the point, Boeing's new 737 MAX, which hasn't even been sold yet or purchased yet or I mean delivered; there's not been one built yet—they've already engaged a total remake of their Renton, Washington facilities to deliver this plane based on the ideas and the input of the workers. They now have a double line; we'll be cranking out 70, 80 airplanes a month when it's finally introduced. Boeing reaped huge rewards in both financial terms and in the relationship with their employees because they listened and they agreed that the workers do have some value to this enterprise.

Now that's in the aerospace industry. That's one of those high tech industries; that's one of those highly skilled industries where our workers have significant training—many college degrees and some form of the

engineering art, and apprenticeships where they learn the skills that can't be taught in a classroom. And that's where this country is--one of the negatives we have is we don't engage in that type of training process as they do in Europe or Japan, or now even in China. So there's a subject there that needs to have a thorough review. A lot goes on. There are other companies. Some of you may have heard that we have done work with-

Steve Weisman: I'm afraid—because we want this to be a dialogue—I'm going to ask you to not list those.

Tom Buffenbarger: Not disclose it?

Steve Weisman: Yes, please.

Tom Buffenbarger: Are there any Harley Davidson riders here?

Steve Weisman: We would be glad to have you disclose it and put it on our website along with the video we have of today's event; so please, we want the information.

Adam Posen: This is obviously very inspiring and a very real world tale that they're telling. It's also one that, going back to where Tom started talking about—excuse me, where Dick started talking about global competition is not one we see usually or think of usually; and going back where Tom started, it's one where a number of us in this room, in fact, have done work on the German economy and for many years it had this labor institution and very poor productivity performance.

So there is stuff here to think about; there is stuff here to challenge; and I'd like to encourage anybody from the room, particularly our friends from the business community who want to air out their views—some of them may indeed be the same win/win stories, which would be great, but if not, not. Please head to the mic or raise your hand to be recognized.

Anybody? Wow. I should have let you finish. Please, Jessica.

Jessica Reinhart: Thank you for your comments and per your instruction, it was very interesting on the union organization. I'm wondering. Did you happen to see the article on General Electric in *Fortune Magazine*, but it's appearing in a lot of different places, about how they're building factories back in the United States, but that it's a totally ...you know this whole rage that's going on now about "outsourcing is the old story" ... Jeffrey Milton ... Insourcing is back, but of course it's a very different kind of sourcing, very dependent on labor, but a different kind of labor and robots. I

wondered if you could describe to us or tell us more about what happens to the labor unions in this new age of manufacturing in the United States.

Tom Buffenbarger: Referring directly to General Electric where they have brought back work, its Appliance Park in Louisville is the most notable; and they're going to be bringing work back, I believe, to Syracuse. The union is still there, but the jobs they're bringing back pay one-third to one-half of the wages they once paid; and they're still on par with what they were paying for work such as appliances in Mexico; and GE would have moved it to China or to South Korea if the cost of shipping were more certain to get it back to North America.

There are other companies also bringing work back on a more equitable basis because they've learned, dealing in China mostly, that it's not been the panacea that has been portrayed, that cheap wages and a friendly government make you a very handsome profit margin. When I think of companies that are bringing back work as well, it's some of the automotive parts, the components, certainly some aircraft parts and components are coming back. A company such as—and I'll use this example—Whirlpool is starting to bring work back into the U.S. that it had shipped overseas and is reevaluating the value of having plants even across the border and bringing products from Mexico.

And where they're bringing the work back to is pretty much unionized already. So it's not the union that's the negative factor they consider; it's simple economics. Those are good trends. I don't know how much it continues. In manufacturing, technology has displaced a lot of hands on labor in assembly work, but there are still some things that technology will never be able to replace such as the work those who *fix* the technology doing the work of people.

We represent a lot of folks who maintain, manufacture and service whether it's robots or other assembly processes. As far as the outsourcing goes, it's always been amazing to us in the machinists, being the largest union in the U.S. Defense Industries, that we spend tax payer dollars and award it to a company to develop a certain technology, and as soon as they develop it, they're applying for the export license to have it manufactured or sold or processed in other ways overseas.

I've never understood where the taxpayer got a return on the investment for that; and I think as we talk about our fiscal crisis and our budgetary issues in the United States, I think the American taxpayer deserves a return on the investment the taxpayer makes into manufacturing in American businesses. Will I ever live to see that? I doubt it, but you know we'll ...

Adam Posen: As Dick says, if you think the labor competition is tough, wait till you see how mobile capital is.

Dick Gephardt: Can I add one thing? So I think that there is some of this happening, and I agree with Tom, how much it will happen remains to be seen. There are a lot of factors involved, not the least of which is the cost of energy to move stuff around. And you've got to understand that the standard of living in places like China and other places is starting to come up; so we're getting what I think we all hope for.

Our wages have certainly come down as he just said, but their wages are going up and hopefully, you know, we meet in the middle and we're going to have a lot more consumers in China, potentially, and India and other than that—and that's a good thing. That's a very positive thing. But we're still in a real struggle here in manufacturing. I think this is really going to be hard and it's why what I talked about, I think, is so important; because we entered this competition with many of our companies having a poor relationship with their employees, so we were ill-equipped to meet this competition and we lost lots of jobs.

I'm on the board of Ford Motor Corporation. We've literally lost ... America has lost I'd say two-thirds of the UAW jobs that used to be at Ford, GM and Chrysler in the United States. Now, recently, we're bringing some of those jobs back from Mexico, back from Asia that can be better done here in the United States.

Every Explorer, I might add, that you could buy in the world will be made in Chicago, Illinois. We're going to sell the whole new, brand new Lincoln line in China and all those vehicles will be made in the United States. So there are some really nifty stories here about a renaissance of manufacturing. I just wouldn't get carried away with it.

Tom Buffenbarger: No. No.

Dick Gephardt: Now, one added thing. I was in San Diego last week and I went to an organization called Connect, and I would urge the staff of this organization to connect with Connect because it was a very interesting group—mainly biotech; but they've been around for 30 years and they have basically a business incubator for bio tech and high tech and they've done a very good job. They've helped build a lot of really strong businesses in the San Diego region.

One of his ideas I thought was really interesting. He said we've got to continue the government effort in research—at DARPA, at NIH, at all these organizations—and he's really worried, as I am, about us spitting that bit out here as we go through the fiscal cliff stuff. But the second idea

I thought was really interesting. He said we've lost a lot of manufacturing in high tech to underdeveloped countries because there simply wasn't the expertise here to make these products like the Apple phone without defects, to make it very competently.

And his thought was that we need a consortium of the private sector, the federal government and local governments; and his word was, "Build it and they will come," so that we had these manufacturing skills that Tom talked about and facilities in place in different parts of the country to meet the coming technologies that we know are going to be out there.

One instance he gave me was he said that we lost Solar Panels. We shouldn't have lost Solar Panels, and if we had had the capability out there to quickly make this stuff, we wouldn't have lost it. So that was, I thought, an intriguing idea.

Adam Posen: Speaking on behalf of the economists—I see Steve Weisman—is there a non-Institute person who wants to ask a question? Yeah, there, behind Steve Beckwith. Just to say that we do have to record the fact that we have studies that suggest that the declining U.S. manufacturing, again, wasn't driven by unionization, but by the same token was not out of whack with the decline in manufacturing in a number of other advanced economies.

That doesn't mean we shouldn't be concerned about it; it doesn't mean we shouldn't be talking about it and I appreciate Jessica Reinhart for raising the question. But it is about, as Dick said earlier, this is not just about manufacturing; this about services; this is about every industry and that's what we have to think about. Sorry. You can identify yourself when you speak, please.

Bruce Levine: Thanks. My name is Bruce Levine. I'm Director of Office of International Labor Affairs at the State Department where one of our missions is to promote workers' rights and equitable economics overseas. My question is really about the growing disparity—income disparity—both in this country and overseas, because what both of you were talking about earlier refers to the manufacturing sector in relatively high tech industries with skilled workers which is not easily replicated.

But when we're dealing with say Bangladeshi garment factories or something like the retail sector in the United States, what is the approach that should be taken, either by government or by social partners to improve the bargaining power of the workers and to promote the kind of engaged workforce that you were talking about? And I don't have this question for either one of you in particular, but I'd be very interested in your views. Thank you.

Adam Posen: That would be great. Let me ask Dick and Tom if they want to comment on that and then, well, not wanting to cut things off, especially since we haven't had a business person volunteer to come out and talk, we'll move on I think, to the next panel—but, please.

Tom Buffenbarger: We engage which, the Bangladeshi workforce? Our government gives us no standing to go into other nations, with the exception of Canada to ... and we're organized in Canada only because we did that before there was a law that pushes back against us on that. They really mitigate our abilities to go in and help the workers there. There are other global labor federations—GUFs as we call them, Government Union Federations—that we use to try and train workers and empower them to represent their own best interests in their countries; but we get a lot of pushback to that from this nation and also from the nation we're working in, and they defer to the companies that move those operations there and create these issues.

If there were some legitimate role for the ILO, the International Labor Organization, to have expanded powers and enforce some of the precepts we have under the United Nations, maybe people around the world would be a little better off today than they are in some of the developing countries.

Adam Posen: Right. Dick, do you want to say anything.

Dick Gephardt: No, I think that covers it.

Adam Posen: I think we should say a very great thank you to Tom Buffenbarger and Dick Gephardt.

Alan Mendoza: Well thank you, Adam. Thank you indeed to the panelists for the first session. I think it's very interesting actually to recall that we're named the Henry Jackson Initiative, it's after Scoop Jackson, the Senator, and I think it's very interesting that in 2013, 30 years after Scoop Jackson, who was a great friend of labor after all passed away that we've convened a discussion here today with a labor leader and a theoretician and practitioner of labor management relations to discuss this very issue. It shows how time does not dull the importance of the message in terms of how things go through.

But a quick word on the Henry Jackson Initiative and you will all have packs in front of you that reveal a little more about what we do, but in a sense already you've lived through it today in the discussion. What we do is we convene seminal points about what we call inclusive capitalism. We look at various aspects of that. We draw into debate, discussion and try

and suggest practicalities in terms of how we can actually help resolve the intricacies and fusions within the capital system and improve them so they work for the benefit of all instead of what we may have seen earlier.

Adam started off by referring to the fact that the world is a less pleasant place perhaps than 2004 and that really was in a sense our starting point. If you look at the sort of confusion engendered by the financial crisis and indeed by the economic crisis that's followed since then, I think fundamental questions have been asked about the system of capitalism and what it does for its many stakeholders.

But I think we started from two premises; the first was that capitalism remains the best system for improving the lot of everyone out there in terms of incomes, in terms of betterment, in terms of life improvement and that still remains true, but of course the second part of that is, it can be improved, it must be improved and it can only really be improved by all its stake holders and businesses, labor, workers coming together, consumers coming together and understanding that, we're all in it, to paraphrase the very British coalition phrase, all in it together, to make this a much better system going forward and how did we do that.

Well if you look as part of your pack, you have the Task Force report on inclusive capitalism, which was our first major initiative. It was brilliantly chaired by [inaudible 00:02:08.2], Lynn Forester de Rothschild who of course led a team of very distinguished practitioners and intellectual thinkers including Adam Posen on the subject and we of course produced this report. Well the aim of which was to in fact frame the challenge.

What is it we mean by inclusive capitalism? I know Lynn will speak about this a little later about where we're planning to go with it and what the sort of the journey has sort of been on this, but it also suggests ways and areas in which we can make progress. So if we look at areas such as education for employment, looking at SMEs, how we can improve that they contribute to the economy and of course if you analyze other such as long term governments and see how companies can make improvements. The core in being that in reality we don't need governments to make the decisions for us. All of these things can be handled in partnership together.

We had two launches, one in London, one in New York at Bloomberg, which sort of framed those areas and now I'm pleased to say with today's discussion, we're moving away from, if you like, the macro approach into the more micro areas, looking at various parts of the challenge ahead seeing how we can probe and tease out solutions and answers on both sides of the Atlantic, going forward.

A couple of things that we're doing for example in London right now, to give you a sense of some of our activities; firstly, next month we're announcing a very interesting prize, looking at youth unemployment. The best essay to solve youth unemployment and its being run in the Daily Telegraph, the Reed Foundation has kindly sponsored the £10,000 prize for this. And having seen some of the entries, I think it's firstly a great experiment to see people from all walks of life actually writing in with their solutions and suggestions as to how to make this endemic problem that affects our societies work better and we're looking for a solution, I think, not prejudge the process, which could work anywhere, whether it's in Britain, America, anywhere to solve this problem and as you know in some countries such as Spain and Greece, its reached crises levels in terms of 50% or more of youth unemployment and causing a problem for those societies.

I want to stress this transatlanticism. I'm delighted we're here in Washington to launch the next leg of this and look at the labor issue. It's really very important to us that there is a debate going on on both sides of the Atlantic because we live in a globalized world and in a globalized world we need to draw on the experience and on the globalized nature solutions in order to make the system a better one for one and all and of course that does require your help as part of that as well.

In your packs you have a little leaflet which we hope you'll fill in with your details if you want to be involved in our work going forward and surely there's plenty more to come on this, there's a whole raft of measures with specific companies and indeed more areas that we're looking to work in 2013 and beyond. And with the inspired of leadership of Lynn and Dom and of course with friends like Adam and the Peterson Institute, we do indeed look forward to working with all of you to try and deliver that agenda for change.

Thank you very much.

Lynn de Rothschild: I'd like to thank Dick and Tom for really taking us into the parallel universe of Inclusive Capitalism. What you were talking about is not something that we read about all the time. And the media gives us the airplanes that crash, not the airplanes that take off. And so thank you so much for that.

And Dick, you used that term that's so good, the "virtuous cycle." And so the Gephardt Group is working with management and labor. But behind that, you had I might say a Canadian private equity fund in your sphere. And by the way, the reason I said the Canadian is I'm surrounded by

Canadians, not to mention that the new governor of the Bank of England is Canadian so watch the space, ladies and gentlemen. So you had an investor that was willing to work with your CEO.

And so I really think that the virtuous cycle is not only management, labor, or customers, but enlightened investors. And I can't help believing that we would have more enlightened managers if we had more enlightened investors. And I have huge respect for a CEO like Paul Polman who said, "If you care about sustainability, if you care about fairness, come and invest in my company. If you don't care about those things, you are a perfectly fine person, but find another company." A very brave and extraordinary person.

And so on this panel, we're going to explore that part of the inclusive capitalism agenda. And if I may, I would like to start with Jim Leech on my right who is the CEO of—oh sorry. You two look alike today. All Canadians look alike. Sorry. You'll get me. You two were separated at birth. I know it, anyway. On my left, Jim Leech, who is the CEO of Ontario Teachers' Pension Plan. It has 300,000 plan members.

And I want Jim to describe more of this later. But until 1990 from—what year—from 1917, it was a government-run pension plan. In 1990, the government working with the Teachers' Union decided to privatize. They privatized. It was 17 billion of assets. Today, that pension plan has 127 billion in assets. The Economist Magazine did an article on the "Canadian Model for Pension Investing," focused on what Jim is doing with his type of direct hands-on investing and his concern for the long term.

Just a little bit more on Jim, he is not a lifetime investor. He's a lifetime manager, the kind of people Dick is working with. He managed two big Canadian companies, made them bigger, and moved on. He became CEO in 2007. The Ontario Teachers' Pension Plan has been a number one performer among pension plans for the last ten years. He outperforms the median by 700 or 800 basis points.

So Jim, I'd like to start by asking you as an investor representing 300,000 people who rely on your performance, you do that thinking about the long term and what does that mean to you.

James Leech: Well, first of all, I mean we are fortunate in that as a pension plan, we have a horizon of about 70 years. We have to concern ourselves not only with people who have retired and people who are now in the profession, but we have to also concern ourselves about people who will eventually join the profession, in fact, teachers who aren't even born yet. And so we call it a cycle of about 70 years. So once you put that hat on, you are talking long term. By the same token, we do have short-term pressures etc.

And so that it is difficult to—I mean there are certain parts of our operation which one would say is short-term focus, but the bulk of it is long-term focus.

It's interesting. If I can, the World Economic Forum about three years ago set out to try to figure out how many long-term investors are out there like everyone talks about it that they are long-term investors. Yeah, they're long-term until the first take-off and then they all suddenly become very short term. So they sat down and first of all came up with a definition and that was an investor who was going into an investment purchasing an asset for long term either capital growth or income growth.

But it also had a qualifier in there and it said "and was also capable of holding it for the long term because there are lots of people who go in and say, "Oh that's a great idea. I'm going to buy it for the long term." But they're not necessarily capable of seeing it through to the end because they've got constraints on, constraints such as liquidity is the most obvious one.

So in their study, this is about 2009, they figured there's about $65 trillion of funds that are managed professionally in the world. They figured about half of that is in the hands of people that you would stereotypically think of as being a long-term investor, so half of the 65. And stereotypically, you'd think of pension plans, you'd think of endowments, foundations, life insurance companies, sovereign wealth funds, and probably family businesses. I think that was the group. So they figured they represented about half. Then they looked at the constraints that were on those groups to see how much of that money could in fact be deployed on a long-term basis. And they came to the conclusion it was about 25 percent of that.

So of all of the funds in the world, the conclusion was that about one-eighth of those funds actually legitimately could be considered as potential for long term. And why did they think that was important? What was the objective here? Why is being long term important?

First of all, they felt it brought stability into marketplaces. That's one thing that long-term investors do. Secondly, it's probably the only way or those are the types of investors who are going to rebuild the infrastructure that is so badly needed in the western world, so badly needed to be rebuilt. And finally, it was a sort of major energy project particularly green energy etc., where the most likely place you'll get those investments are from long-term investors. So that was the three areas that were focused on. But it is only about an eighth of all of the money out there can legitimately be deployed this way.

Lynn de Rothschild: And when you look at investing, what is the approach that you take in looking for your investments?

James Leech: Well, I mean first of all, the obvious approach is to make money. We're in here to meet the promise for 300,000 teachers in the province of Ontario. But our investment style is different. First of all, we believe that in most, investors of our nature are too highly diversified. Over-diversification is one of the biggest issues that many of our brothers and sisters in the industry struggle with.

If you're over-diversified, all that basically means is you're going to—at best you'll meet the index minus all the costs. So you're never going to do well. We think for far more impact, you should have a far less diversified portfolio. Then that leads you to larger stakes in a smaller number of companies, which then lead you to the ability to engage with those companies and really understand what's going on inside them, engage with the boards of directors, engage with management to help them as they go about trying to try to build their businesses.

And with a kind of long-term stable investor such as ourselves as partner to management, those companies can take a different view going forward. They can afford to make large investments today that aren't necessarily going to pay off next quarter, but will pay off in five years when we're still there prepared to reap the benefits of that. But it's not every investor. I mean there are various conditions in the environment in which we operate that has to be right to do that.

First of all, governance is probably the biggest and that is the people who are on my board of directors and oversee what I'm doing have to be professionals. They have to understand that's what the strategy is. They have to understand that the first time—and just to give you a great example when teachers first went into the private equity business early in 1993 or 1992 to do it. And they made a determination to do it themselves. They weren't going to give Henry Kravis all bunch of money so they could be charged fees. Instead, they were going to try and do it themselves. The very first investment they made very small was in a nursery business, a flower business. They made an investment of $20 million and were patting themselves on the back for it. It was a pretty interesting investment. It went bankrupt and they lost every penny within four weeks.

And I always tell people when I run a private investing site, I had this boardroom and it's still there. And on the walls are all of the transactions that we have or have done good, bad, and ugly for the whole since it started in 1992. And there are the white roses up there. It's the very first one you see it. But I always tell people the most amazing thing is there's

actually a wall there that has names on it that goes all the way to 2013. Because most organizations would have said, "We dried a dry hole on the first go. Tried that. Let's get out of here." And that isn't what happened. The board said, "Private equity is a higher risk area. What did you learn?"

So the other side of it is you have to be an organization that's prepared to learn from its mistakes and go forward. So governance is key. The types of employees you have are key. You have to have a staff that has got some experience, has got some credibility, and has been there for some while. I mean if you're churning your staff over all the time as an investment organization, that's impossible to take a long-term view.

Lynn de Rothschild: What about in looking at your investments? Do you focus on the kind of things that Tom and Dick were talking about? Obviously at the shareholder level or at the board level, you're not dealing with the unions per se or the workers in a company. But do you find yourself probing companies and how they're educating their workers, how they're creating workers for the future?

In the Henry Jackson Initiative work, we were very impressed by the work of Rolls Royce. Rolls Royce created a Rolls Royce Academy, and the academy did what Tom was talking about that the Germany does often which is to create apprenticeships. And people came in and they go through this program. And then they're inculcated with being Rolls Royce. And it's about a 25-year-old program and 40 percent of their top execs have gone through that. Is that something that as investors we should encourage? Or is that a kind of a hit and miss?

James Leech: I think I could answer that by saying we look at all indices of success in what companies are doing. I mean in our investment portfolio, we spend from investments in public entities where we'll own 2 or 3 or 4 percent all the way up to organizations where we own 100 percent. And obviously, the ones that we own 100 percent we spend a lot more time and have a lot more success and understanding of what's going on. So those are the organizations that we have the most impact on. By the same token in our public company portfolios, they are concentrated. They're not highly diverse. And we're very active on the governance front.

Lynn de Rothschild: Maybe on that I should turn to Dom. I think Adam said that it well, he is the guru to all corporate America. He's the managing director of McKinsey, and on a personal note, working with him on the Henry Jackson Initiative on Inclusive Capitalism has been remarkable. His devotion, his integrity, his desire to get things right, and to hear all sides is remarkable. And there are lots of—so there are lots of points that I could go to you, Dom, on.

But recently, McKinsey issued a report which you've personally written about, about education for employment. And if you could tell us a bit about that job and how it relates to what we're discussing today on management and job creation.

Dominic Barton: Sure. Yeah, and in fact, it really was driven off one of the three pathways that are in that report we all worked on together. One of the first pathways was sort education for employment. How can business play a broader role in creating more employment given the situation that's going on? And the second one was around SMEs and the third around long-term investors, which Jim led the charge on where it is.

But with that background, what we did was follow that up and did surveys. You know today in the world, there's about 75 million youth that are unemployed, which is a pretty staggering number. I think it was mentioned. You know someone mentioned before about the percentage of youth unemployed in some countries like Spain that's over 50 to 50-1/2 percent. I was in Saudi Arabia just before Christmas. There's 40 percent youth unemployment. And this is, I think, in many ways a crucible of where the system could come to a crisis because I think people say, "This capitalism, this is a great system. But how come I'm not going to have a future in terms of where it goes." Lynn, you like to quote. I think it's a wonderful term that the elevator isn't working in the apartment building for people in the bottom to the penthouse. There's no elevator to be able to work that people can't work. So that was the context.

And what we found in that work is that when you see the 75 million youth that are unemployed and you've got, at the same time, a lot of businesses they can't hire the people that they need and this is something that Dick and Tom were talking about. There's a need for skills to be able to do it. So even in the U.S. today with roughly 12-1/2 million unemployed people, there are 3 million unfilled jobs. And that's not just frictional unemployment. It's just the skills aren't there.

And so you have this dichotomy that's in every single country. We found the same thing. We've got growing youth unemployment. And we've got actually a growing gap between what employers want to see that's there and then you have educational institutions that are doing their best too but believe that they're creating the skills, if you will, for people to work. So we've got—we sort of found it as there's like three parallel universe that's going on.

There's youth that want to find jobs. It's unclear. It's very difficult to find out what are the opportunities that are there. It's very intransparent to people when they're making that decision that's sort of 16 to 17 years old. You've got educational institutions which are very much focused on what

it takes to get in. They don't spend on generalizing a bit too much of it. They don't spend a lot of time talking about what happens to their students when they go out, what are the sorts of the jobs that they get in terms of where things are. And they've got employers who don't feel that they're able to influence the system to get people coming into it. And so that's sort of the context.

And what we found in it is there are some very good examples out there where people are doing things. John Peace who's part of our task force who's the chairman of Standard Chartered Bank has actually himself just said, "I've had it. This is crazy. Let's start doing it in the U.K." and he's actually got business people to get, "Let's try apprenticeships. Let's see whatever we can do to try and move it forward." And there's some very good progress. The challenge is getting scale because again we're talking 75 million.

So if McKinsey and Ontario, we all do our little thing, it's not going to add up to much. And so the view is how do we get an upscale program to be able to move? And what we're finding is that there are some areas. This is an example like I always mispronounce the name. But it's in Brazil actually called Prominp, P-R-O-M-I-N-P. I'm probably butchering the name of it. But it's actually in the oil and gas industry, which is you know is a pretty booming area.

And what's happened is you have a consortium of business, educational institutions and local government that's got together to say, "You know what? We're going to have to create the skills that are required for people to be able to work in this industry." And they've actually now affected 90,000. And again that's not in the millions, but that's over a three-year period of 90,000 people have got jobs.

And they're very systematic. They've actually gone around to the different companies in the oil and gas industry in Brazil in a particular region and basically said, "What's your pipeline over the next five years of projects that you need to get done?" And then they've very systematically and boringly, if you will, draw that back to say, "What types of jobs?" There are 190 different categories. I couldn't tell you what those all are, but there are 190 different categories of skills that are required. And the educational institutions are there. And you've got very nice symbiotic method there. It's going to create work. It's going to create GDP growth. It's going to be good for the government. And it's a wonderful thing. We're seeing that.

The U.K. has started to build just a transparent system so that youth can actually say, "What sort of jobs are actually out there that I could get? What's available for me? How much do they pay? What are the requirements that are needed and so forth so that people can do that?"

And then Singapore, well, it's a small country. So you have to be careful about extrapolating too much from that. It's very interesting to see the polytechnics. And I don't think we talked enough about vocational, the vocational side of things. Dick, you've talked about this before. We focused too much on broader university. I think we don't spend enough time on the vocational institutes.

And what we've seen is that the ability to be able to provide training at the vocational level allows people to be able to create more jobs. And we're seeing examples of that in different parts of it, so the notion too of the type of educational institution. Germans in particular have done a great job. If you go to a vocational institute, you're not seen as a loser. If I could say it, you know you're actually proud to have gone to it. You're actually well paid. You move into other roles.

I think in Canada, England, in the U.S., the vocational thing is not the first thing that you'd be talking about when you're introducing yourself to people. And yet that's where a lot of the jobs are. So we're also looking at ways to try and build that in different countries. I think there's a lot we can learn as Alan said from experiences that are there.

And what the Singaporeans have done have brought their three polytechnics together. There's the Ministry of Education. And there are four CEOs that get together and they literally mapped out jobs. I've actually met with them and I said, "That's probably a system that's a little restrictive. And what if I want to do art history? You're telling me I can't do art history?" And they said, "No, you can. But let me give you an example. We think that there are 900 jobs that are required in the various water technology areas. And so what you're going to find is in the polytechnics and the education institutions that we have here, there's going to be a lot more spaces to do water technology. You're going to have to be really, really talented and smart if you want to get the one of the three or four places in art history if that's what you want to do."

So, again, they're trying not to restrict it, but they're trying to tailor it, if you will, to where it is. And that's actually, I think, quite an interesting system because they try and look ahead. It's not perfect. But it's all groups together, again, education, business, and government trying to figure out ways to be able to move it forward. So that's kind of where we are.

Lynn de Rothschild: Yeah. A lot of what you said was government acting. How much do each of you feel that business, not for corporate social responsibility, not for philanthropy, but for its own good should think about training, should think about small and medium enterprises, should think about—? Well there's the environment. There's a whole group that says that—and maybe

that's part of this question that whole movement toward the ESG, the environmental, social, and governance investor.

Do you think that managers should think about these things and investors should encourage them to think about these things? Or is it really something that should stay outside of the bottomline and that managers should focus on the bottomline, which in many case as we've seen from what Dick and Tom said the bottomline is enhanced by working with workers? But is there even a larger agenda beyond that that investors should ask managers to do?

James Leech: Let me try to address that. I think that—I maybe make two statements on it. One is there's no question and I think the World Economic Forum is saying this year that the greatest threat that if you talk to any business person the greatest threat that they see going forward is income disparity, which could lead to civil unrest. That is number one. I have yet to meet any business person who doesn't say that's a big concern. And so that gets you involved whether you like it or not, you're engaged. And you've got to start thinking about what you can do, what your organization can do to help address and alleviate that issue.

I'm involved in issues totally separate from Ontario Teachers' Pension Plan in education, public education, in Ontario in Canada actually, an organization called The Learning Partnership. And we just held a major symposium in our conference in two days in February which had government, business, and professional educators and academics there.

And it is I can say the first time I've seen so many business people at it totally engaged, and in fact, leading many parts of the sessions. And not just saying, "You got to be producing people that would be workers for the future yada-yada-yada," but much more into what are the things—how can business play a role to help transform the system to what's going in the real world, talking about the flipped classrooms and curriculums and etc. And so it's the first time I've seen that many business people, senior people, seriously engaged.

Lynn de Rothschild: It's like de Tocqueville said about America that we have a sense of self-interest properly understood. And maybe we've gotten off the track, but what you're talking about we're coming back to the track. How do you feel when you're consulting with CEOs around the world in their genuine interest whether it's the inequality debate or the environment debate or the governance debate?

Dominic Barton: I definitely agree with Jim. I think there's quite a big shift that's going on. And it's kind of a shift too away from—it's not corporate social responsibility is there. But actually you need to do things to help the

community that you're operating in and that's where you should focus your effort. Let's go back again. In many ways, it's going back to the future because as Adam Smith said in his first book, *The Theory of Moral Sentiments*, which is, it's the duty of the entrepreneur to take care of the society in which they operate. So Adam Smith was quite a person who's interested in the community. I think a lot of business people are realizing that, and we see it. And I don't think it should be something that's not related to your business.

If you look at Alcan, the aluminum company, they're very big in education. They don't do it for CSR. They do it because they want to train their workers in Africa to be able to drive trucks and use the technology and so forth. It's a win-win. And so they're actually putting a lot of resources. They're one of the biggest contributors on that side on the educational front. So I think there is that shift.

You mentioned the Paul Polman side of things. I think you're seeing more business leaders step out because you know that if you don't—and Michael Porter talking about again the stakeholder—if I could hold on and shut up. I think there's been a shift in capitalism that started. The last one in the late 1960s we became very focused just on shareholder, shareholder. It was the–read Milton Friedman. He's done much good work. But one of the things was, "the business of business is business and don't waste your bloody time with the other things that are going on."

We became also much more short term, right, or average share in the New York Stock Exchange was held for eight years in the 1970s. It's now eight months if you go through it. So I think we became more narrow and short term. And I think a lot of business leaders are saying we need to be—we have to be more broadminded. Let's do it appropriately to what we're good at. We're not going to go fling ourselves in some cause that's not related. I think the boards will have some discomfort with that. But we have to play a role in the community.

And I think the other thing I'd say is trust levels in business are very, very low. CEOs are not popular and that's dropped too in 1960s. Gallup has about 66 percent trust in business leaders. It's now Edelman saying around whatever 47 percent. And I think it will get worse with this inequality thing. I couldn't agree with Jim more. Inequality is not the duty of government to fix. Business people have to get involved in that. If we don't, we're going to end up—I think, Dick, you said, we're going to get some system that we don't like. It will be bad.

Lynn de Rothschild: I want to open. I'm going to open it up since you both brought up inequality and we're talking about management and shareholders. So we saw 2009 to 2010 ninety-three percent of the income gain went to the one

percent. The Occupy Wall Street movement might have had some activity that wasn't very productive, but they were on to a point. And a lot of this inequality has happened since 1980. And so in 1980, the average CEO was paid 40 times the average worker. And in 2011, it's 287 times the average worker. Now that to an average person sounds excessive.

Do you believe that the CEOs—and I agree with both of you that people are bringing up the inequality issue who are sitting and the seats where they can make a difference. Do you believe that CEOs are willing to accept some responsibility for more equal sharing and yet remain—I mean 40 times is still pretty good? Do you think there's that much concern that maybe there's going to be a riot in the streets if we don't do something?

James Leech: But we certainly have spoken very strongly about CEO compensation and board's responsibilities in ensuring that CEO compensation is at least aligned with the investor imperative. We have not spoken out as to what is the appropriate level. We really think that's up to each board and each organization. So we haven't taken a stand that way.

But there is—you put your finger on in the interesting point. There's a whole bunch of things happened during that period. One is whole focus on short-termism, whole focus on stock options which seemed at the time to be costless. And so organizations just papered the walls with them to find out they were very expensive. So that whole short-termism which merges or works well with our third pathway of saying we need to be more focused on the long term.

And boards really were asleep and they let this thing creep up on them a little bit. And now they're having to pull it back or they let it creep up maybe because they were the beneficiary of it creeping up. But I think they're looking at it now. We probably have overburdened many of these boards with just straight compliance stuff. And they're not thinking enough about strategies and alignment and things like that because they're spending 80 percent or their 90 percent of their time on compliance, which really doesn't do that much for us. So there's a whole bunch of forces there.

The other big force is when you talk about an investor looking at whether we want to call it responsible investing, ESG, whatever for years and years or probably the biggest challenge that we have with our young analyst, etc, is if it doesn't fit into the spreadsheet, there isn't a cell like how am I supposed to analyze this. And that's true. That's true. So the fastest way to get many of these factors to be taken into consideration is to somebody figure out how to quantify and will get them into model. It will be cell number, you know, row 52 and it'll be in the add up.

And so what we've endeavored to do is work with the people who are making investment decisions day after day to endeavor to ensure that many of these non-financial are not easily quantifiable factors are brought into consideration. The classic example that I always use because I have an assistant who came from Mauritius was, you know, I might find the best utility operation in the world operating in Mauritius. And I could have this great model that says I'm going to get X return. But it could be six feet under water in ten years. And it's not going to help us. And so you got to bring those factors into consideration.

Lynn de Rothschild: Okay. Do we have any questions from …? Oh, yes. Oh, dear. You're the first person I saw; if you could identify yourself that would be very nice. Thank you.

Wade Jacoby: I'm Wade Jacoby from the Center for Transatlantic Relations. So the premise as I understand it is that capitalism has an interest in making some of these moves on its own and not obliging the state to intervene, and I agree with that. But as a political scientist, one of things we point out over and over again is that people often have an interest in doing something and then very rationally don't do it.

A good illustration will be the European economy. Right now, lots of people think we have an interest in having pro-growth policies, but those were expensive and so one state after another resists the temptation to do pro-growth policies but hopes very fervently that other states will do that. To a certain extent, the Germans have done a bit of that. But no one has an incentive to really actually do it.

And here when I think about the situation that you're describing, that seems to be an even more extreme case of this because it would seem to me that every CEO or every management team would have an incentive to say, "We should keep the wage structure in our firm more or less as it is and hope that everybody else is more fair to their workers." That will help the legitimacy of capitalism more generally, it will help purchasing power in the economy, and it won't oblige us to move off the position we're in right now.

And so it's just really hard for me to think and the data you present makes it even harder to think about it because when I think of ratios in 287 to 1, what that says to me is that every single day that I go to work as a CEO I make the annual wage of my lowest paid worker, every single day. So it seems that the incentives are so locked in for every firm and its management to wait and see and wait and see even while they all share presumably an interest in moving. It's not obvious to me how we get

anybody to move in large enough numbers. I grant that certainly you could find people who are moving, but in large enough numbers to actually fix this problem without any kind of intervention from to outside.

Dominic Barton: Yeah. I think you make a … it's a great point. I mean one of the challenges is you take the financial service industry because one of the arguments you'll get … a board may say, "Well, we need to lower the compensation." But then you've got the … if I could call it the key man risk. I have to be careful because if we lower it, they're going to go somewhere else. So we'd like to do it, but the market makes it difficult for us to do it.

The only thing that I would say is I actually believe that compensation will drop in the financial services industry. I think you're going to see it. I think there's going to be a change. And it's happened in history. If you look at … there's some very good work. I can't remember the name of the professor that actually looked at not only the sort of the 280 to 1. But if you actually look at financial services versus industry, what CEOs were paid, right, there was I think back in the early 1900s it was something like 1.1 to the financial services CEO to the industrial CEO. And then that actually spread. I think it went to something like 1.8 or 1.9 right up into the Depression. Right? Just before the Depression, the numbers broke.

And then after the Depression and after basically the financial system became more of a utility, the Glass-Steagall and so forth, they dropped right back down to 1.1 all the way until about the early '70s. Gillian Tett has got some good research on this when we then had the moving away from the gold standard and so forth and globalization. So I think these things have happened before and I think investors can play a very big role in it.

I think the other part though I have to just say is I think we have to be careful about having rules. I, for one, wouldn't vote for a CEO pay can't be X times Y. I don't think anyone has any difficulty that Steve Jobs made the sort of money he made. I don't think you'd find the average worker that would find a problem with someone who took risk, created something, and built it.

And I think where people really get annoyed is when there isn't the risk return match that's there. And I think boards should get really irritated with that, too. And so that people who generate a lot of wealth but then they destroy it afterwards, so the changes not only in sort of the absolute amounts, but the amount of risk that people are taking and where it is, is an area to work on.

So I do think there could be some movement. I think investors can play a role. Jim would be much more qualified than me to talk about that. And I think boards … I do think that that's a discussion. And if we could get away from dealing with fiduciary compliance-type stuff and deal with more long-term things, maybe we get more action that are long term.

James Leech: Well, I mean it does take shareholders saying, "We don't like this." And they've got to exercise that by making changes to the board. I mean it's quite amazing how many … every time we vote against management, I don't sign off on it, but there's sort of three of us advise in case it's one of our friends, we got a phone and say, "Hey, guess what? We're voting yes today."

And I probably get two a day where we are voting against a compensation plan in an organization. We're not the majority, but eventually people look on that. And we will remove the person who was the chair of the compensation committee the last two years when Charlie Bloggs got some huge raise when the profits of the company went half, but it will take time.

Lynn de Rothschild: That's great. The man with the white hair, I can't quite see you. I need my glasses if I'm going to do this.

Howard Rosen: Thanks. Obviously, at the end of the day it's where the … the rubber hits the road is where …

Lynn de Rothschild: Identify yourself.

Howard Rosen: Howard Rosen here at the Peterson Institute. So at the end of the day, the rubber hits the road is where the investment takes place that creates the jobs. I'm going to take advantage of the fact that both of you are from Canada. Productivity rates in Canada are half what they on average had been in the United States over the last ten years. Yet gross capital formation is about 30 percent more than it's been in the United States. And as you know, U.S. companies have about $2 trillion of profit sitting on their balance sheets that they haven't been investing in the United States.

So what do you guys know that we don't know down here? Is your education system, your training system is 30 percent better than ours? Why is the investment taking place in Canada and not here?

Lynn de Rothschild: That's the question you've been waiting for, gentlemen.

James Leech: The Canadian manufacturing base has been eroding quite substantially. That's largely been because we moved from a $0.60 to $1.01 and that's hurt dramatically. So the investment hasn't been going there. Where the

investment has really been going is in the natural resources. I mean that's what's fueling the Canadian economy. There's a stall rate now because we don't have enough pipelines to get the oil which we're capable of producing out of Alberta. And that's a big concern to everybody.

But I mean we've all sprained our arms patting ourselves in the back for having come through. In 2008 and 2009, our banks are in good shape yada-yada-yada. There's a lot of luck to that. I mean I remember it was 15 years ago when all the Canadian banks—all of them, they're six—talked about merging, and they were prevented by the government. I guarantee you if they had merged, they would have then said, "Oh geez, I guess we've got to buy some mortgage operation in Phoenix." And they would have been in exactly the same position that most of the U.S. banks ended up in. So, you know, it was serendipitous. We shouldn't be patting ourselves too much on the back.

We also have only six banks. So the governor of the bank only had to make six phone calls to find out what was going on and correcting things, et cetera. The regulators only got six that they go visit. So it's a very, very different environment from that point.

Our productivity gains have not been anywhere near what the U.S. has been. I mean that's the big thing that we're fighting in Canada at the present time.

Dominic Barton: You know what? I might just make a comment that's nothing to do with Canada, but it's just a story about Jim actually. I've said this before with him. I remember I was in Brazil and I was meeting with a private equity fund called Tarpon. And these guys, they look like my kid. They're young guys running around and they're building this business. And they basically were key people in building this company called Brasil Foods, which is going to be one of the most significant ag food companies in the world. And I think if you're a long-term investor, that's something you'd want to build in.

And I said, "Well who's investing behind you? I mean where do you get the money to be able to build this enterprise that's going to be important over a long period of time?" They said, "Oh, you probably haven't heard." They didn't know I was Canadian. They said, "There's this group of retired teachers in Canada that are actually backing us to several billion dollars." And I said, "You've got to be kidding me." Ontario tea-?" He goes, "Yeah, they're …" I don't know if it's a couple billion dollars, teachers.

The point I'm trying to make is I think the need for long-term investors. And I don't have the facts on U.S. versus Canada and where it is, but I

come back to what Lynn said in that *Economist* magazine looking at ranking, if you will, of higher-performing players. There did happen to be quite a number of Canadian pension funds in that group. And I think if he or she who has the most long-term investors in my view is going to win. You see, the Canada Pension Plan is also investing in Chile and in Brazil.

The other thing I just say on this is we'd been looking at emerging markets versus the developed markets companies, right, the peers? So if you look at Unilever versus the up-and-coming Chinese players that are there whether you're looking at telecom and what we found is that the emerging market players are investing at double the rate that their peers are in the West. They're more long term. Part of that is because they have long trips. Some of it might be state capitalism. We have to be careful. That's a whole other topic we can get into.

But I do think this … my own sense, I just want to say, is, I don't know if it had anything to do with Canada, but I think there's something about a competitive advantage in having long-term players because then you could build these companies that are going to be players over time.

Lynn de Rothschild: Interesting. Oh my goodness, there are a lot of questions. And Adam just told me we have … I'll take two. I know I'm going to take this woman. Sorry. Diversity. Inclusivity.

Cate Ambrose: Cate Ambrose of Latin American Private Equity and Venture Capital Association. Dom, you set me up. Tarpon is a member firm. And of course, we know OTPP is very active along with a number of other Canadian pension funds in Latin America.

Actually, the ESG topic is an interesting one. We have seen increased emphasis from European and Canadian investors in particular with ESG requirements before they'll make a commitment to fund active particularly in emerging markets. So I was going to throw that question out before Lynn did.

The question I actually have for Dom and Lynn coming back to the governance and compensation issues. To what extent are you looking at the role of education and I'm thinking MBA programs around business ethics? This is something that Luigi Zingales has written prolifically about. That that's really the point at which you can influence change in the leadership where the decision-making that's ultimately going to come in. So is that a focus for the Henry Jackson Initiative in terms of business ethics and MBA education?

Lynn de Rothschild: That's a great question. And the short answer is, yes, ethics is very important. In fact, when I came home from the first meeting, Jim is on the

task force. Adam is on the task force. It's a great group you see in the back. I said to my husband, I said, "Well, what do you think is the key to making capitalism more acceptable to capitalism is under siege?" and he said, "Get people to behave better."

And that's really an ethical question. And Dom referred to Adam Smith, the father of capitalism, 17 years before defining capitalism. He wrote the *Theory on Moral Sentiments*. And his underlying belief was that capitalism that the free markets work and the invisible hand works because we care as individuals about how we're regarded in our community and that we care. There are institutions that give us an ethical bearing. So greed is not good in his book.

And I think that a large part of what the movement toward inclusive capitalism is, is about realigning ethics. It is not about murky ethical behavior or narrow interests and that's very much part of what we do.

Lynn de Rothschild: So really one more question. And someone not with the institute. Adam, isn't that the rule? Okay. Yes. This gentleman with the glasses, yes.

Harold Meyerson: I'm Harold Meyerson. I write an op-ed column for the *Washington Post* and I'm an editor of *The American Prospect* magazine. I'm encouraged at a level of theory that I'm learning that shareholder capitalism is now being rejected and that inequality is viewed as a real problem by business executives.

But while we're talking about worker training and business ethics, we're not really discussing the question of power inside a firm. At the moment, wages of American workers are the lowest share of GDP. They've been since they started measuring in 1947. Compensation is the lowest share of corporate revenues. I think this is somewhat linked to the disappearance of collective bargaining in the private sector in America where only 6.9 percent of workers are unionized. And unions like Tom Buffenbarger's do a really significant job for their members, but they're not really anywhere near exercising the kind of power for workers that workers enjoyed 40, 50 years ago when prosperity was much more broadly shared.

So particularly for Mr. Barton, to what extent can you envision actualizing a more stakeholder version of capitalism? Germany has works councils. There's co-determination in the German economy. Here, labor law is a joke. You can't unionize workers. Even if you can unionize workers, 40 percent or 50 percent of the corporations don't even agree to sign a contract once the workers have won in election—that was what they fight over labor law reform was about here. So explain to me how far you think

American corporations are willing to go institutionally in the question of creating a more stakeholder version of capitalism?

Dominic Barton: Well, maybe I'd say two things to it. One is maybe coming back to something Dick mentioned at the beginning because I don't want to sound Pollyannaish either, right, which is we are in a more borderless world, capitals flowing. And so, CEO does have returns that they have to make. And you can argue, is that company an American company, what type of company is McKinsey, who are we, right, we're different countries and so forth.

And so, there's a less of a sense of you belonging to a particular place. And so you then look at … you've got to compete and you've got global competitors. I just want to make sure that that's there. So I think we can have something that's fake or that's somehow a barrier. You have to be careful about a barrier because I think it will get blown out because you've got … part of, I think, the compensation issue that's going on is you've had 400 million other people enter the workforce that's come into the system and we have to deal with it. So that's a context.

I think where you're going to get the biggest benefit is from two dimensions. And I do think that U.S. CEOs think this way. And one is around this win-win notion. It is you can make more money. You can make more profit if you embrace workers in it. And I think that example that these guys talk about with Spirit is, one, it's very interesting. Again, it was Onex, the private equity firm, hardcore capitalist, "I want to make money, goddamn it" type that comes out. It's interesting. I think it's a very interesting combination.

Male Voice: And the lead guy now is the chief of staff for the Prime Minister, Nigel Wright.

Dominic Barton: Yeah. Nigel Wright. I actually think this notion of it being a win-win, right, that we're going to be able to do this and the CEOs realizing it, I have to say too from working in many organizations, I'm surprised. By the way, I look in the mirror when I say it when we figured this out, the lack of understanding about the talent that's in the organization at that level.

Luckily, I had a … I remember the first CEO I worked with was John Teets at Dial Corporation. We're doing work with the Greyhound Bus Lines. And he reamed me out for about two hours saying, "Why didn't you spend time talking to the bus drivers about route profitability because maybe those guys actually know how many people are in the goddamn bus instead of doing your spreadsheets?" which is what I was doing. And so you'd be surprised at the room that's there. And I think that's something

that we're going to need to do. And that's where the training comes in. So I think it could be there.

And the last thing I'd just say on that is I also think investors can play a big role, very much where Jim is. The problem with these ESG and stakeholders is it's a bit wobbly, right? It sounds environment, labor relations, we do have to figure out. And that's something we're trying to work on in this Henry Jackson Initiative is to get metrics; that's something Lynn and I have talked about. How do we get some metrics that people can measure?

One thing, for example, we've looked at, there is now … they call it sort of a labor alignment diagnostic that's been done for about a thousand organizations. And that's not a very god measure, but you can actually start to measure as to how aligned workforce is in the different levels of management. It isn't just the frontline workers all the way through.

And so I think we're going to start. I hope, I think, long-term investors will push this that we can actually get some metrics to say, "We actually think it's in performance improvement leader. How well have you engaged your labor market?" Unfortunately, I can't go any further. I don't have … I'm so fluff below that, but I think we'll go there. And that's also where I think the innovation is going to come, all the lean work.

And by way, there's not I think a leading organization that doesn't do lean, or some version of it, is all frontline involvement that's there. I think you can't be competitive unless you do that and that's engaged workers.

Lynn de Rothschild: That's excellent. That's excellent. I think we need to move on and thank these two great Canadian citizens of the world. Thank you.

Adam Posen: Thank you all. And there's going to be, I'm afraid, two last words to today's remarks. The first one comes from me in behalf of the Peterson Institute and it leads directly out of what Dom was saying about the recurring theme today about inequality.

It's my pleasure to announce today that—thanks to a major grant from the ERANDA Foundation—we are going to be undertaking a two-year study cross-nationally looking at how differences in private sector institutions, labor market engagement, basically non-direct government redistribution issues affect inequality and social mobility across countries.

This is an instance where Lady de Rothschild and Sir Evelyn have put their money where their mouth is, their contribution in a sense, to following up on the Henry Jackson Initiative besides their time is to fund serious work here. And this is why I pick up on the metrics point from

Dom. We're the researchers. It's very great pleasure for us to bring in policymakers, union leaders, businesspeople, and get the stimulus going. But in the end, the core of our mission is to try to establish what are the facts and what's possible and what are the tradeoffs.

And so, I'm very proud to have Jacob Kirkegaard who many of you know as everybody's expert on the euro crisis, but who before that did some excellent work for us on long-term labor issues, immigration skills, pension. He's going to be joining me on the project as well as a new young econometrician I just managed to bring over from the Bank of England, Tomas Hellebrandt, who is with us and just joined us today.

We also as I think many of you are aware have on staff, Bill Cline, who's done some very fundamental work on inequality through the years and continue to be working with Robert Lawrence of the Kennedy School who's also a senior fellow here. And he has a new book coming out particularly emphasizing the top one percent getting out of whack in the financial sector, getting out of whack versus the long-term trade issues.

If I can just bring up one substantive point and this is where I guess I become the non-Pollyannaish person. For those of us who are old enough to have been around the block on these issues a few times—and maybe it is now obvious, I am old enough to be one of those—the stakeholder discussion, the Germany as model discussion, has been with us before. It was there in the U.K. in the '60s and '70s when the U.K felt bad. My friend, Wade Jacoby, whom I remember sitting there compared politics class with me in grad school remembers this. It was there in the early '90s we had the sainted Michael Porter talking in a *Harvard Business Review* in doing capital choices and things like that.

And this has not always paid off. It's not self-evident. So, yes, Germany—just to pick an example—has had work councils, has had what the Germans called *Mitbestimmung*, the representation of workers there. It had had a strong union movement it's had opened. It's had many wonderful things. And it also had 30 years of very poor productivity performance. It has since come back from that and has done very well in the last few years. But that in part seems to be because they frankly crushed wages for ten years. It wasn't because they had productivity growth.

That's not to say we should throw out the stakeholder side of things or say it's not there. But it is a caution to us that we're not going to be able to leap and just say, "Here's the packaged model. And boy, those Americans are stupid and selfish. And if we get beyond it, we'll be fine." The Americans, we may be stupid and selfish, but that's not the obvious reason things are messed up.

And to pick up from Mr. Meyerson's comment, I'm sorry if you feel so vociferously he's not a member of the institute, but anyway. I think it's important to remember that there aren't—even though I'm not a Chicago economist—there aren't $50 bills lying on the sidewalk. It's not just we wake up one day, and Dom sort of got to this. And so that's why it was so important to hear Tom and Dick talk about the success stories like Spirit.

But then we have to go beyond that and powers one way of looking at it and I think an important way of looking at it, I think sometimes it is just ideological blinders among people with good faith. But we have to ask what's the reason there seems to be these major improvements, these win-wins out there that are not being achieved. An international competition is part of that, but may not surprise people to hear that the people at the Peterson Institute for International Economics don't believe that that's the main driver.

And let me just leave you with one thought about that before I just say thank you to everyone here, but particularly to the ERANDA Foundation for giving us the space and the time to do some ambitious research.

Joe Stiglitz has a marvelous book out about inequality. It came out, what, about six months ago now? Before that, a nice German economist, Hans-Werner Sinn had a wonderful book about inequality. Richard Freeman, the great labor economist, came and spoke at the institute about inequality. And all of them start from the same basic point that at some point between 1990 and 2000, a billion extra workers enter the global workforce in China, in India, in Eastern Europe.

And this was inherently going to drive down the wages of the low-skilled and the low-wage workers in the West. And that is indeed what we've seen. But the challenge that we're taking on intellectually and I think people should keep in mind is two-fold. First, that driving down of low-skilled workers' wages and that inequality results varies enormously across countries over time. It isn't just a simple mapping that if you add a shoe industry and that's gone that's where the inequality comes from and that goes to many of the things we've talked about today. So there's a richer field of institutions and causes which we have to look at.

And the second thing is farmers don't complain about the rain. Pilots don't complain about gravity. You take that as given and then you ask, "Okay. Given that there's no rain here, what fertilizer, what crops, what planning can I use to get the best crop? Given that there's gravity be it Boeing or Spirit or even Air Bus, what is the design that will allow me to take off and overcome gravity?"

The existence of China and India integrate in the world economy is a boon for those billions of people who have hope and wealth they never had before. But in addition, it's just a reality. It's gravity. The question is given gravity, what else can we do about it? And I think that's where both the research we're going to be doing and the inclusive capitalism initiative that I was very proud to be part of, that Dom and Lynn invited to be part of is going to take off. And so, I'm grateful to everyone today for engaging and trying to get us to the more, as someone put it—I think it was Alan—more micro and more applied issues.

I'll leave the last word to Lynn to talk about where the broader initiative goes from here.

Lynn de Rothschild: Thank you, Adam. My job is just to say thank you to everyone, from Alan Mendoza and the Henry Jackson Society for thinking of an effort on inclusive capitalism; to Dominic Barton who is, as I said before, an incredible leader, and you all saw that today; to at least two of our members, Adam and Jim, who served on the committee; to Dick and Tom who made the discussion so rich and so real. So, thank you. And thank you to the Peterson Institute.

Now, it's to you and I thank you all for being here. And you're here because you're on a Peterson list or you're on a McKinsey list or you're on a Rothschild list. And you're also here because we believe that you can be part of the solution.

One of the things that Dom said early on is that the Henry Jackson Initiative or the inclusive capitalism initiative is not a think tank. One of the reasons we're very pleased to fund the thinking is to get the best thinkers thinking, and Peterson can do that. But what we can all do is, Dom says we are a do tank. It looks to me like we have like … you know, there are more than a few of us who were children of the '60s, and so we're the baby boomers. And we're the children of the greatest generation. The greatest generation sacrificed to make the world a better place for us.

And yet today, a recent poll from Congressional Quarterly said 50 percent of Americans are absolutely certain that their children will not have a better life than they had. In 2000, 70 percent of Americans believed. And when I was growing up, my parents told me I could earn any success that I wanted.

Larry Katz, a professor at Harvard, has a really good analogy. Dom referred to it. I talked about it all the time, which is he talks about American capitalism like an apartment block. And 30 years ago, the whole world envied was this beautiful place. And now the apartment block has

really great apartments upstairs. The middle is kind of dank and damp. And the lower floors are underwater. But what really upsets people is the elevator is broken.

And if inclusive capitalism means anything, it's about fixing the elevator—whether it's because it's self-interest properly understood, or because it's philanthropy or whatever, or we're afraid government is going to come and do it for us. Whatever it is, I just encourage all of you to think in whatever capacities you work in about how we can all be part of fixing the elevator.

So, I thank you all for coming and I thank you for your interest and Godspeed.