Tuck Graduation – Investiture Speech

Dartmouth College

June 11, 2016

Daniel Yergin

It is an honor to speak to the graduating Class of 2016 of the Tuck School of Business... to congratulate you on what you have achieved here...to recognize what you will accomplish in the years to come ... and to look forward to the significant mark you will make in the world.

And certainly this is the opportunity to congratulate the outstanding faculty that has delivered this unique education – and to salute to the families and friends gathered here who have done so much to support all you graduating students. Family and friends -- your commitment has been invaluable and you should take great pride in what this graduation represents.

Let me turn to you graduates. You have done it. You have made it through a very demanding, stimulating, and engaging extraordinary -- education.

Yes, somehow, you have survived Fall B. You've also survived Tripod Hockey. You supported your classmates with Tuck Gives, and you learned around the world with Tuck GO. Now it's time for you to go forth from here to there – wherever you are headed – and to give with what you have gained here.

You graduate with a distinctive Tuck education and values – one that gives you deep training and knowledge that is rigorous and relevant, a strong sense of community that prizes the relationship among students and faculty, and a commitment to collaboration and to learning how to work across cultures and borders. Indeed, about one-third of all of you come from countries other than the United States.

All this in your Tuck education does so much to prepare you for a globalized world.

But here's the problem, here's the rub: Globalization is now under attack; a war is being waged against international commerce and trade; the market economy that generates the well-being of nations is now a source of deep and corrosive distrust.

And business – the reason many of you chose to go to business school – is vilified as an evil endeavor.

Unless it’s a start-up. That’s the great exception.

And allow me a digression - there’s a longer tradition of Dartmouth start-ups than you may know. For Dartmouth is responsible for one of the great starts-up of all times – the world oil industry.

It was a Dartmouth graduate, George Bissell, who in the 1850s spied what was called “rock oil” in a professor’s lab here at Dartmouth and had the blinding insight that it could be turned into a commercial product -- oil.

Although the term wasn’t exactly in vogue in the 1850s, Bissell was the determined, hard-nosed venture capitalist who got together the money to finance the expedition to western Pennsylvania of a certain retired railroad conductor, dubbed Colonel Drake. Like so many start-ups, there were several near death-experiences for the venture, But at the end it succeeded with the first oil well in 1859. I don’t know what Bissell made on his investment, but judging by the house he later built, I would guess it was at least a 10X. And, by the by, he started a new industry that did much to create our modern world.

I was delighted when Dean Slaughter invited me to speak at your graduation. I have known Matt for many years, since he was on the

President's Council of Economic Advisers. I have benefitted much for our discussions about the U.S. and global economies and have much respect for him – and great respect for this institution and its contribution over more than a century.

Moreover, I am also very happy to note the developing relationship between Tuck and its energy initiatives and my own firm, IHS. Every year we hold our big CERAWeek conference in Houston – what some call the "Davos of World Energy".

This year we were very pleased to have Dartmouth graduate and trustee Jeff Immelt as a Keynoter. And we were also very glad to have two of your classmates who are graduating from Tuck join us this year with us in Houston -- Brandon Smith and Brant Swidler. For our part, we look forward to strengthening this relationship.

But I was keen to do this speech for another reason. For this would provide a unique opportunity to address what seems to me to critical – and worrying -- questions about the nature of the global economy that you are about to join.

When I started my company with one other person several decades ago, our first capital investment was a $7 used file cabinet from Goodwill. It seemed at that time if you were going to start a business you needed a file cabinet. To those of you doing start-ups today, I have a piece of wisdom - -I don't think you need a file cabinet any more. Now with the upcoming merger of IHS with another company, Markit, I will be part of a 14,000 person company.

But I have been fortunate. While working at IHS, I have also been able to at the same time write books and explore subjects of great interest to me – energy writ large, geopolitics, global economics.

As I prepared for this day, I found myself thinking about one of those book, *The Commanding Heights: the Battle for the World Economy.*

Sometimes, I think, you don't really know what a book is about until you write the conclusion - -and then go back and write the introduction. And the idea that came together when I was struggling with the conclusion was around the concept what I decided to call the "balance of confidence" – that is so important to market economies.

In international relations, one talks about the "balance of power" among nations. As I see it, the balance of confidence reflects the respective weighting in people's minds between the role of markets and the role of government in the economy. And confidence is the essential foundation for a market economy. When the confidence isn't there, markets can't work.

Commanding Heights – what is that? It's a phrase pioneered by Vladimir Lenin after the Bolshevik Revolution about the determination of the communists to seize the commanding heights of the economy – the main industries – as a prelude to taking over the entire economy.

It was a term borrowed and implemented by governments from London to New Delhi to Mexico City, but in those cases, unlike the Soviets, allowing fettered market economies to coexist. In Europe, the commanding heights took the form of what was called the "mixed economy" – big nationalized industries, surrounded by smaller private businesses, all highly regulated. In the United States, the commanding heights was represented through extensive economic regulation.

I took "commanding heights" in a somewhat ironic way as a book title, for I asked the question that really arose from what I was seeing around the world – why did we move from an era, through much of the twentieth century, in which governments sought to seize and control the commanding heights of the economy to an era, in the latter decades of the twentieth century, in which the ideas of competition, open trade, deregulation, and privatization captured the commanding heights of world economic thinking?

This shift was facilitated by technology – computing and the falling cost of communication and travel -- and by the emergence of the digital world.

The frontier between state and market moved in a way that expanded the realm of the market.

That was true in the remarkable transformation of China. Hundreds of millions of people have been lifted out of poverty in that country alone, by bringing markets to the fore and integrating into the global economy. Whatever the differences between the United States and China today – and there are many differences -- the kind of integration and development that exist between the two would have been absolutely unimaginable a few decades earlier

The shift occurred in Europe with the privatization of big state-owned, and usually inefficient and loss-making, companies.

And that shift towards market was happening in the United States too. The process began not in the Reagan years, but in the 1970s, during the Gerald Ford and Jimmy Carter years, where one of the pioneers of deregulation was an influential young lawyer – now Supreme Court Justice Steven Breyer.

By the time of the Clinton Presidency -- Bill Clinton, not Hillary -- it was well advanced. In 1997, less than two decades ago, the Council of Economic Advisers under President Bill Clinton issued its annual report on the theme of the "advantage of markets" and the "insufficiently appreciated property of markets" – their "ability to collect and distribute information". You wouldn't hear that today!

The balance of confidence shifted towards markets because it was becoming clear that over-reliance on governments to run economies tended to run into a wall – whether it was stagflation in the United States, or Britain's decline into economic paralysis, or the rigidities of Europe's mixed economies, or the devastating hyper-inflation and budget deficits in Latin American economies. The response was towards greater reliance on markets, rather than state control.

I once asked the great statesman Lee Kuan Yew, the founder of modern Singapore, why the world moved towards this greater confidence in markets. He answered with his customary simplicity: "Communism collapsed, and the mixed economy failed. What else is there?"

This shift towards the market helped initiate the modern Age of Globalization that is tying the world together so much more tightly.

Just one example -- between 1991 and 2012, the world's foreign direct investment rose more than ten fold – from $1.8 trillion to $23 trillion.

A decade and a half ago, I had the opportunity to turn the book of *The Commanding Heights* into a 6 hour PBS/BBC television series..

Having the power that came from having appointed myself executive producer, I asked myself who would be the best person to speak on the great contribution of globalization – and the answer was Bill Clinton. He agreed, and he did a great job of describing its benefits.

You can watch Clinton on Youtube. Not by coincidence, it went up last night – my name plus YouTube Channel helps find it better...Part 3 – Rules of the Game. But I don't want to see anyone start looking for it now on your smart phones.

That was 2002. But it's not 2002 today. It's 2016. I ask you, which of the Presidential candidates this year would speak positively about international trade and the value of being part of the global economy. The apparent answer -- not one.

At least for now.

And yet your education has emphasized working in the global economy. And with good reason. Trade and investment – the flow of information and ideas – have driven economic growth, raised people's incomes, provided them with more opportunity and better lives – and provided governments with more revenues.

You would not know it from today's political debates, but at least 20 percent of the U.S. economy is foreign trade. To put that into human terms, that's almost 40 million jobs.

But what we hear instead is that the economy is "rigged" – whatever that means, that Wall Street – ie the financial system – is evil – that businesses of all kinds should be "broken up".

But Wall Street is not just a section of Manhattan; it's not just a collection of financial institutions. It's the ability of people to get mortgages and buy homes. It's the retirements of everyone sitting here, the pensions of Americans – and many other people around the world – that are invested in U.S. and foreign equities.

So why the shift in the balance of confidence.

Let me try out four reasons on you.

Reason number one is obvious: the financial collapse of 2008 – and the worst recession since the Great Depression – the loss of jobs, the loss of homes, the despair of unemployment, the pain across the landscape. That collapse, that crisis, is the decisive economic landmark of this century.

People are still arguing about the causes of the Great Depression of the 1930s.And we can be sure that when you come back for your 25th Tuck reunion, 25 years from now, people will still be arguing what was the cause of the Great Recession of 2008. Was it greed and abusive behavior? Or risk-taking on a scale that was not understood? Or a dangerous brew of financial engineering and technology that created risks beyond the ability of boards and CEOs -- and financial regulators -- to comprehend? Or was it well-meaning government policies that forced a substantial lowering of lending standards and penalties for those who did not play along? Or was it complacency?, Or   all of the above?

You make your choices. Or you can wait for the faculty panel discussion on that topic at your 25th reunion in 2041.

In any event, the consequence has been the drastic shift in the balance of confidence – a dramatic loss of confidence in markets and in the decision-makers in markets – in other words – businessmen and women.

The second reason for the shift in the balance of confidence is the much greater focus on inequality. Yet it is striking to note the inequality in the debate on inequality.

Many studies of inequality leave out the critical factor of transfer payments by government in terms of income. As a study from the Brookings Institution has observed: “It is wrong to claim that all the income gains of the past 2 or 3 decades have gone to the top.... Middle- and low-income Americans have managed to achieve income gains, too”.

The study continues: “In the Roaring 1920s, Americans received almost nothing in the form of government transfers. By 1970... 8 percent of Americans’ personal income was derived from government transfers. Last year, the share was 17 percent.”

The inequality debate is very important, but it is more complicated than we sometimes hear.

The third reason for the shift in the balance of confidence is international trade and the reality of globalization. It promotes economic growth and creates jobs. But it is also leads to jobs lost, factories closed, production shipped overseas – and a more general heightened sense of vulnerability to the global economy.

The great benefits of trade are spread across a nation while the pains are felt in local communities and by people who have lost what they counted on as secure jobs – and have difficulty finding new jobs. Or are left marooned, without new jobs.

Addressing the needs of those displaced by trade, and supporting them during a transition, is a vital ingredient of public policy – and to rebalancing confidence. But the answer is not to put up barriers to international trade, which has done so much to raise incomes, improve opportunities, and provide benefits around the world.

Moreover, it needs to be noted that a good deal of the job loss that is instinctively blamed on globalization is actually the result of the disruption caused by technological advance. Figuring out how to deal with the employment impacts of rapid technological change will be one of the major public policy challenges in the decades ahead.

And, finally, the fourth reason for the shift in the balance of confidence is memory. The average age of your graduating class is 30, which means you were about 3 years old when the Berlin Wall came down.

I feel very sure that, when you were three, you were not spending much time watching the communist economic experiment, the Soviet system, crumbling with the falling stones of the Berlin Wall. There is no memory of what it meant when the mission of governments was to control the commanding heights – what it meant in terms of low standards of living, of poverty, of thwarted opportunity and lives, inability to innovate.

Closer to home, there is no memory today, for instance, of when a now-defunct Federal agency called The Civil Aeronautics Board in the United States not only set the price of what you could pay for an airline ticket but even regulated the size of the sandwiches that could be served on a flight.

But what millennials do know is what happened in 2008 – and for many it serves as an indictment of the market system – and the practitioners of the market system. A recent poll found that 51 percent of American millennials do not support capitalism. I suspect that the results might be different if that survey was taken among the graduating class of the Tuck Business School. At least, I think so.

So you are graduating into a world in which the balance of confidence has shifted away from business and the market economy towards government decision-making. In the United States, the power of the commanding heights is wielded through regulation, which is much less visible than large state-owned industrial enterprises.

And yet it adds up... and adds up.. and up and up. We are a highly-regulated country in any event. And regulation and rules are necessary for a market economy. As a Russian economic reformer once said to me, without those rules and regulations, you have not a market economy but a bazaar. We need appropriate financial regulation, appropriate environmental regulation, appropriate health and safety regulation, etc.

But I think the question you will encounter in your careers is what is the right amount, the right balance, of regulation and what is the quality of the regulation. What meets the needs of public interest and what stifles initiative, drains time, and creates burdensome costs – and hinders growth? Do we need 10 percent more regulation – or 50 percent more regulation? Or are we overdoing it, as it is? How much more should the growth industry of compliance continue to grow?

Think of regulation as an industry, and like all industries it seeks growth – and its product is more regulation. It means more time spent in what might be called “regulatory address” - - dealing with regulation -- and some would say somewhat unproductive activities.

After the 2008, crisis, the system of financial regulation needed to be fixed to remedy the weaknesses that contributed to the collapse. For sure. But what about the results? The Dodd-Frank Financial regulation bill weighed in at 2300 pages. Should it have been 2600 pages or would 1800 pages have been enough? It is accompanied by another 26,000 or of rules. That's a lot of pages – and a lot of rules.

One result is America's new great growth industry – compliance in the financial sector. It is said that if you want lifetime employment, go into compliance.

Does all this matter? Yes, because, if it is not wisely instituted with restraint and foresight, regulation recaptures more and more of the commanding heights. It becomes a drag on economic growth and job creation, a tax on income growth across society, a barrier to innovation. And it will directly affect you. It will impede your ability to help your firms prosper, to constructively apply what you have learned here, and contribute, by what you do, to a larger good.

I suspect for some of you the pangs of nostalgia are already setting in. But look at what's ahead. Rich and varied opportunities await you as you set off in this dynamic, changing global economy that just refuses to stand still. Your Tuck education has prepared you to address the complexities that you will encounter.

Now it is up to you to apply that education. You are leaving Tuck but you are not leaving Tuck – you will have continuing access to a great Tuck resource-- the 10,000 Tuck graduates around the world who will be open their doors to you and lend you words of advice or lend you a helping hand.

It's not only the skills and knowledge that you take from here. You were admitted because of your leadership capabilities, and you have honed and developed those capabilities here. That is a trust you carry from here.

Now you need to exert your leadership in whatever vocation you choose. In so doing, you will be addressing the larger questions of the commanding heights, the benefits that come from a flexible, growing market economy in terms of people's lives – higher standards of living, jobs, more opportunity for more people.

By what you do, how you engage, you can be a bridge; you can help promote dialogue; you can offset the hostility and distrust, you can contribute to better outcomes overall.

So your Tuck education provides you with not one, but two opportunities. The first is to find your way to meaningful, satisfying careers of leadership and accomplishment. The second opportunity is created by what you accomplish, by your impact and engagement, by what you demonstrate in your own careers and lives, to help rebuild the trust and reset the balance of confidence on which a growing, global world depends.

Take both these opportunities.

The world awaits you.

And the world needs you.

Congratulations!