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**“Making the Alliance Great Again?
The West at a Crossroads”**

**The XXXVIII American-German
Young Leaders Conference**

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INTRODUCTION

The American Council on Germany's U.S. Young Leader delegation had just started dinner on its first night in Munich when rumors of a mass shooting started circulating through the outdoor cafe. The delegates, having only arrived that morning and now sitting on the terrace of the Nürnberger Bratwurst Glöckl in the city's Altstadt, noticed the other diners staring urgently at their smartphones as München residents, with no visible provocation, began sprinting down the street.

A shooting at the Olympia-Einkaufszentrum shopping mall with multiple deaths had been confirmed, and the Munich police started locking down the city and ordering everyone indoors. All public transportation was suspended, the Munich central railway station evacuated.

The delegates were ushered inside the restaurant and sat upstairs in the dark, waiting several hours as patchy – and as it turned out, false – information about multiple shootings was brought to them by the restaurant staff.

Uncorroborated eyewitness accounts of other shootings started reaching the Munich Police Department, which had little choice but to take each report seriously. Its Twitter account started publishing regular updates such as “The suspects are still on the run” and “Unconfirmed reports of more violence and possible #gunfire in the City Center. Situation is unclear.”

Within a few hours, the city officially still locked down, a few pedestrians could be seen through the cafe's windows as calm slowly returned to the streets. And at close to midnight the police escorted the American delegates back to their hotel, where groups of confused tourists shuffled in throughout the evening to ask how to exit the city, as so many roads had been blocked off.

The Munich police held a press conference for journalists shortly after 2 a.m. to confirm that the horrible tragedy at the Olympia was in fact the work of a lone gunman who had killed himself after the attacks.

Quite a first day.

The American delegates were never in imminent danger, as the restaurant where they dined was a 15-minute drive from the shootings. But the day's violence was a horrifying and immediate manifestation of exactly the kind of incident that Germans, and Europeans generally, have increasingly worried about in recent months, and indeed in recent years.

In a two-week period that included the five days of the ACG's annual Young Leaders Conference, Bavaria alone experienced four separate acts of violence – a knife attack on a train near Würzburg by an Afghan asylum seeker; another knife attack in Reutlingen by a Syrian restaurant-worker, also seeking asylum; the Munich shooting by a German teen of Middle Eastern descent; and a suicide bomb detonated by an ISIS-inspired Syrian refugee at a music festival in Ansbach.

The German response to the attacks was praised abroad for its stoicism and rational calm. But the events drove home the struggles Germany is facing both politically and culturally as the frontline country accepting migrants from the Middle East.

The recent incidents would be unavoidably politicized, threatening to widen the painful split between the share of the German population that has embraced rising populist sentiment and the share that worries about the country losing its identity as a cosmopolitan, tolerant, integrated member of Europe and the global economy.

Germany isn't alone in its struggles to prevent the gap from opening further. The vote to Brexit in the UK had taken place the month before the ACG conference. And even a cursory glance at the popularity of Donald Trump in the U.S. and Marine Le Pen in France, or the behavior of Hungary's Viktor Orban, would reveal that this societal divide is global.

The explicit theme of this year's Young Leaders Conference was about strengthening the transatlantic relationship. That the U.S. and Germany share similar values and, mostly, similar interests is almost too trite to mention. But pursuing them in harmony first requires a better mutual understanding of domestic challenges – those shared by both countries and, more crucially, those that differ.

Much of the week was therefore dedicated exactly to this goal. Discussion of timely issues like immigration, security, political upheavals, and trade were accompanied by deeper probings of national identity, the rise of ethno-nationalist populism, and expectations of global leadership.

The settings for this weeklong discourse included the grand halls of the Reichstag, the chic offices of a venture-capital incubator, the impressive reception rooms of German conglomerates, a handful of (less impressive) hotel conference rooms – and, most important of all, the nightlife establishments in Berlin and Munich where the delegates really came to know each other.

The week focused more on raising questions and identifying points of contention than on providing answers. And for good reason: If arriving at comprehensive answers were easy, such a week would be uninteresting in the first place. Some of the hardest questions raised might not be answerable at all.

Still, at the risk of overdramatizing the American delegation's experience upon arrival in Munich, one of the useful lessons from that awful day is that the questions still have to be asked.

IDENTITY AND POLITICS

What it means to be citizens of America and Germany was the topic of the very first plenary session.

Often amusingly, the minor stereotypical differences in style between Americans and Germans would prove true within the group of ACG delegates. American delegates were more spontaneous, unstructured, and natural in their presentations. German delegates spoke from finely prepared scripts, and their eloquence in a second tongue was a constant source of wonderment to the Americans. (The Germans also drank more beer – and they held it better, as an American delegate who missed his flight home at the end of the week can attest.)

Some traits were shared by both groups in their sessions throughout the week: directness, humor, tolerance for opposing views. A German delegate also introduced the delightful statistic that 16 percent of Americans have German ancestry, mostly descendants of 19th-century migrants and the single largest ethnic ancestry in the U.S.

More substantively, delegates emphasized that identity in both countries is not homogenous.

"If you ask all of us where we're from, we'll each give you a different answer," said an American delegate. "Our parents are from vastly different places, and so we're united more by an American idea: the freedom to pursue the life you want."

A German delegate responded that something similar applied to Germans, especially when considering that unification between East and West Germany is a relatively recent event, and that exposure to outside perspectives varied widely throughout the country's disparate regions.

A number of German delegates noted throughout the week the unavoidable complication still presented to them by the residual legacy of the Second World War. "One of the reasons Germans were excited by the European Union is that it gave us a different identity," said a German delegate. The recognition of this difficult legacy leads to differing conceptions of national leadership between Germany and the U.S., one of the week's principal topics.

Some of the traditional character traits can also be witnessed in national affairs. The German emphasis on thrift

is evident in its approach to managing economic affairs, while the American inclination for striving, risk-taking, and exceptionalism at times appears to underpin its foreign policy.

And on these two matters in particular – economics and foreign policy – diplomats and representatives from the two countries often clash. The same applied to the delegates, as discussed later in this report.

MIGRATION AND THE POPULIST EMERGENCE

No topic dominated the week's discussion more than immigration and each country's respective populist movements.

If national elections had been held at the time of the Young Leaders Conference, roughly 12 percent of Germans would have voted for the anti-immigration, right-wing populist party, *Alternative für Deutschland*, or AfD. That's according to an Infratest Dimap poll of voter intentions cited by a German delegate.

The figure would climb to 16 percent in the two months after the conference, more than quintupling the party's popularity from three years ago. Support is even higher in the former East regions of Germany.

Evidence of frustration with the German establishment in general, and with Angela Merkel in particular, isn't limited to growing support for a fringe political party. The Chancellor's own center-right party, *Christlich Demokratische Union Deutschlands*, or CDU, endured four straight defeats in German regional elections. In September Merkel's public approval rating sunk to 45 percent, its lowest point in half a decade, while the CDU itself is consumed with internal squabbles.

The CDU's slide translated into seats for the AfD in the September regional elections – most remarkably in Berlin, where the CDU and its partner in the *Sozialdemokratische Partei Deutschlands*, or SPD, failed to command a majority. German electoral politics has clearly been rattled ahead of next year's federal elections.

The primary source of the government's declining popularity is no mystery: immigration and the refugee crisis. Germany recorded net immigration of more than 1.1 million people in 2015, which according to the federal statistics office was “the highest net immigration of foreigners ever recorded in the history of the Federal Republic of Germany.” (Germany's population now totals an estimated 82 million people.)

Last year's net migration also increased the total number of immigrants in the country, which had been roughly 10 million at the end of 2014, by more than 10 percent. And the majority of immigrants were from outside Europe for the first time ever. Among them are an estimated 800,000 asylum seekers, including hundreds of thousands of Syrian refugees. Those numbers are believed to have fallen considerably this year, partially because of a deal struck with Turkey.

The more immediate worries include the logistical challenges of housing and transporting so many people, and of course the visceral concerns of widespread violence that were first provoked last New Year's Eve, when hundreds of thefts and sexual attacks by migrants were reported in Cologne. Many of the migrants also lack the education, job training, or German-language ability that German employers require.

Merkel was responding to an overwhelming tide of human misery in choosing to open Germany's borders to migrants and refugees. Economists also agree that immigration has beneficial long-run effects, especially for countries like Germany with impending demographic problems. “One of the stories that doesn't get told enough in the press is about all the families in the south that have accepted refugees into their homes,” **Dr. Emily Haber**, State Secretary at the Federal Ministry of the Interior, told the delegates. “They continue to care for them and welcome them.”

Even so, when it comes to Germany's immediate capacity to absorb and integrate migrants in such numbers, large swathes of the German public aren't buying Merkel's constant refrain of *Wir schaffen das*. (We can do it.)

The annoyance extends beyond the country's populists and includes some of the delegates. "She never explains her plan, because she doesn't think she has to give us one," said a German delegate. "The German press is different from the American press. They don't ask her strongly enough to explain how she will manage the problem."

The public's current frustration stems from the belief, according to a German delegate, that German politicians no longer solve problems, that they fail to protect their citizens, and that they no longer act as if they are accountable to the people who elect them. The frustration leads to an erosion of trust in democratic institutions themselves – which explains the disturbing appeal of AfD to a growing share (though still not a majority) of the German populace.

The frustration also highlights one of the remaining disconnects between East and West. In an article for *Der Spiegel*, journalist Stefan Berg wrote that one of East Germany's legacies "is the model of a closed society in which uniformity is more important than diversity. People learned little about interacting with people of different faiths and origins. ... As such, it's hardly surprising that people now feel threatened by the arrival of those who define themselves outwardly by their religion."

Meanwhile, an ocean away, Donald Trump had just experienced a bounce in the polls from the Republican National Convention when the Young Leaders Conference started. The prospect of a Trump presidency was becoming less and less remote.

Social scientists struggled early on to explain the motivations of Trump's base of supporters, those who ushered him to the Republican nomination. These scholars have started providing tentative answers.

Trump's supporters tend to be white, older, less educated, isolated geographically in communities with a low share of immigrants or people of color, and live in areas with low intergenerational mobility – that is, where children are less likely to ascend higher above their parents on the economic ladder than children born elsewhere in the U.S.

And many of them are angry. "Elections are traditionally about optimism and the American Dream," said an American delegate. "But not this year." The delegate cited a study showing that localities that have lost manufacturing jobs from trade are more likely to vote for extreme candidates from either the right or the left. That anger is rooted in something real, argued the delegate.

No surprise, then, that populism in the U.S. has emerged on both sides of the political spectrum, though not with equal fervor or vitriol.

The right-wing populism believes in economic isolationism and opposes immigration and trade. Its uglier manifestations include blatantly racist demonstrations and other kinds of bigotry. These voters are motivated by a desire to recoup an American identity that they fear has been diluted over time, responding with unexpected enthusiasm to Donald Trump's plan to build a wall between the U.S. and Mexico, and to his rationale that Mexico was sending rapists and drug dealers into America.

Left-wing populists are less strident, mainly calling for the government to be vastly more aggressive in redistributing wealth to combat rising inequality. The platform of Bernie Sanders in the Democratic primary contest required higher taxes on the rich to fund the provision of universal health care and free college tuition, among other ideas. An American delegate noted that Europeans accustomed to social democracy might not find any of this radical. Other delegates acknowledged the point but argued that leftist populism, if fully embraced, would nevertheless be a marked departure from the American traditions of limited government and incremental change.

American populism, especially the right-wing variety, is partly rooted in anti-immigrant emotion but includes other elements. Scholars have tried to establish whether racial resentment or economic anxiety is more to blame. A case can be made that the two overlap. As depicted in a new book by the sociologist Arlie Russell Hochschild, right-wing populists believe that the American Dream of upward mobility is increasingly an unattainable goal for them, and that other, less deserving groups – immigrants, racially or ethnically diverse families, people who receive government handouts – have more access to this dream than they do.

That this narrative is false doesn't change how deeply the populists feel it to be true. And it is this feeling that Donald Trump has exploited with promises of recovering a bygone era when "real" Americans were first in line.

THE BELEAGUERED CENTER

German populism shares a few things in common with American populism, the loss of trust in established institutions being the most obvious. But there is also a sense among the populists in both countries that economic and political elites mock them, or at least can't be bothered to listen to them.

They may have a point. "We're all privileged to be here," said an American delegate. "And groups like us have more in common with each other [the German delegates with the American delegates] than with certain other groups in our own countries."

If America's coastal dwellers know little about life in Appalachia – and vice versa – or if cosmopolitan Berliners can't name a single AfD supporter within their peer group, then the ongoing politics of division and upheaval is likely to continue unabated. That there is no single definition of what it means to be German and American makes it all the more necessary to understand the many variations.

"It's on all of us to communicate better," said an American delegate. "And we're not doing such a great job. How many people understood what happened in the financial crisis until they saw 'The Big Short'?"

For all of their rough edges, the appeal of Trump and of the AfD to particular groups in their respective countries is that they at least represent an available lever of change that the populists can pull. And for these voters, such levers have been tough to find in recent years; the status quo simply hasn't worked for them in the same way it has worked for the educated classes.

Establishment institutions in both countries are strained but not broken. Angela Merkel has been diminished but remains the dominant presence in German politics, even if her CDU and the SPD will struggle to cobble together a majority in next year's federal elections. The tumultuous election season in the U.S. had not ended at the time this report was first drafted, with Hillary Clinton still leading Trump. But delegates recognized even then that a President Trump would not be able to rule by fiat. They acknowledged that even the Republicans in Congress had their share of disagreements with him, and Democrats in the Senate would have enough votes to filibuster new proposals.

Finally, the economies of the U.S. and Germany are in reasonable shape despite troubling secular pressures. In both countries wage growth has been sluggish and wealth inequality continues to widen. Too many American workers have fallen out of the labor force, while Germany also remains exposed to fragilities along the European periphery. But the unemployment rate has fallen by nearly half in the past six years, also in both countries, with solid momentum in the two labor markets. The German unemployment rate hasn't been this low since before unification.

Yet the populist moment has been as much about identity as about economics. The delegates largely believed that centrist institutions retain the ability to withstand populist pressures, but that was before the election of Donald Trump, whose presidency is expected to test these institutions severely. Whether the remaining advocates of liberalism and political centrism, who now find themselves on the defensive, will manage to re-

invigorate these institutions remains an open question. Without a U.S. partner, Angela Merkel now finds herself the most prominent global leader within their diminishing ranks.

TRADE: STUCK IN PLACE

At a dinner hosted by a large German bank, **Ulrich Grillo**, President of the Federation of German Industries (BDI), tried to persuade his skeptical audience of ACG delegates that the Transatlantic Trade and Investment Partnership, or TTIP, could still be saved.

The proposed trade deal between the U.S. and the European Union had been through more than a dozen negotiating rounds, but the political winds in both places were now strongly blowing against the completion of the deal.

Grillo cited copious data in support of approving TTIP. “Every fourth job in Germany depends on exports,” he said. “In manufacturing, it is every second job. This country’s prospects depend on trade and open markets.”

High tariffs were costing European consumers \$10 billion a year, he said, and then added: “The United States is Germany’s most important and most reliable trading partner outside of Europe.”

He concluded that it was premature to give up on the deal, as negotiations cannot succeed if their starting point is that all is lost. The delegates were largely unconvinced.

Less than two months after the conference, German Vice Chancellor Sigmar Gabriel publicly acknowledged the obvious: “In my opinion, the negotiations with the United States have de facto failed, even though nobody is really admitting it.” France and Austria would follow up by calling for a suspension of the talks until a new U.S. President was elected.

So much for TTIP.

But Grillo was right about one thing: Trade and globalization matter to both countries. German exports are roughly 46 percent of GDP, and it is the world’s third-largest exporter, after China and the U.S.

The share of output is smaller in the U.S., about 13 percent, but the country is nonetheless the world’s second-largest exporter and has additionally capitalized on lengthening global supply chains to manufacture many of its most beloved products cheaply.

Studies have found that trade, in addition to making an economy more productive, lowers the cost of basic items for U.S. households, benefiting those at the bottom and middle of the income scale the most. These consumers spend more of their disposable income on heavily traded clothing and food items, while wealthier households spend a higher share on services, many of which are untradeable. A majority of U.S. households still view trade favorably, a surprising fact in the year of Trump’s candidacy and election.

But the pro-trade message has been drowned out this year by the populist forces, and also by more legitimate worries about the impact of trade on specific segments of the German and American citizenries.

Although most Americans still see trade as an opportunity rather than a threat, Trump appears to have singlehandedly shifted sentiment among Republicans against it. The prospects for the separate Transpacific Partnership, or TPP, were growing dimmer by the day at the time of the conference. The subsequent election of Trump appears to have snuffed them out.

Trade isn’t just an economic issue. An American delegate highlighted a letter, signed by eight former U.S. Defense Secretaries, in which they argued in favor of TPP on the ground that trade is also important for national security. It is very much an instrument of national power, the delegate said.

She did note the studies that demonstrated the debilitating impact of U.S. trade with China on manufacturing jobs in certain concentrated regions. But she further explained that the large trade shock with China was also a one-time event driven by China's development model. Wages in China are converging quickly toward those of the rich world, and there simply isn't another massive new pool of labor waiting to flood the global workforce all at once.

A German delegate also emphasized that the nature of trade deals is changing. Such deals are more about establishing rules to govern the delicate balance of innovation vs. regulation than about lowering tariffs and other barriers. Rules governing privacy are especially worrying to Germans.

German attitudes toward trade, and especially toward TTIP, have soured with astonishing rapidity given its importance to the domestic economy. "Less than one in five (17 percent) Germans surveyed consider TTIP to be a good thing, while two years ago more than half (55 percent) of Germans were in favor of the agreement," concluded a study in April by the Bertelsmann Stiftung. Yet the trend wasn't limited to TTIP: "Although a majority (56 percent) of Germans is generally open to trade, that figure is a sharp decrease from just two years ago (88 percent)."

Activists have rallied against trade in certain regions. In Bavaria, for instance, green activists aligned themselves with anti-globalization campaigners in a high-profile effort to force a referendum in the region on Germany's pending trade deal with Canada.

Concluding big new trade deals hasn't been easy in recent decades. The Doha round of multilateral talks ended in failure, and the two biggest regional initiatives of recent years for the U.S. are close to it. Thousands of protesters greeted Obama in Hannover this April when he arrived for joint talks with Merkel about TTIP. Both leaders had pushed hard to agree on a deal between the EU and the United States, but neither could do anything to turn away the momentum against it.

In other words, progress on trade liberalization has stalled.

NATIONAL LEADERSHIP: AMERICAN EXPECTATIONS VS. GERMAN PRUDENCE

Whatever the domestic views of each country's respective leader, Germans seem to trust Barack Obama almost as much as Barack Obama admires Angela Merkel.

"Merkel is perhaps Obama's favorite ally," wrote the journalist Jeffrey Goldberg, who interviewed the U.S. President numerous times for an article in the *Atlantic* on his foreign-policy legacy.

Of Merkel's qualities valued by Obama, Goldberg continued: "Transactional, clinical — an actual scientist by training — and emotionally self-contained, she also possesses a quality Obama says he admires: political courage." At the time of the conference, Hillary Clinton and Donald Trump had recently shared similar feelings about Merkel when asked to name the leader abroad they most admired — though it should hastily be noted that Trump has alternated between praise and severe condemnation of Merkel.

According to a Pew survey in July of European countries, 86 percent of Germans expressed confidence in Obama to "do the right thing regarding world affairs," the third-highest share of any country after Sweden and the Netherlands.

Obama's restraint on foreign policy — the merits of which are much debated within the U.S., especially with regard to Syria — has overall been more to Europe's liking. **U.S. Ambassador to Germany John Emerson** told the delegates that Germans have been especially impressed with Obama's diplomacy on the Iran nuclear deal and the rapprochement with Cuba.

So the two leaders are trusted by the citizens and leaders of the other country, which is not to say that this trust is unshakeable or even robust. German trust in Obama was slow to recover from the revelations of the NSA's hacking scandal three years ago. More fundamentally, America and Germany embrace different conceptions of national leadership in global affairs, which can lead to misunderstanding and persistent mutual frustration.

"It took a long time to trust you again after the Iraq War," a German delegate said to the American delegates in a plenary session, adding that the NSA scandal and the populist bent in America raised further trust issues. She added that if Trump were elected, this trust could vanish immediately.

Multiple German delegates offered the similar view that the shadow cast by the Iraq War on the German public's perception of the U.S. is longer and darker than Americans realize. It still colors the German view of American foreign policy as a reactive, thoughtless mechanism that acts first and justifies later. There is even a common, if simplistic and ahistorical, belief throughout Germany that America is culpable for the refugee crisis, drawing a straight line from the Iraq War to the destabilization of the Middle East to the rise of ISIS to the calamity in Syria.

Americans tend to take for granted that their government will assume a global leadership role in any number of geostrategic arenas – diplomacy, military conflicts, economics, human rights. Germans understand this about the U.S., even if they often disagree with the American position or believe the U.S. is involving itself in disputes it should avoid.

The more frequent source of confusion goes in the other direction: American bafflement or annoyance that Germany is more hesitant to embrace a leading role in world affairs. The early stages of the Russian conflict were one example. Germany's reluctance to advocate for looser fiscal and monetary policy during the European sovereign debt crisis was another. And Germany's refusal to contribute to the Iraq War left behind residual doubts about its reliability to satisfy defense commitments. These doubts are mostly unfair given Germany's involvement in other strategic theaters, including the Mediterranean coast, Afghanistan, and earlier in Kosovo. But a reputation is a hard thing to unsettle.

Germany has a different conception of national leadership, preferring sometimes to use its own quieter version instead of the more assertive, outwardly bold version displayed by Americans. And it exercises this leadership in a radically different, more interdependent geostrategic framework. According to a German delegate, the U.S. "has the ability to think on its own because of its vastness. Germany must think of itself as part of Europe."

Writing in *Foreign Affairs* this summer, Foreign Minister Frank-Walter Steinmeier described Germany as "a reflective power: Even as it adapts, a belief in the importance of restraint, deliberation, and peaceful negotiation will continue to guide its interactions with the rest of the world."

Another German delegate said that Americans "often don't understand the European context in which Germany makes decisions. Germany would rather be part of normal, multilateral alliances." Germany, he said, is "the strongest and wealthiest country in Europe, but it cannot impose its will completely. Only about 30 percent of the EU budget comes from Germany; Italy and France combined send more." And Germany's entire budget is barely more than half the U.S. defense budget.

Germans are acutely sensitive to their country's haunting past, compelling it to embrace its European identity all the more. "Other countries sometimes complain when we don't take a leadership role," said a German delegate. "But when we do lead, the second we do something that other countries don't agree with, they start calling us a bunch of Nazis." He emphasized that Germany sometimes prefers to lead by example. The refugee crisis is merely the most extreme and publicly visible example of this quieter style. Its early pursuit of stricter climate-change standards is another.

"Our historical experience has destroyed any belief in national exceptionalism – for any nation," wrote

Steinmeier. “Whenever possible, we choose *Recht* (law) over *Macht* (power).”

There is no other country in Europe whose own interests are as tied up with the volatile events now occupying the global stage, as emphasized by a German delegate.

The Russian annexation of Crimea and encroachment in eastern Ukraine raised questions about Germany’s relations with Russia and about the threat to Eastern Europe. A fragile Turkey risks exacerbating Germany’s refugee crisis given the millions of Syrian migrants who have settled there, partly because of a deal struck this year with the EU. A similar problem applies to Libya and Northeastern Africa, as another German delegate emphasized.

Following Brexit, it seemed that Germany would be the natural successor to Britain for the role of special relationship with the United States, as highlighted by an American delegate. Obama’s admiration for Merkel made the choice even more obvious. Referring to the title of the conference session, the delegate said that to ask whether Germany is ready for its close-up is an odd question. Although Trump’s election has unpredictable consequences for the existing dynamic, it is clear enough that Germany is already having its close-up right now.

Germany’s historical reticence to assume a position of global leadership matters less now. In a sense Germany has had a leadership role thrust upon it, with little choice but to accept.

DEFENSE: NEW THREATS AND THE PROBLEM OF RUSSIA

I. Data Security

Germans may trust Obama on the world stage, but the NSA phone-tapping scandal of 2013 left a durably dark imprint on their attitudes toward America. Before the scandal, 81 percent of Germans believed that the U.S. government “respects the personal freedoms of its people.” Now just 53 percent of Germans do, according to Pew.

The misgivings are starkly reflected in the difference between how the two countries approach data privacy and surveillance, which has led to public and back-channel diplomatic conflicts between them.

In March of last year, SPD head and Vice Chancellor Sigmar Gabriel told the journalist Glenn Greenwald that Germany could not offer Edward Snowden asylum because the U.S. government had “aggressively threatened the Germans that if they did so, they would be ‘cut off’ from all intelligence sharing.” Snowden, of course, was responsible for the revelation in 2013 that the NSA was tapping Angela Merkel’s phone. The relationship between the two countries has healed since then, but suspicions obviously linger.

It is also worth remembering that the German investigation into the NSA tapping was later quietly dropped, in no small part because of further revelations in 2015 that the *Bundesnachrichtendienst*, or BND, Germany’s intelligence agency, was itself spying on friendly countries. And it was doing so in concert with the NSA, on which the BND often relies heavily – far too heavily for the comfort of German civil libertarians.

Speaking to the delegates, **Christian Flisek**, Member of Parliament and SPD Spokesperson of the 1st Committee of Inquiry in the German Bundestag, said that Germany now needs a clearer legal framework to reinforce the legitimacy of its intelligence services. “It’s a question of how to balance security and liberty, and how to balance trust and distrust,” he said.

Overseeing intelligence, not to mention facilitating greater coordination between the intelligence services of Germany and the U.S., is hard because “the natural instinct of intelligence officers is to distrust.” Furthermore, he said, sometimes reports of new activity, as when the BND applies new filters to email conversations, aren’t reported up the chain. A new bill was put before the Bundestag to help sort out these organizational problems, he added.

As for working with foreign intelligence services, he said, “We need a catalog of standards. There won’t be an international agreement, but we can say, for instance, that we will give to our European partners a series of standards, unilaterally. We can tell them we’ll offer the same protections to European citizens as we offer to Germans.”

Multiple delegates, both American and German, highlighted the historical origins behind the differing attitudes that citizens of the U.S. and Germany apply to data. In the U.S., the aftermath of the September 11 attacks led to the Patriot Act and other measures for which Americans tolerated some erosion of their civil liberties in exchange for more protection, or at least the perception thereof.

The Snowden leaks, however, did generate a loud and prominent debate about whether the American security state went too far in the last decade. And in June of 2015, the government passed the USA Freedom Act, which extends the Patriot Act but includes new limits on the collection of metadata. (Critics argue it still did not do enough to protect privacy – a step back from what was authorized in the 2000s, but only a small one.)

German history, and especially the experience of the Cold War and the Stasi secret police in the East, has made Germans more wary of any privacy incursion. The German constitution even forbids spying on German citizens. Nothing like the bulk collection of metadata has yet taken place in Germany. As Markus Beckedahl of the news service Netzpolitik told *U.S. News & World Report* earlier this year: “In Germany, privacy is a civil right, and in the United States, it’s an option.”

Yet accusations of German hypocrisy on surveillance are common. In addition to the relationship between the BND and the NSA, the bombings in Brussels this year also led to numerous officials calling for more-invasive collection of data. New malware to allow the German Federal Criminal Police Office to surveil the telecommunications of suspected criminals was approved by the Interior Ministry. Chancellor Merkel hasn’t appeared keen to broach the topic, perhaps because security concerns remain so elevated.

Anna Sauerbrey, an opinion editor for *Der Tagesspiegel*, wrote in the *New York Times* that in contrast to America’s passage of the Freedom Act, “in Germany, which is ostensibly anti-surveillance, the prospects for a similar reform, one that would adapt the legal basis of the intelligence agencies to the digital age, are vague at best. ... But in managing to avoid debate, Ms. Merkel has ensured that Germany has not faced some painful questions. Should the BND be allowed to ignore the civil liberties that Germans enjoy at home when acting abroad? How much do we want to spend on our intelligence agencies – or are we willing to accept the price that comes with depending on powerful partners like the NSA?”

The debate over data is not limited to its pursuit by intelligence services, and the German conception of data privacy extends beyond the borders of Germany and into the rest of Europe. In 2015, the European Court of Justice defiantly invalidated the 15-year-old Safe Harbor arrangement between American technology companies and the European Commission. The arrangement had governed, among other things, how the firms could collect and send data from Europe back to the U.S. It was struck down because the Court decided it had “stopped Europe’s national data protection watchdogs intervening on behalf of citizens who complained their privacy had been infringed,” as the *Financial Times* reported. The companies were forced to overhaul their operations, and the Safe Harbor agreement has since been replaced by a new, stricter agreement known as Privacy Shield.

The debate over data security has intensified because of the increasing risk of terrorist attacks on U.S. and European ground, as globalization and digitization have made it easier for terrorist networks to send and recruit adherents abroad.

And so the choice now faced by the countries of the developed world is a stark one. “It’s possible that we will simply have to accept that terrorism is now a part of our lives,” said a German delegate.

The alternative to such acceptance is to begin changing the previous – and for many Germans a closely held – way of life.

II. Russia

On the more conventional ground of state disputes, at the time of the conference the U.S. and Germany were mostly – *mostly* – in agreement on how to deal with Russia. This particular diplomatic folder is thick with problems. It includes responding to Russia's encroachment and continued presence in Ukraine, its escalating threat to other neighbors, its menacing hints of contemplating war games and new military bases in Cuba and Vietnam, its support for Bashar al-Assad in Syria, and of course its efforts to influence the outcomes of foreign elections.

Relations between the U.S. and Russia have sunk to preposterous depths since 2012, when Vladimir Putin was again elected after the brief tenure of Dmitri Medvedev. Aside from the peculiar fondness that Donald Trump appears to have for Vladimir Putin, American politicians largely view the Russian government with a mix of contempt, annoyance, and befuddlement. In other words, the relationship is straightforwardly adversarial on the big issues. (Or at least it was when the delegates met and this report was first drafted. As with so many other issues, the relevant dynamic might change considerably in a Trump presidency.)

The U.S. government's findings that Russian state-supported hackers were infiltrating the emails of prominent Democrats and feeding them to WikiLeaks only made the relationship plummet further. And the U.S. government isn't alone in dealing with Russian attempts to affect its domestic politics. According to an article in February by the *Sueddeutsche Zeitung*, German intelligence suspects Russia of trying to "sow the seeds of discord in Europe by weakening Germany and Angela Merkel." Russian-language media within Germany has propagated false reports of chaos generated by the migrant situation in an effort to stoke anti-migrant sentiment. And the Russian role in Syria is largely viewed as abominable in both the U.S. and Germany.

Yet the nuances of this state dispute are far more complicated for Germany. Even if the German government has opposed Russia's activities on many of the same issues, the shared history between Germany and Russia – formerly a virtual border country, huge waves of migration, ongoing university partnerships – is impossible to ignore when the two are in conflict. And an estimated 3.5 million Russian speakers reside in Germany, mostly in the east. Merkel herself speaks fluent Russian, and Putin reportedly speaks excellent German.

Historical ties and simple geography also lead the two countries to engage in substantial commerce. The sanctions against Russia adopted in 2014 consequently have hurt Germany disproportionately more than the U.S. German exports to Russia have fallen by a staggering 44 percent in the last three years, from 38 billion euros to 21 billion euros. They are expected to decline another 10 percent this year. Some of the fall is due to other factors restraining the Russian economy. Nonetheless, German companies have complained loudly about the sanctions, pressuring the Chancellery. In contrast, last year the United States exported to Russia just \$7 billion of goods and services, or about 6.4 billion euros, down from around \$11 billion in each of the prior three years.

At the end of last year, Merkel supported a new pipeline of natural gas, the Nord Stream 2, that would supply gas from Russia directly to northern Germany and other parts of Europe, depriving Ukraine of transit revenue. U.S. politicians and the Obama administration have condemned the deal, one of the few areas in which the U.S. and Germany have sharply disagreed.

The relationship between Germany and Russia is thus fraught with tension and self-contradiction. Americans, not excluding a number of delegates at the start of the conference, often fail to realize the nuances. The German delegates spent considerable time explaining them in the plenary sessions.

Most of the speakers to the delegates throughout the week had something to say about Russia, and their differing points of emphasis reflected the ambiguity and complexity of the relationship itself.

Peter Altmaier, Head of the Federal Chancellery and Federal Minister for Special Tasks, told the delegates that there was “no indication whatsoever that Russia wishes to disrespect the integrity of NATO.” Ukraine, he said, was not in the EU or NATO, before concluding, “But we must be vigilant.”

Dr. Detlef Wächter, Senior Director for Security Policy; Non-Proliferation and Arms Control; Bilateral Relations with the USA, Canada, North, West, and South Europe, and Turkey at the Federal Chancellery, was more pointed in his criticism of Putin: “We feel he cheats in Syria, as he cheats in Ukraine. We do have some leverage with the Russians, but not unlimited.”

Lt. General Dieter Warnecke, Director General of the Division of Strategy and Military Operations and former Deputy Commander of ISAF Joint Command Afghanistan at the Federal Ministry of Defense, said that Russia will continue to be a problem “without a fundamental change in course.” He furthermore added that Germany will continue to have a dialogue with Russia, but that it will also continue to have a presence in Lithuania to make clear that it takes the Russian aggressions seriously. NATO, he concluded, stands in full agreement on the need for Russian deterrence.

Despite the long history of cooperation between Germany and Russia, said a German delegate, “for the first time in 30 years there’s the feeling that perhaps a war could come near to the German border.” It is only a slight possibility, he said, but even so the mere fact that it must be contemplated has generated a palpable sense of shock.

“The German-American relationship is the indispensable relationship when it comes to foreign policy,” said **Ambassador John Emerson**, U.S. Ambassador to Germany. It is also the relationship that matters most for responding to the escalating Russian threat.

ECONOMICS: CYCLICAL IMPASSE, STRUCTURAL TRANSFORMATION

Some big issues will unavoidably inspire disagreements within the transatlantic relationship – or between delegates at the Young Leaders Conference – that cannot be settled. They can only be acknowledged and worked around. Economic policy for Europe in the aftermath of the financial crisis is one such issue.

Briefly and with necessary generalization, the German preference has been for those European countries on the periphery that suffered banking and sovereign debt crises to recover their competitiveness through structural reforms. In the German view, these countries were beneficiaries of the lower interest rates granted by the common currency union. But their governments were irresponsibly profligate – this especially applies to Greece – while failing to reform their inefficient economies and calcified labor markets.

Rather than allowing these governments to spend more than is allowed under the relevant EU treaty – an annual deficit of no more than 3 percent of GDP – these economies should make the necessary structural adjustments to justify greater investment, thus spurring recovery. To allow them greater deficit spending would risk more bailouts in the future. These bailouts amount to a transfer of wealth from Europe’s successful and responsible economies (like Germany) to the spendthrift ones.

A German representative of the Finance Ministry, in a presentation to the delegates, added that national debt levels for the affected countries were already too high. Raising them ever higher would reduce global trust in the euro. Widespread debt cancellations were also unrealistic, he said, because of inadequately defined insolvency procedures.

Germany’s preference for the monetary policy of the European Central Bank has also been one of more restraint than the weaker countries in Europe had called for. Fearful of inflation, this stance is perhaps also influenced by the national memory of the Weimar-era hyperinflation, though it has softened in recent years as Europe experienced bouts of outright deflation.

The American view, by contrast, places a heavier emphasis on aggressive measures to stimulate after a crisis. Both monetary and fiscal policy – even if the latter includes running temporarily large deficits – should have been deployed. Europe’s banks should also have been recapitalized at a much greater scale, and sooner. In this view, Europe’s economy has continued to work for some countries – Germany, for instance – but not for those countries suffering from historically high unemployment and stagnant growth. To pursue structural reforms without the corresponding fiscal and monetary boosts would further cripple them.

These are simplistic depictions of a thorny and interminable debate. What became clear throughout the week of the conference, however, is that for the transatlantic relationship itself, the issue has faded from view. Not because the question of how to best respond to a financial crisis doesn’t matter. Someday the fate of the eurozone, or even the European Union, may well depend on the answer. The reason it has dissipated as a point of friction between the U.S. and Germany is rather that the U.S. simply does not, and maybe should not, have much influence on how Europe conducts its economic affairs.

As a German delegate said, “These are simply our positions, and they have to be respected.” Indeed.

Yet the U.S. and Germany also have much in common when it comes to the particular nature of their respective economies. They are thus in a position to learn from each other. Both countries recovered from the financial crisis better than most other developed countries, both have low unemployment, and both have industrial strengths that are the envy of the world. Both also confront similar problems. Wage growth has been stagnant. Inequality is high. Germany’s demographics challenge is bigger than that of the U.S., but neither country can ignore the fiscal and economic consequences of an aging population.

Furthermore, rapid automation in manufacturing and its attendant trend, deindustrialization, will have uncertain consequences for parts of the labor force. If they accelerate more quickly than workers can adapt, then a government response will be necessary to cushion the blow to wages and jobs, and to assure that the technological gains lead to shared improvements in living standards.

“This point reminds me that the social safety net was invented by Otto von Bismarck,” said **Peter Altmaier**, Head of the Federal Chancellery and Federal Minister for Special Tasks. “We invented Obamacare first of all,” he added, jokingly. But he was cognizant of the changes to social security and health-care provision that the future could require. Similarly, Barack Obama was recently interviewed by *Wired* magazine about technology trends. Newfangled ideas once thought to be politically ludicrous, such as a universal basic income, will soon become genuine topics of political debate, Obama said.

The other, inversely related problem that both the U.S. and Germany are well positioned to address is weak productivity growth in the non-manufacturing sectors, which now afflicts the entire developed world. Economists disagree about its causes and offer no definitive solutions. But at least Silicon Valley and Berlin’s emergent start-up scene are working on it. Here, too, government can play a role – through smarter intellectual property law, fewer unnecessary regulations, public research, and development spending, among other ideas.

The transatlantic relationship has been a formidable bulwark against the many and varied forces now attacking the foundations of global stability, prosperity, and peace – even if at times it has appeared outmatched. But one of the themes of the conference this year was that in the realms of technology and economics, it need not settle for merely defending a hard-earned stability. Instead the relationship can push against the extant boundaries of innovation and policy, showing other countries the way toward a more prosperous and inclusive future.



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