



2011 ATLANTIK-BRUECKE TRIP TO DC

October 3-7, 2011

Below are my summary and notes of various presentations made to the Atlantik-Bruecke Delegation and ensuing discussions. They are less complete than usual because I was unable to attend several sessions. The key points (from my standpoint) were:

- The mood in Washington is very depressed. Government does not function. The economy does not function.
- There will be no movement in the US until after the 2012 presidential election.
- Obama is likely to be a one-term President, with all three branches of government going to the Republicans. Romney is the likely next President.
- US military spending is likely to drop significantly. Is anyone able to fill the coming void?
- Economic issues play a bigger role in trans-Atlantic relations and military issues play a smaller one. Chancellor Merkel's Trans-Atlantic Economic Council has lost its momentum.
- Germany is unable or unwilling to take on the leadership role the US would like it to play.
- Turkey is changing and playing a more important role. Eastern Turkey is growing, having greater influence and turning Turkey to the east.

ROBERT KIMMITT, Former US Ambassador to Germany

We can divide the last years into the cold war, the post cold war, the post 9-11 and now the post-financial crisis periods. In the first periods, security and political aspects were at the forefront. More recently, financial aspects have become more important. The Department of Defense used to be an essential stop for a visiting German delegation, but now it is the IMF and World Bank.

RK is more optimistic than many others. Americans are focusing on the right size and role of government. The closer we get to this essential question, the messier the issues that arise. And the process is inefficient.

The EU has made a series of tactical decisions with respect to the Euro crisis but has no real strategic concept. Each tactical step becomes less effective.

Commenting on the US federal budget battles, July's proceedings were "theater of the absurd." RK was in the Treasury under James Baker in 1985. Also then Congress tried to use committees (like the newly created "Super Committee") to deal with budget issues. So we have had bitter debt limit debates before. Focusing on the result, \$2.4 trillion over 10 years was cut from the budget. This drops our budget deficit from 8% to a bit over 2%. True, this is not the \$4.5 trillion reduction President Obama proposed, but taking so much money out of the economy would have had a decelerating effect. So that big a cut might have hurt the economy even more.

At international conferences, the US debt has been a long-standing issue with foreign countries. The Tea Party has forced the country to look at its deficit. So, it has played a positive role. Also, American savings rates were for the first time until recently higher even than Japan's. The savings of individual households had gone up, but not those of the government. The Tea Party demanded attention to that dichotomy.

Now the big question is how to create the conditions to grow employment. The core issue (again) is the role of government. This means a combination of spending cuts and revenue. This will be the biggest topic in the 2012 presidential debate. We will get spending cuts before the election but possibly tax increases after. If the US economy is creating jobs before the election, Obama will get a 2nd term. If not, he won't. The likely Republican nominee will be Perry or Romney. Either way, the economy will be the topic. The US needs to create 175,000 jobs a month to keep unemployment from going up and 200,000 to bring the rate down. To do that we need 3% growth, but we are at 2% or less.

Getting the US financial house in order is not a stimulus. We saw this in 1991-2 when George H.W. Bush was President. Bush accepted a budget which contracted the economy and caused a recession. Job growth comes slowly after the country comes out of a recession and as a result George Bush was not reelected.

Americans like Obama for many reasons. But what has he delivered? Many observers say the economy will not pick up until after 2013.

Shifting to US-German issues, RK was US Ambassador to Germany when BMW made its decision to build its plant in Spartanburg, South Carolina. Americans do not know how close BMW was to building the plant in Mexico. This decision was (and similar decisions are today) a vote of confidence in the US worker. 600,000 Americans work for German companies. German executives need to visit their US Congressman annually. They should get their plant manager to set up the meeting. Americans used to meet with him (RK) in Berlin in advance of needing his help. Germans need to do that in the US and not wait for a crisis. The German executives can also get free advice from the Congressman and his or her staff.

The Trans-Atlantic Economic Council was an initiative of Chancellor Merkel in 2007. She

wanted a free trade zone, but the US was focused on the Doha Round of trade talks and she settled for a method of reducing non-tariff barriers to trade (standards and regulations). With Germany no longer holding the EU Presidency, this initiative has gone to sleep. Germany does not like to play a leadership role except with the authority of the EU. The Council made some progress with aviation and accounting standards but it needs new energy. In a month there will be the APEC meeting in Hawaii. It focuses on Asia. But the US has much more trade with Europe than Asia. The EU and US need to coordinate to deal with Asia. Germany needs to play a more active leadership role.

The American Council on Germany (of which RK is Chairman) should focus on three goals: 1) closer cooperation with the Atlantik Bruecke, 2) economic issues and 3) non-east coast USA. The ACG needs to create a national agenda. For example the ACG has a program now for mid-market US companies in Wisconsin.

As to areas of irritation between the US and Germany, there are not many. The Libya vote was harmful to the relationship but is being healed. There is cooperation and coordination in other regions, including the Arab spring. There is too little coordination and cooperation in dealing with the Chinese. Economic issues dominate, and it is good to have an economist as German Ambassador to the US. The US has structures with China and Germany does, but the US and German structures do not coordinate. The Chinese try to split the US from Europe.

Yes, the US wants Germany to play a bigger leadership role in Europe, but not at the expense of other European countries. And the US does not want to meddle in European internal affairs. That would not help Germany.

During Bush 1's presidency, there were two European summits a year. Now there is only one and there are two with China.

Are the US labor force and infrastructure adequate? The US economy has always done well in the long run. 5.5 million Americans work for foreign employers. This is 4.5% of the work force but 10% of the capital investment. 40% of these jobs are in manufacturing and they pay 25% more than average. The number of union members is 50% higher than average. So the US can still manage in manufacturing. In the US, 75% of all jobs are created by small and mid-sized companies. Of these, half are from companies with 100 or fewer employees. These businesses are not spending now, even though they have lots and lots of cash. They want to know what will happen with tax policy. Then we can expect much bigger growth. Government has to get its house in order. Then the next question will be inflation. Yes, the US does need more investment in infrastructure and both Democrats and Republicans see this need.

GERMAN MARSHALL FUND

THOMAS KLEINE-BROCKHOFF, Senior Director, Moderator

When in Europe, we hear a lot about problems in the US. And vice versa.

BRUCE STOKES, former economics editor, National Journal - Partisanship is even worse than the US public thinks. It is deep and profound. This includes matters of foreign affairs. The statement that politics ends at the water's edge was probably never true, but certainly not now. The public is split 1/3-1/3-1/3 on President Obama's foreign policy. The response to the public opinion questionnaire is probably really just a referendum on his presidency generally. Independents are somewhat anti-Obama. Each of the two parties is dramatically split on Obama. Independents are leaning Republican. Certainly, all the public wants to get out of Afghanistan. This is clear. In the many Republican primary debates, there is no mention of China. Remarkably a majority of Americans support military action rather than letting Iran have nuclear weapons. This is particularly true of Republicans but also a majority of Democrats. On Israel-Palestine, a majority of Republicans want to pressure Palestine harder. Democrats are willing to pressure Israel. Democrats are more supportive of the EU than are Republicans. Some of this response is due to Republican association of Europe with Obama's health care plan.

JIM KOLBE, former Arizona Congressman - There are three types of elections. 1) Conventional or status quo elections, even if the party changes. 2) Transformational elections like 1932 with Roosevelt and 1980 with Ronald Reagan. 1995 the Republicans took the House for the first time in 40 years. And 3) Tsunami elections, like 2006, when Republicans were voted out in large numbers. This continued in 2008 with more Republicans out, but then 2010 was a tsunami going in the other direction, throwing Democrats out. 2012 could be another tsunami. Independents are the group to watch. They are not happy with Obama. But the mood today is to throw ALL sitting politicians out. Congress's popularity rating is very, very low. Obama's rating is higher. The Republicans are unhappy with their field of presidential candidates. Romney is likely to be the nominee. He has run before and has been vetted. His state health care plan (Massachusetts) hurts him in the primaries but could help him in the general election. People like McCain but will not nominate him. The others have little chance.

The economic crisis plays the biggest role. We have never reelected a president with 9+% unemployment. At a recent meeting of NGO's in Washington, the focus was on what to do in the "next administration." The likelihood is that Romney will be nominated and will win. The Republican base is not sold on Romney, but they have to accept him.

GLENN NEY, former Virginia Congressman - GN was elected in 2008 and defeated in 2010. Respect for Congress has gone even lower since his departure. The current problems lead to polarization. The 2010 election was a referendum on something, but what? The electorate wanted to act AGAINST the current system. Democrats overreached based on their 2008 victory. Some voters simply wanted divided government. But they wanted a split government that worked. Instead they got one that produced gridlock.

3/4 of all voting districts have been drawn to produce a 5% margin of victory and in fully 50% the margin is 10%. This trend is likely to get worse. So the primary challenge is where the real election is held and those elections are controlled by the fringes. This is particularly true about the Republicans and the Tea Party.

America is in a recession and Americans expect next year to be bad, too. Only recently, the electorate has decided that Obama deserves blame for the current difficulties. 60% of independents blame him. Almost 60% of Americans believe their children will be worse off than they are. And most voters did not support the bank bail outs. The "Occupy Wall Street" demonstrations reflect this angry mood about Wall Street. It is a real issue. People think bankers got treated unfairly - too well. There IS popular support of anti-capitalism.

Republicans and Democrats cannot agree on the economy. Republicans think the 2010 election was a referendum on the stimulus and they ran against it. They cannot now change their position and support a jobs stimulus Obama proposes. The public thinks the Super Committee has little chance of succeeding. There will be no movement until 2012. The 2012 election will be a referendum or a choice. If it is a referendum, then Obama will lose. If it is a choice, then he has a chance.

The partisan split will probably get worse before it gets better. The Republicans will soon control both the House and the Senate. Turning over decisions to something like the Super Committee is a step away from democracy.

The Tea Party thinks government has gotten too large. [I do not agree. I think they think it has gotten too large in the wrong areas.] It is possible Obama will use Europe as a scapegoat for the bad economy, especially if the Euro crisis drags on and gets worse.

The new involvement of the unions in the Wall Street protests is interesting and could lead somewhere. It could become a general protest of the unemployed. What does the Tea Party do if Romney is nominated? Possibly there could be a 3rd party nominee. Sara Palin is primarily involved in the process to promote herself.

Look at the last 10 years. Americans who are 26 have had 10 years of crisis of one kind or another. This affects how they see the world and the role of government.

Significant barriers to a 3rd party entrant include the difficulty in getting on the ballot in 50 states, the cost of running a campaign and name recognition. The candidate would have to be self financed.

The Brits take seriously the constellation of problems climate change - security - crisis management. They are ahead of other countries in thinking about this, in part because of England's colonial history.

The direction of the Arab Spring is not clear. These countries do not have a history of or experience with democracy and open societies. Sharia a law is not particularly compatible with democracy. But the Arab spring is not a religious movement to establish a theocracy. The Moslem Brotherhood is simply a preexisting structure, but not one that is democratic. The military in these countries has to give up power. Europe is not capable of controlling foreign policy in the Middle East. Europe looks to the US to do this.

Nothing moves faster than information; and nothing moves slower than democracy.

Europe simply does not play a role in US elections.

Obama cannot win with a 3rd party in the middle or on the left. When there was a Soviet Union, there was a clear, albeit rejected, alternative to a market economy. Now there is not (although China does have state capitalism).

As to the situation if all branches of government go Republican, it is unlikely that the Democrats will block action the way the Republicans have. In the 1960's, there were very few filibusters. In 2009, 80% of all legislation was the subject of a filibuster. This is essentially a supermajority (60 votes) system. In the 1960's only 5% of issues were filibustered. The Democrats are too disorganized and undisciplined to do this. But the system is dysfunctional.

There is no "big vision" because Obama has no plan to sell. Republicans won in 2010 with a no spending platform. Now they cannot change. The President was elected because he inspired the voters. But he cannot do that now. Americans do like divided government. But they got gridlock.

From the outside, one has to wonder how the US can run the world if it cannot even run itself.

US politics are very emotional. A candidate has to appeal to the voter's heart to be effective. This creates expectations. They are hard to moderate.

CENTER FOR AMERICAN PROGRESS

DR. MICHAEL WERZ, Senior Fellow and RUDY DeLEON, Senior VP on National Security

The leadership in the Pentagon has changed substantially in the last two months. Today, Washington is dominated by politics, not substance. Before, the White House and Congress would work matters out certain crisis points. Bob Dole and Tip O'Neill played these roles when it was essential. Also, Arthur Vandenberg (on the Marshall Plan) and Lyndon Johnson (for Eisenhower) played this role. No such person exists in the current Congress.

Obama ran on a platform for renewing the world's respect for the US but then the topic turned to economics. He was faced with financial issues and wars and now of confidence in general. Europe faces its own financial issues. But while Obama has been focused on domestic economy, the world moves on. Libya seems to have worked out. In the Middle East, Netanyahu plays the US card and makes no concessions.

Turkey is the big story. It is more important economically and politically and has shifted its focus from Europe to its eastern and southern neighbors.

The Super Committee tries to deal with the budget issues. The wild card is budget sequestration - the automatic \$1 trillion in budget cuts. The military will be hard hit. The Bush 2001 tax cuts will automatically go back into effect if there is no solution. The Democrats will like them and the Republicans not.

Obama was immediately in crisis mode when he came into office. Strategic thinking means more than 48 hours ahead. The US is a global government. Things are quite challenging. He would like a new world order but is spending his time putting out fires. Obama extended his initial European trip to include Turkey. This was a first. He has made a big investment in Turkey but may not have gotten anything. Obama has also invested in Brazil and India.

Obama has certainly been less unilateral than President Bush. Biden gave a speech in which he said the US wants partners in world matters. At the UN, Obama said the US will "go it alone" if need be. But the US has to balance resources. The US Pacific fleet has helped China by the security it provides. NATO is not efficient at fighting wars but it has helped create stability. The Europeans are great at writing white papers on defense but there is no budget to follow through. In the US, high schools will take a bigger budget hit than the US military.

Turkey looks different to the US than to Germany, just as Mexico looks different. Both countries are seen through the window of immigration. Germany is shifting in its attitudes towards Turkey. Younger, conservative German politicians realize they have to know more about Turkey.

It would be silly for a German politician to tell Arizona to open its border with Mexico. The same thing is true regarding Turkey. Turkey is not so much changing its views as eastern Turkey is becoming more active. It is traditionally more conservative, and it looks to its eastern neighbors. Western Turkey continues to look to Europe.

Turkey's membership in NATO affects its relationship with Iran. Only about 25 people in Turkey run its foreign policy. Its diplomatic corps is very small. Their inventory of foreign languages is small, too. Turkey has shifted its policy on Libya and it is now in synch. Turkey is important in relations with Syria. It has hurt itself with Israel. Historically Turkey has been viewed more positively in the US due to its friendship with Israel. This no longer applies. Turkey does play a positive role in the Balkans. It has taken some responsibility there. It played a positive role in Bosnia. It mentored the Russians there. The Russians were so poorly outfitted for that job that

Reebok had to contribute uniforms (1994-95).

The US pays a large part of NATO's budget. Germany's military budget makes up only 1.3% of its total government spending. The US has pushed Germany and other countries to pay 2%. So many say Germany gets a free ride. The US budget cuts will make the German military budget more obvious.

The US (Hillary Clinton) has recently tried to facilitate closer relations between Israel and Turkey but failed. The US would prefer Turkey to play the role of a facilitator in the Middle East, not of an advocate. Germans emphasize that it has a bigger development budget and that should be taken into consideration when looking at budgets. There should be more coordination between defense and development agencies and crisis management.

Egypt plays a leading role in the Arab world and is important in determining the direction of the Arab spring.

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