



US-GERMAN CONFERENCE

May 7, 2018

The American Council on Germany and Atlantik-Bruecke held a joint conference in Washington on Monday, May 7th. Despite being less than a full day, the conference was wide-ranging and interesting. It occurred one day before President Trump announced the US's withdrawal from the Iran accord. Despite the internationalist make-up of the (large) audience, there was little Trump bashing. The Chatham House rule applied, so I will not name names (except for the last speaker), but almost no one said anything controversial.

SUMMARY

- Developments in the West have discredited democracy as a form of government. Why should the Chinese listen to the West at all? China tries to splinter European countries and prevent a unified EU policy [much as the US has].
- Significant European trade barriers remain – both tariff and non-tariff. German cars and low military spending are Trump's grievance points.
- Democracies need a middle class and trust in the system to function. Both declined long before Trump's election. [I say the decline of the lower middle class began with Ronald Reagan's privatization and anti-union policies. White men reject the federal government because it gives rights to women, African Americans, gays, the handicapped, thereby reducing white male privilege.] Cynicism flourishes.
- The US has become a less trustworthy partner. China sticks by its commitments.
- If Hillary Clinton had become President with a Republican Congress, America would have had a Weimar-type government, with impeachment proceedings beginning immediately.

DETAILS

A Columnist for The Financial Times

The current political crisis began before the 2016 US election. Andy Borowitz (New Yorker humorist) noted that the Brexit vote deprived Brits a long-cherished right – the right to look down on their American cousins as stupid. But the US election of Donald Trump leveled the playing field.

The speaker recounted the Fall of the Wall and his going from England to Berlin to participate in the “orgy of historic vandalism.” But annual polls show that support for democracy has dropped every year since 2006. Since 2000, 25 significant countries have slipped into dictatorships. There are fewer democracies than then. We have seen Thailand, Turkey and – after a promising start – Russia move in that direction. Poland, Hungary, Slovakia and the Czech Republic might also be counted.

China has been blessed by four major Western missteps.

1) After 9-11 we restricted our own freedom and the rule of habeas corpus – we bent our own rules;

2) we invaded Iraq and spent between \$1.5 and 4 trillion dollars without anything to show for it, certainly not democracy. Arab Spring during Obama's presidency also produced no democracies except possibly Tunisia, where it began.

3) The Recession of 2008 ended Western growth, but China continued to expand. This was not a world-wide recession, it was an ATLANTIC recession. China used the opportunity to discredit western systems of government and build its own soft power.

4) Finally, after the Trump election and Brexit, people do not believe in the wisdom of the people.

We also face a crisis from within: cynicism. The peoples' parties of Germany, CDU/CSU/SPD now have only 53% of the vote. The same results can be seen in other European countries. The center-right goes farther right. In the UK, the Conservatives became the Independence Party. The UK left leader went far left. In the US, based on primary results, Bernie Sanders and Donald Trump would have taken over 50% of the vote. This is the anti-establishment vote, reflecting a decline in trust. Fear holds these voters together. But democracy requires trust as its glue. The system of separation of powers requires trust to work.

Economics also play a role. Without a bourgeois class, there can be no democracy. But the middle has shrunk. Male, blue collar workers get little respect. Life expectancy for these people is going down, as it has with Russian males. [The Russians drink; the Americans overdose on opioids.] There is a crisis of morale. White males fear irrelevancy. But this analysis does not explain the move right in Europe.

Donald Trump COULD be reelected.

Germans value human dignity, pay higher wages and have a system of apprenticeships.

The new German budget on defense remains about 1.2%, significantly below the 2% pledge, and misses an opportunity to improve infrastructure. Germany's new budget is bad for the EU. There is a bigger difference between Germany and France and the Atlantic region generally. "Sado-monitarism" has had its time. [A German noted that the German economy is running at a high level and would not benefit from big infrastructure programs now.]

Germany's current account surplus with the US will remain high. Germany has taken no steps to change this.

Q&A – Social media increases alienation. There is no moderator of positions or parties, no smoke-filled rooms. This is "post-fact / pre-fascism." The GOP takes its directions from the White House. If Hillary Clinton had been elected with a Republican Congress, the US would have been like Weimar, with immediate impeachment proceedings. With unified control by the Republicans of all branches of government [I add the Supreme Court], at least the Republicans cannot reasonably blame the Democrats.

To this populist explosion in the EU, the elites say the answer is MORE Europe. Quoting Brecht, "we don't like the people, so we need to dissolve them and get another."

CHINA – A Panel of Experts

America sees China as a bigger threat than Germans do. The US plays a role in Asia that Germany does not. China feels encircled by the US and skirmishes may well result. War is not the worst-case scenario. Rising powers often overtake the old party. China overtaking the US either way (peacefully or with violence) is also bad for Europe.

China works for its own interests – anti-Western interests. China behaves badly but different acts require different responses. For example, China does recognize the threat of climate change. China upholds its commitments in that regard because China sees the negative impact. But the US retreats. China has exhibited bad behavior in trade – barriers, joint venture requirements, IP theft – but the US took unilateral action, probably in violation of the WTO, and makes the Chinese look good by comparison. Europe is absent from this. Europe engages in nation-to-nation relations with China and competes for favors from and markets in China. There is no coordination on the European side.

China had been expected to integrate into the existing system, but China seems to try to change the basic structure. Europe has no interest in the South Chinese Sea. Why should the Chinese listen to Europeans or Americans about how to run their country?

Initially China was influenced by digital technology, but now they move to control that information. They use big data to manipulate the population with social credit points. One gets minus points for crossing the street when the light is red but positive points for visiting one's old parents. China takes a land-based strategy. [I think this point related to both trade and security and refers to the Silk Road or Belt road across Asia.]

China has built an overcapacity and now exports it. It also projects power in infrastructure projects abroad and raw material sourcing in 50-60 countries. China thereby hopes to build good will and sympathy. But it gets less sympathy because its investments are not like the Marshall Plan. China uses its own workers and equipment in these countries. [The Marshall Plan was not just generosity by the US, either.] This is not Chinese use of soft power. China moves to one-man rule.

Chinese do not care what we think. They do not share our perspective. China does not need friends. This is not new. Power and systems change as new powers arise. The Chinese do not follow the US model. For example, the US tried to control other countries' governments. China does not.

Europe has no role in the South Pacific, as the US does. There is no US expectation for the EU to send forces to Asia. But the US wants more moral support from the EU in SE Asia. The EU, however, does not want to risk its investments in China. The Chinese will never believe the world is better off with the US in charge.

- 1) China invests in Greece, Bulgaria and Romania, not Africa. [German colleagues have told me about lots of Chinese acquisitions in Germany as well.]
- 2) More technology is being transferred.
- 3) Germany thinks it has no interest in the South China Sea, but France does.

The Chinese "Belt Road" initiative divides Europe and creates dependency. China held a conference and included 10 individual EU states, NOT the EU as an entity. There was no Chinese connection to Brussels. Chinese African projects should be looked at on a case-by-cases basis.

https://en.wikipedia.org/wiki/One_Belt_One_Road_Initiative

As to the sale of US Treasury Bonds to China, China has no alternative, so it is a non-issue. [This statement seems very glib to me.]

China has certain territorial claims that it simply will not compromise, including Taiwan, Mongolia and the South China Sea. The Chinese are very nationalistic. They have had a military presence in Djibouti since 2016. The Chinese develop their interests step-by-step, slowly and very deliberately. It does not yet operate globally. Its military is not yet mobile.

World War I is cited as an example of how little missteps can bring on a great war. But this is rather the exception than the rule. China's view on running into US ships in the South China Sea is – we won't run into you if you are not there.

The rise of China in certain parts of the world is a result of the EU and US having left a void there. The EU has no coherent policy vis a vis Asia.

WHITE HOUSE STAFF MEMBER – OBAMA ADMINISTRATION

Today's jobs are quickly being replaced by machines. This trend reaches beyond manufacturing jobs to included the normal tasks of lawyers and radiologists. [Carnegie Mellon University, where I live, just announced a degree in artificial intelligence, the first in the US. Over half the CMU students are ethnic Asians.] The last generation of jobs was shaped in part by the fall of communism. This generation's jobs are shaped by the rise of China. The US has no choice. The US and Germany are good at developing IT and sophisticated products. China wants access to this know-how.

Obama started out with a cool relationship with Merkel due to his speech in Berlin, but it improved over time to become quite close. Trump has not yet begun to improve his relationships with other world leaders.

Refugees in Germany have paved the way to the hard right in German politics, especially in the new German states. The influx began in September 2015. What was Ms. Merkel to do with all those refugees stuck in Hungary? Was her response a state failure? This is like the undocumented aliens in the US, although the US's immigration did not happen all at once. Generally, the infusion of new ideas and new enthusiasm are good for a society. No one asks to be taken in by the Chinese; but by the Americans and the Germans. On a per capita basis, the US would have to take in 5 million Syrians to match Germany's influx. We have taken fewer than 20,000.

Common interests are helpful but not sufficient. Snowden's disclosures put the US-German relationship "under water" in 2014. For many young Germans, the US is a less a trustworthy partner than Russia. But by 2016 Obama and Merkel had patched up their relationship....mostly.

Are US politics dysfunctional? Congress has done nothing. For example, it needs to update authority to deal with terror but has not.

How polarized are US politics? Recall that Aaron Burr and the Civil War were clearly worse. Changes in Congress's internal rules have added to the lack of collegiality.

Americans no longer think their children will have better lives than they do. Many Americans are hopeless. Only 3 in 10 graduate with a college education. How do we expand the educated public? How do we develop needed skills? In Germany, unions and management work together to develop skills. US

employment numbers are good, but wages are not. Wages go up only 2.6% while many things cost much more. During the recession, many lost not just their jobs but also their homes and retirement savings.

Obama's "red line" in Syria was a threat of force. As a result, the Russians intervened and got the Syrians to get rid of most of their chemical weapons and production equipment. Congress failed to vote for the use of force but wanted to criticize. [I recall the British House of Commons debate at this time. The opposition cited Bush's lying about weapons of mass destruction in Iraq as a reason not to use force in Syria.]

Taxes in the US are 26% of our GDP. The OECD average is 36% and the rates are 50% in Europe. So, the US does NOT have high taxes by these comparisons.

TTIP and Trade – The US has created and led rules-based trade for decades. Now we are seeing more bi-lateral trade deals based on power. Trade balances are irrelevant if the parties play by the rules. The consumer makes a choice. The market decides.

The US focuses on regulations as barriers, not so much tariffs. Just going to zero tariffs does not solve the US problem. China is simply not meeting its obligations. The steel and aluminum tariffs are not good by themselves, but German fears what would be next. Setting deadlines is not productive. The US loses credibility with China and others if it bends the WTO rules. Deadlines produce short term fixes but not long-term structures. Relying on the WTO "national security" exception is laughable. But the WTO was not set up for non-market participants like China. China is not complying with WTO rules. We know it is stealing intellectual property. The G7 should work on a common position regarding China.

It is generally accepted that the EU central bank policies benefit German exports.

US SENATOR AND GERMAN FOREIGN OFFICE OFFICIAL

Donald Trump has not singled out Germany for bad treatment; he treats everyone badly. The US saw great potential in TTIP - the power to set standards. Now the US has to be satisfied with preparing to take the next steps when the time is right. TTIP has no chance now, even in a watered-down version. Trump DID identify some real American concerns. But he would solve the problems by closing off the US from the rest of the world. He feels he needs to stick with the story (which won him the presidency) and his solutions.

Trump is likely to pull out of the Iran deal [which he in fact has done in the meantime]. The EU is concerned about the effect of the decision. The deal solved only nuclear aspects of relations with Iran, not its regional ambitions. The EU dialogue with Iran just began and focused on Yemen. The US pull out will likely end those discussions. Germany will not reject the Iran deal. Negotiating a new deal will be very difficult.

The senator (a Democrat) says he opposed the Iran deal, but saw that no better deal would be possible due to the attitudes of the other nations.

This will drive the US farther from the EU. Trump acts to erase the Obama legacy. New sanctions will be hard on EU businesses. Why would North Korea go into a deal after seeing what happened to Iran? The US Senator voted against Pompeo due in part to his statements on Islam. But Pompeo will be better for the State Department. Pompeo supports the Munich Security Conference. [Strangely, Tillerson was

recommended by ex-Secretaries of State Rice and Baker, but Exxon – where Tillerson was President - was a client of their lobbying firm.]

Unlike the US, Germany has an ambassador to North Korea. Any policy in this area must be a unified EU policy, not just a German policy. The EU coordinated a policy on the Crimea. The German public was not always convinced. Russia is succeeding in splitting Americans. The US and EU have given Russia a green light. The Northstream 2 pipeline is a sign to the Russians that they can split Germany from the US.

The US command of the 2nd Fleet and the new NATO structure are ignored just as Putin wins yet another “election.”

The US Congress appropriated \$60 million to deal with fake news and Russian intervention but Trump has refused to spend it. Possibly NATO could act on Russian intervention. Germany has a new cyber command.

A hot area seldom discussed is Srpska and its possible secession from Bosnia Herzegovina. [I doubt most Americans outside our State Department could locate even Bosnia Herzegovina.]

A TOP COMMERCE DEPARTMENT OFFICIAL

The speaker has been to China 5 times in the last 12 months. Recently, he spent 15 hours negotiating there. China complained about the US’s lack of specifics, so the US sent the Chinese a list and they quickly responded. The atmosphere was OK. The two sides are very far apart and North Korea complicates the relationship. These issues are all interconnected.

What does the US want? We are unhappy with the trade deficit. President Trump wants to reduce it. 40% of the US trade deficit with the EU is Germany and that is mainly due to autos. So, the US faces the Chinese problem and the auto problem. The other trade factors are secondary. [Of course, that is only from the US side. Surely agriculture, services, movies are problems for our trading partners.] Also, our NATO partners do not bear their share of defense costs. EU members do not pay 2% of the GDP for defense and the US pays 4%. NATO is more important to EU members, yet the US pays over double their contribution.

The EU central bank policies hurt Germans who have saved money for all of their lives. But the policies help German industry. Other EU members suffer too, but German prices are artificially low as a result. If Germany still had the D-Mark, trade would be quite different. [I have been saying this for 10 years.]

In a new report on trade standards and tariffs, there are 54 pages of non-tariff barriers. European trade policy is unfair because it is not transparent. The EU does not permit US companies to submit scientific studies supporting US products. And US companies have to deal not just with EU standards and regulations but those of each country in the EU.

REACH [chemical] regulations are very burdensome. Country of origin labeling requirement differ country to country. Food labeling, agricultural restrictions, wine and animal welfare are all burdensome. So, from the US perspective, the EU is much more protectionist than the US is. In 17 of 21 categories of products, EU tariffs are higher than US. Tariffs on cars are 2.5% by the US and 10% by the EU. The EU has a free trade agreement with Mexico. So, Mexico pays no tariff on cars exported to the EU from Mexico. The US thinks this result was planned by the EU to get around the US.

The US dropped TPP [Pacific] but NOT TTIP [Atlantic]. Trump is still willing to talk to the Europeans. Germany is a more flexible negotiating partner on trade than France, and the US negotiators appreciate that.

If there is to be some discussion on these issues, the Balkan conference might be a forum. June 6-8, 2018.

FAKE NEWS DISCUSSION

The loss of the middle in the US is the great threat to democracy. Threats go unmet because government does not work. We have only two parties and the extremes pull the two parties farther and farther apart. A government with multiple parties would work better.

The middle was hurt badly by the 2008 financial collapse. It was caused by the elites, none of whom were called to account.

In Germany, the big issues are low interest paid on savings and the influx of refugees. Germans said, "Sure, help the refugees, but what about us?" In a German town, the residents wanted a bus stop. But they got it only when refugees arrived. Government needs to pay attention to their "deplorables" [Hillary Clinton's label for many Trump voters.]

We are going through a time like the advent of the printing press. It is a fundamental disruption. Political institutions have not caught up. Systems do not deliver for the citizens. China and Russia are scoring while we make own goals.

President Trump understands the electorate and is asking the right questions about production and foreign involvement. But he offers the wrong answers. Most Americans are moderates but gerrymandering [creating voting areas with the intent of influencing the outcome of elections] and unlimited money in elections have perverted the system.

It is hard to tell whether Trump is a long or short-term phenomenon and whether this is the end of liberal democracy. Eight years of a Trump presidency would be hard. The political center is not in good shape. A swing to the hard left would also be destructive.

There is no alternative to the trans-Atlantic relationship. The US State Department has a better relationship with European countries that it does with Brazil or China, for example. When the Ebola epidemic broke out, the US got help from Europe. The US gets no help from China on ISIS.

Germany is lucky not to have a charismatic leader on the right.

Trump himself may be a hiccup, but his voters are not.

WALTER RUSSELL MEAD

Unfortunately, I did not bring a paper and pen to the Embassy dinner and so have no notes of Professor Mead's after-dinner speech. However, Professor Mead is the author of Special Providence, a book which persuasively divides American political thought into four groups. He names these groups after their leading political figures: Hamilton (not a President), Jackson, Jefferson and Wilson. [In a nutshell, from memory – Jackson is an isolationist, populist. Jefferson is a small-government Republican. Hamilton is an internationalist businessman. And Wilson is an idealist, interventionist, while also being a racist.]

Trump is clearly a Jacksonian – a rough, anti-elitist populist. Any serious observer of US politics has to read this book. Jackson is the president who was in office when Florida forced the Indians to leave their ancestral lands, a march which took many lives. His marital situation was questioned by the upper classes. His wife’s earlier divorce may not have been proper.

<https://www.politico.com/magazine/story/2018/01/22/andrew-jackson-donald-trump-216493>

MISC.

On the street in Columbia Heights, where we stayed, we saw an equal number of Whites, Afro-Americans and Hispanics. The neighborhood is quickly gentrifying. Lots of dogs being walked.

Our AirBnB host is a Washington Capitals hockey fanatic. Washington took a playoff series from Pittsburgh while we were there and we heard the shouts of triumph from the floor below.

It seems that most DC Metro stations have at least one escalator out of service. At one of the stations, I helped two young women buy a Metro ticket. They turned out to be Germans. I asked how long they had been in America. They said a week. I said, then you know everything about us. They laughed and said no, but their teacher had taught them a lot.

Sunday evening’s Conference dinner was restricted, so we had dinner with German friends whom we have known since 1979. They live in DC. Our waitstaff person at a lovely French restaurant turned out to be from Ethiopia. She was a “chain migrant” (a dirty word for Trump supporters). He had worked for a major German auto parts supplier and disclosed internal US corruption. He was a hero in Germany and a pariah in Detroit.

I liked most of the conference speakers because they think what I think: democracy needs a middle class. Our lower middle class has been wiped out by computerization, globalization and privatization. This began at least by the time Ronald Reagan was president. He was right that private firms can deliver the mail more cheaply than the post office and labor unions drive up wages. So do away with those jobs. Now what?

At the Embassy dinner, I got to talk with a former law firm colleague who has made his career (ending this month) as the head of the US legal department of a major German corporation. His life was changed by becoming a Bosch Fellow. Just as mine was changed by becoming a Kronstein Fellow.

There was no conference the 2nd day, so we visited the Holocaust Museum and the Freer-Sackler Museum (oriental art). In the Holocaust Museum we found a “letter of concern” sent to the US State Department March 27, 1933 by The United Churches of Lackawanna County, the place I was born. One of the ministers was the one who baptized me and another was the grandfather of close Scranton friends. The museum is easy on the Austrians (“rigged” Anschluss election) and hard on the Americans, particularly on John J. McCloy - for his claim that bombing Auschwitz would take away from strategic war goals. 90% of the visitors were school classes.

The Freer-Sackler Museum has great displays on Chinese bells, cloth from Uzbekistan and ancient jade.

Getting out of the DC area even on a weekday early afternoon takes hours in traffic. Our iPhone app took us through quiet neighborhoods to avoid the “Stau.” On the radio we heard that Livonia, NJ (just outside NYC) had restricted its streets to local residents during rush hour to keep such “apps” from routing drivers through quiet neighborhoods. Google Maps and Waze adjusted their apps to eliminate these routes during rush hour.

The drive through northern Maryland and southern Pennsylvania is glorious, with the road lined with flowering red-bud trees.

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