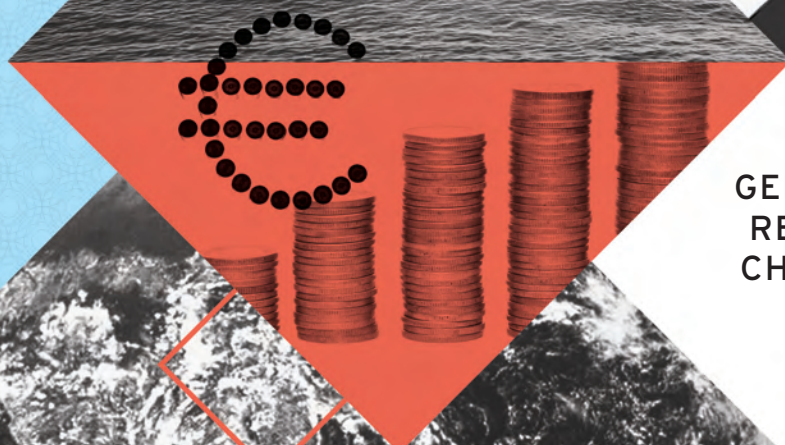




American Institute  
for Contemporary  
German Studies

JOHNS HOPKINS UNIVERSITY

# A WORLD IN FLUX



GERMAN-AMERICAN  
RELATIONS AND A  
CHANGING GLOBAL  
ORDER





American Institute  
for Contemporary  
German Studies

JOHNS HOPKINS UNIVERSITY

The American Institute for Contemporary German Studies strengthens the German-American relationship in an evolving Europe and changing world. The Institute produces objective and original analyses of developments and trends in Germany, Europe, and the United States; creates new transatlantic networks; and facilitates dialogue among the business, political, and academic communities to manage differences and define and promote common interests.

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## ABOUT THE AUTHORS

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## FOREWORD

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On all fronts, the U.S. and Europe must work together to maintain an open, reliable, and indeed well-regulated partnership, with the German-American relationship at its core.

This year's Symposium is framed around the idea of "A World in Flux": the relative decline of the West's economic power; the need to adapt our workforces to be successful in a new era; and changing geopolitics as a result of ongoing tensions in eastern Europe, the Middle East, and Asia. These are some of the most pressing challenges for the twenty-first century.

And, indeed, while the world is always in some phase of transition, there are major turning points in history that can alter parameters and policies. One happened twenty-five years ago, with the fall of the Berlin Wall. Since then, the ripple effects have been felt across a number of areas: the enormous web of economic interdependence across the Atlantic, Germany's return to "normalcy" and use of its military, and finding competitive solutions in an increasingly globalized world. On all fronts, the U.S. and Europe must work together to maintain an open, reliable, and indeed well-regulated partnership, with the German-American relationship at its core. This Policy Report examines three aspects of that relationship that will be crucial moving forward.

The end of the decades-long Cold War set a series of changes in motion throughout the world. The emergence of a new currency in Europe; the explosion of growth in Asia, Africa, and South America; and the global flow of money challenged both national and international institutions. The impact on the banking sector was especially significant, putting new strains on national oversight mechanisms. Alexander Privitera looks at the efforts to reform and restructure the banking industry in the wake of the global recession, and how this has led to cooperation and tensions across the Atlantic. Both Europe and the U.S. seek paths of stability and growth, but the question remains what policies will best achieve that.

One aspect that will be crucial to achieving growth is the labor market, which faces new competition in the global marketplace. Germany has actively addressed the need for a skilled workforce, as Parke Nicholson discusses, but the U.S. still needs to address its "skills gap." The U.S. faces serious global competition and will need to retool its training and outlook if it wants to maintain the dynamism of the American economy. It's a high priority, recognized by both employers and government. Germany's long experience with job training may be a useful framework for the U.S.



Finally, as the world becomes ever more entwined in a web of economic, political, environmental, and technological interdependence, it brings along with it frictions—both old and new—among countries. Dr. Lily Gardner Feldman analyzes how Germany's foreign policy of reconciliation can serve as a model for countries seeking to shape their capacities on the global stage with various forms of power and influence. We must consider the lessons from Europe's most influential country, mindful of its past but wanting to shape the future.

AICGS looks at the challenges and the choices facing Germany and the United States as the two countries plot their policy decisions in dealing with common problems and looking for solutions. The Institute attempts to evaluate the consequences of those decisions and to what extent we can learn from each other. This Policy Report and Symposium address three areas crucial to the German-American relationship, and represent an illustration of how we can contribute to a better understanding of both countries, their priorities and policies, and the impact they have on each other.

A handwritten signature in black ink, appearing to read "Jackson Janes". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Dr. Jackson Janes  
President, AICGS





## THE GREAT TRANSATLANTIC DIVERGENCE: CAN EUROPE CATCH UP WITH THE U.S. ECONOMY?

ALEXANDER PRIVITERA

Whether the U.S. economy will provide the necessary lift or instead Europe will slow down the current momentum in the U.S. is something that policymakers on both sides of the Atlantic will have to watch very carefully.

On the eve of a new year, the U.S. and European economies are increasingly diverging, with implications both for fiscal and monetary policies. Indeed, in Europe the debate has reignited between policymakers over the right mix of measures needed to stave off stagnation, avoid a new recession, and support a gradual but robust recovery. And once again, Germany is coming under increasing pressure from both its biggest euro zone partners and the U.S. administration. Berlin should relax its self-imposed and self-defeating fiscal straightjacket, critics argue, and do more to spur domestic spending. Chancellor Angela Merkel's government is determined to avoid an open confrontation with its partners while also trying to move as little as possible and waiting for the latest bout of complaints to subside. Unfortunately for Berlin, most of the latest data indicate that the German economy is not immune to the prolonged slump in many of the European economies after all. Germany, too, is slowing down, primarily as a result of increased geopolitical tensions, slowing emerging economies, questionable domestic policy choices, and chronically weak European demand for German goods and services. Indeed, the economy barely grew in the third quarter of 2014. As a consequence, Berlin slashed its growth forecasts for both 2014 and 2015, to 1.2 percent (from 1.8 percent) and 1.3 percent (from 2 percent), respectively. However, it remains an open question whether softer economic data will also

soften Germany's stance in Europe and modify its euro crisis management—or whether Berlin's position will remain unchanged or even harden.

This essay seeks to provide the foundation for a pragmatic discussion about the current state of the euro zone and the implications for the transatlantic community, by

- broadly assessing the implications of the decoupling of the U.S. and European economies and analyzing the current policy debate in Germany;
- reviewing the impact of central banks, the diverging monetary policies pursued in advanced economies, and the evolving interplay between politicians and central bankers; and
- looking at how the financial sectors across the Atlantic are responding to a changing regulatory environment and the needs of non-financial corporations and households, and trying to sketch how that, too, may affect credit flows toward the real economy in the near future.



## Will the U.S. and European Economies Continue to Diverge?

Before we look at Europe and the U.S., it is important to briefly remind ourselves of the global backdrop against which those two economies are working. Let's start with the biggest powerhouse in Asia: China.

In October 2014, fixed-asset investments grew at the weakest pace since December 2001, dragged down by a drop in property investment amid a continuing decline in home sales. Factory output grew at 7.7 percent, below expectations of 8 percent and the second-lowest monthly reading since 2009. China's producer price index fell for a record 32<sup>nd</sup> month, dropping 2.2 percent from a year earlier, and consumer prices remained subdued, rising 1.6 percent, thus adding pressure on policymakers to bolster the world's second-largest economy as disinflation spreads. China's economy, burdened by high indebtedness, overcapacity, and weak domestic demand, is headed for the slowest full-year growth in more than two decades. Lower oil and metals prices are putting downward pressure on costs, allowing China's exporters to reduce prices and adding to deflationary pressures globally.

While most analysts regard the risk of a hard landing of the Chinese economy as very remote, the slowdown is not disputed. What is unclear, however, is whether this is in part the result of a deliberate choice by the Chinese leadership to prevent the economy from overheating and is intended to avoid the build-up of excessive imbalances that could pose serious risks to financial stability and the economy. It is certainly true that exogenous factors such as weak European demand are contributing to the loss of momentum. It is also clear that developments in Japan are having an impact on both the Chinese and the global economies. Tokyo's attempts to finally overcome two decades of economic stagnation, a bundle of measures commonly known as "Abenomics," has not yet achieved all of its intended goals—primarily to push inflation higher and stimulate anemic growth. Other emerging economies that contributed to global growth in recent years, particularly the so-called BRIC countries, are also experiencing serious challenges of their own. Finally, when adding to this mix the political

and religious strife in the broader Middle East, it becomes clear that the recovery still faces stiff headwinds. In this context an overreliance on an export-driven growth model can expose economies to sudden cyclical downturns that are hard to offset, especially if domestic demand remains weak.<sup>1</sup>

This brings us to one of the main differences between the U.S. and Europe. After contracting in the first quarter of 2014, the U.S. economy has rebounded and is growing at an annual rate of above 3 percent. The unemployment rate is 5.8 percent and still falling. Business and consumer confidence indicators are robust and while the recovery is still proceeding at a moderate pace and wages are not yet increasing, most analysts expect wages to accelerate in the course of 2015, a further sign that the economy is finally reaching escape velocity. Furthermore, a recent global slowdown, caused in part by the weak, fragile, and uneven recovery in Europe, is not yet having a negative impact on the U.S. economy. In part this is due to the fact that the U.S. does not rely on exports as much as the EU-28 or the euro zone. Indeed, the U.S. continues to have a sizeable current account deficit, while Europe has a sizeable current account surplus.

While both large economies, the U.S. continues to act predominantly like a closed one versus the euro area, which has become a much more open economy that is less resilient when global shocks materialize. That does not mean that the U.S. is immune to the negative impact of a slowing global economy. In order to avoid a repeat of the pre-crisis dynamic, the U.S. should avoid again becoming the over-leveraged consumer of last resort for a wobbly global economy. In fact, Janet Yellen, Chairman of the Federal Reserve, recently warned against complacency, stressing that global developments matter and should be monitored closely by monetary authorities in the U.S.—thereby implying that what happens elsewhere will have to be taken into account when deciding on the next monetary policy steps, notably when to start raising key nominal interest rates in the U.S.: "Even so, I continue to anticipate that the headwinds associated with the financial crisis will wane. As employment, economic activity, and inflation return to normal, monetary policy will eventually need to normalize too, although the speed and timing of this normalization will likely differ

across countries based on differences in the pace of recovery in domestic conditions. This normalization could lead to some heightened financial volatility. [...] The Federal Reserve will strive to clearly and transparently communicate its monetary policy strategy in order to minimize the likelihood of surprises that could disrupt financial markets, both at home and around the world.”<sup>2</sup>

The situation in Europe is very different, as the recovery remains modest and with considerable risks. Since the financial crisis, the euro area current account, made up mostly of the trade balances of the individual countries, has moved from rough balance into surplus. The underlying rebalancing across economies has been highly asymmetric, with some debtor countries, like Greece, Ireland, and Spain, experiencing current account improvements (swinging from deep deficits into surpluses), while creditors, like Germany and the Netherlands, have maintained their large surpluses. However, as noted in a recent staff note by the IMF,<sup>3</sup> progress on repairing current account imbalances within the euro area is primarily due to cyclical factors that could easily swing into reverse once domestic demand picks up again. Furthermore, weak demand is also contributing to a rapid fall in inflation expectations, which in itself makes it much harder to reduce the public and private debt overhang with which many countries are struggling.

The net result of such developments is that the euro area has undoubtedly contributed to a weakening of global trade and growth. Were the stagnation to be protracted or even turn into a new recession, the negative impact on global growth could be serious.<sup>4</sup>

### The Internal Political Debate in Europe: Growth versus Austerity, Redux

Against this darkening backdrop, euro area member countries are once again reacting according to deep-seated reflexes. Some countries are asking for a relaxation of fiscal rules and more support from creditor countries and the European Central Bank (ECB); others are pushing for more ambitious structural reforms in debtor countries, a credible path of fiscal responsibility, and (at least publicly) a more passive central bank. The ECB, once again caught in the

middle, is trying to defend its independence and its capacity to better respond to a worsening of the situation with pragmatism, especially if the current disinflationary trend persists and inflation expectations over the medium term cannot be brought back closer to the ECB's target of a rate below but close to 2 percent. But before we review the role of central banks, let's first review the political response to the current challenges in greater detail.

In essence, as this author has argued in a previous essay,<sup>5</sup> we are not merely experiencing the outbreak of one of the many recurring spats between creditor and debtor countries in the monetary union. This time it's different, simply because the two countries that represent the political-institutional underpinnings of the euro zone are potentially facing choices that they successfully managed to postpone in recent years. Indeed, the sharp contraction in economic activity since the outbreak of the so-called euro crisis in 2010 never caused a deep recession either in France, or in Germany. In fact, despite the new sense of urgency in the public debate, France's situation was and still is far more comfortable than what program countries such as Spain or Ireland ever had to face, thanks in part to a lack of significant fiscal adjustments undertaken by the authorities in Paris. Even Italy, stuck in a recession since 2011, is suffering more from the consequences of the debt crisis.

However, the prolonged slump in France and the softness of recent German data have suddenly spurred a new sense of urgency among European policymakers. The deal between Paris and Berlin on which the rescue of the euro zone has rested so far, based on the understanding that both countries will do what is necessary to shield each other from real pain, looks increasingly strained. This explains why the cautious step-by-step approach—muddling through, which still is a key feature of the efforts to overcome the crisis—could face new challenges. Leaders in France and Germany knew what they wanted to avoid—a breakup of the euro zone—but to this day they are still unsure about the direction they want to take their countries within the monetary union.

The recent economic wobbliness can be seen as a test for the Franco-German approach to the crisis, one that in its very essence was primarily geared

toward shielding the two countries from the problems that were affecting other partners, including a partial breakup of the monetary union itself. Economic reality is once again threatening to undermine the foundations of the political deal between France and Germany. In a policy trap in which none of the actors involved is willing to appear as capitulating, progress tends to be marginal and always largely symbolic. That can be sufficient when the economy is fundamentally strong enough to mitigate the effects of political paralysis, but is a risky behavior when entire economies and the social and democratic fabric have been under stress for a prolonged period of time.

Currently, a number of euro area member governments are trying to exploit every inch of wiggle room contained in the growth and stability pact in order to avoid pro-cyclical spending cuts that would further depress consumer demand and investments. The pact leaves enough room to interpretation and takes into account cyclical downturns. However, if bent too much, the agreement risks losing its political credibility, which is seen as one of the necessary preconditions for maintaining confidence in the euro area by global investors. Furthermore, when the signatories (among them France and Germany) reiterated the centrality of the pact, they acted on the premise that excessively high levels of public indebtedness depress growth and need to be brought down over time. Last, the pact has political weight, as at least in principle it should keep the door open toward a future fiscal union and a—perhaps partial—mutualization of public debts.

Thus, a fundamental challenge to the pact carries a potentially high political cost and makes it somewhat remote, despite the very vocal and often critical recent public pronouncements by various political leaders. But even milder adjustments could be perceived as a hollowing out of the very essence of the pact and result in a loss of credibility. In addition, the fiscal space that some member countries would regain would probably not be sufficient to provide any significant boost to demand and growth. Hopes for cautiously proceeding on a narrow path toward a fiscal union could also take a serious hit. Even the €300 billion investment plan announced by the new European Commission (EC) could fail to provide the fiscal support for public and private investments in the

EU. Since the private sector should provide the bulk of the financing, it is still unclear how such a public-private partnership could work. The net result of all of this will be that fiscal policies will at best be neutral in coming years, but certainly fail to be supportive of the recovery.

More important than the pact itself is the willingness and capacity by countries to implement a series of structural reforms geared toward building more competitive, stronger economies. Bending the rules of the fiscal pact would matter less if countries such as France and Italy embarked on a series of ambitious structural reforms. As Jean-Claude Juncker, President of the European Commission, is thought to have remarked: “Political leaders know what they need to do. They just don’t know how to get reelected once they do it.” It goes beyond the scope of this essay to list once again what reforms should look like. But it is important to note that the German government is willing to show more flexibility with countries that are serious about reforming. It is just the case that, over time, Berlin has grown a bit skeptical about how serious some European partners are.

Even in Germany itself, the public debate is finally moving beyond the simplistic assessment that the country has done all of its homework, and it is now up to others to do theirs. Doubts about the course of the ruling grand coalition are growing. Critics within Germany are pointing out that various policies—the “Energiewende,” the hasty abandonment of nuclear power in favor of alternative sources of energy; social programs, such as introducing a minimum wage or lowering the retirement age for some workers; or the low level of public and private investments—could negatively impact the competitiveness of entire sectors of the German economy. Some economists are even suggesting that, contrary to the prevalent public narrative, far from being the victim of the irresponsible behavior of some European partners, the country could soon begin to suffer because of its own ill-conceived domestic and European policy choices.<sup>6</sup>

But as long as weaknesses do not become painfully evident, the debate will remain largely academic or confined to think tanks and newspapers. With unemployment very low and domestic consumption robust, the danger of complacency in Germany is high.

## The Role of Central Banks

Complacency is not a word that comes to mind with respect to the role of central banks since the outbreak of the financial crisis in 2007/2008. On the contrary, the actions of the Federal Reserve and the ECB have prevented a meltdown of the financial system. Conventional and unconventional monetary policies have cleared the plumbing of the financial system and allowed liquidity to flow again. However, assessing the impact of various unconventional steps undertaken by central banks on the real economy will take more time. The experiment is far from finished and still very controversial. Nobody seriously questions the role of central banks as lenders or providers of liquidity of last resort—in other words, parachutes for the financial system. But other aspects of monetary policy are far more controversial, such as trying to stimulate the real economy by dramatically expanding the balance sheet of a central bank via outright purchases of assets. While the benefits for financial markets are hard to dispute, it is still not clear how unconventional monetary policies are feeding through to the real economy.

Furthermore, purchases of a particular asset class, i.e., sovereign bonds, are still perceived as problematic by a number of national central banks, most notably the German Bundesbank, because they could be mistaken for monetary financing of sovereign debt. Indeed, sovereign bond purchases by central banks compress risk premiums, and can reduce the incentives for national governments to keep public spending under control and implement structural reforms. Quantitative easing (QE) can have a distorting effect on the functioning of financial markets. For a euro version of QE to work well, sovereign bond issuance by national governments should not offset asset purchases by the ECB. In fact, the point of such measures would be to push investors from sovereign debt purchases into buying other asset classes, not to finance government debt. This would be the goal in a perfect world. But how much self-restraint are national governments able to sustain? It is a very open question.

However, at the zero lower bound, central banks have all but exhausted traditional monetary policy instruments they can use to hit their growth and inflation

targets. They are left with no choice but to increase the size of their balance sheets by other means. While such measures may well have unintended consequences, a central bank such as the ECB also has an obligation to act within its mandate to maintain price stability. As long as the euro zone teeters on the edge of deflation, and it may well continue to do so in 2015,<sup>7</sup> the ECB has no choice but to consider and prepare possible next steps. These steps may not be necessary in the end, but expecting a central bank to allow its mandate to be subordinate to the fears or hopes of individual member countries should not be the way central banks conduct their business. After all, both the Fed and the ECB are largely independent institutions that need to retain the capacity to swim against political tides. Sometimes they have to act even if political headwinds are particularly stiff.

This is particularly true in the case of the ECB, which represents eighteen national central banks and has to act on behalf of a union that has neither a centralized fiscal capacity nor a federal government. Finding consensus in such a setup can lead easily to paralysis. Fortunately, so far that has not been the case. Throughout the crisis, the ECB has played an active and increasing role. When EU governments failed to contain the crisis, it was the central bank that promised to do whatever it takes to save the euro from a sudden breakup. The ECB bought time, which was largely wasted by the big countries of Germany, France, and Italy: Germany acted on the premise that it had already done most of its homework and used its safe haven status and favorable financing conditions to increase social benefits and move closer to its political goal of a balanced budget, while Italy, and especially France, talked about the need for reforms but have so far failed to deliver.

The result of this is that once again some national governments are looking at the ECB for help. But the central bank is replying that any kind of additional monetary support will fail to deliver sustainable growth and simply not be able to offset the prolonged adverse impact of a lack of reforms in individual member countries. National governments would remain on the hook, even if the ECB started to vastly expand its balance sheet via purchases of government bonds. Benoît Cœuré, executive board member of the ECB, recently had the following message:

“Countries that have enacted a more frontloaded reform strategy have, on the whole, seen better outcomes than those that have applied a more staggered approach. Today’s low inflation expectations in the region as a whole may indeed be telling us that the approach was on average too staggered, and that it is time to accelerate. [...] Reforms produce both expansionary and contractionary forces in the short term. Designing reforms in the right way and creating a productivity-enhancing environment can maximize the former, and let me add: the faster, the better.”<sup>8</sup> In other words, the ECB is prepared and has an obligation to do more, if needed. However, monetary policy alone is not a silver bullet.

### Changing Financial Markets: Banks and the Banking Union

If monetary policies alone cannot deliver growth, fiscal policies will remain neutral (at best) and structural reforms are still all too often elusive, which raises the question: how can Europe grow again? Many investors had hoped that a healthier banking sector would unlock credit and help to boost growth. Against this background, the comprehensive assessment (CA) of banks undertaken by the ECB and European Banking Authority (EBA) in 2014 was seen as such a cathartic moment that could trigger a virtuous cycle. Many have started to doubt that will be the case. The CA was primarily intended to deliver a more transparent banking system to the ECB as it takes up the new role of European bank supervisor, the Single Supervisory Mechanism (SSM). It was a necessary exercise on the way to a full banking union, the biggest institutional project undertaken by the EU in recent years. The bank’s health check identified minor capital shortfalls. But it did not suddenly turn a largely unprofitable sector of the economy into an engine of growth. Traditional lending activity will in all likelihood remain impaired for the foreseeable future as banking institutions adapt to a stricter regulatory environment and continue to struggle with low interest rates. Given the fact that credit intermediation in the EU still largely depends on banks, credit intermediation will continue to be affected in the near term. As the Governor of the Bank of England and the Chairman of the Financial Stability Board (FSB), Mark Carney, stressed in a recent speech, bond issuance accounts for virtually all credit creation since the crisis, both in the U.S. as well

as in Europe.<sup>9</sup> Given the smaller role bond markets play in the European financial ecosystem and the sharp drop in asset-backed securities (ABS) issuance in recent years, stimulating alternative forms of lending channeled through capital markets can be seen as a necessity, as we have argued in a previous policy paper.<sup>10</sup>

However, structural changes take time. Unfortunately, six long years after the outbreak of the financial crisis, the euro zone can ill afford to wait much longer for growth. All the structural changes mentioned above are extremely important in order to put Europe on a sustainable path. However, to start rolling in this direction, the euro zone will need a push. The best it can realistically achieve, given the set of extraordinary political, institutional, and structural constraints, is for the situation to slightly improve. The monetary union’s economy will need all the outside help it can get. Whether the U.S. economy will provide the necessary lift or instead Europe will slow down the current momentum in the U.S. is something that policymakers on both sides of the Atlantic will have to watch very carefully.

### Notes

1 See “World Economic Outlook: Legacies, Clouds, Uncertainties,” Washington, DC: IMF, October 2014, <<http://www.imf.org>>.

2 Janet Yellen, “Central Banking the Way Forward,” International Symposium of the Banque de France, 7 November 2014.

3 Thierry Tresselt, et. al., “Adjustment in Euro Area Deficit Countries: Progress, Challenges, and Policies,” *IMF Staff Discussion Note*, July 2014, <<http://www.imf.org>>.

4 For this, see “Getting the world economy into higher gear,” Advance G-20 Release: OECD Economic Outlook, 6 November 2014, <<http://www.oecd.org>> and “World Economic Outlook: Legacies, Clouds, Uncertainties,” Washington, DC: IMF, October 2014, <<http://www.imf.org>>.

5 See Alexander Privitera, “The Policy Trap: Is the Euro Crisis Back?” *AICGS Transatlantic Perspectives*, 3 November 2014, <<http://www.aicgs.org>>.

6 See Marcel Fratzscher, *Die Deutschland Illusion* (Munich: Carl Hanser Verlag, 2014).

7 ECB, Monthly Bulletin November 2014, <<https://www.ecb.europa.eu>>.

8 Keynote speech by Benoit Coeure, member of the Executive Board of the ECB, Economic conference, Latvijas Banka, Riga, 17 October 2014, <<http://www.ecb.europa.eu>>.

9 Mark Carney, “The Future of Financial Reform,” 2014 Monetary Authority of Singapore Lecture, 17 November 2014.

10 Alexander Privitera, *Funding the Recovery: The Future Role of Traditional Banking and Capital Markets*, AICGS Policy Report 58 (Washington, DC: AICGS, 2014).

## UNEMPLOYMENT AND WORK-BASED EDUCATION: THE RIGHT TOOL FOR THE JOB?

PARKE NICHOLSON



High youth unemployment in the United States and Europe is a result not only of sluggish growth, but the lack of work-based learning opportunities.

High youth unemployment has been a persistent problem for both the United States and Europe. The percentage of unemployed Europeans between the ages of 15 and 24 has skyrocketed since the financial crisis: above 40 percent in Italy and Portugal, 55 percent in Spain, and 60 percent in Greece. Many of these young workers were on short-term contracts and were particularly vulnerable from the effects of the crisis. In the United States, the rate has been over 10 percent for the past seven years and 5.8 million young Americans are neither in school nor at work. Germany boasts the lowest youth unemployment rate in Europe (7.6 percent),<sup>1</sup> which has led to a renewed interest in the country's economic policies and its "dual system" of workforce education.

The consequences of youth unemployment are not easy to predict. Young people in the United States have tried to ride out the poor job market and save money by staying longer at their family's home. They still pursue part-time work locally, but might not be able to find rewarding work with the general skills they learned in college. Once they gain a foothold in the market, U.S. college graduates can excel and have excellent careers. The problem is the time and productivity that is lost between the end of formal education and finding a career job. The loss of taxes and benefits resulting from high youth unemployment could be as high as \$9 billion per year.<sup>2</sup>

There may also be a long-term political cost. The rapid pace of urbanization increases the pressures on cities to meet the demand for providing a living wage to young, migrant populations. According to the National Intelligence Council's report "Global Trends 2030," there were only ten "mega-cities" with 10 million inhabitants in 1990 and there will be nearly forty-one such cities by 2030.<sup>3</sup> If the challenges of urbanization are not met, large, disaffected populations of youth can quickly lead to political turmoil, as was the case with the momentous changes in Egypt (35 percent youth unemployment) and the broader Middle East in recent years. While the democracies in Europe and the United States are older and have more mechanisms to address these challenges, it would be unwise to ignore the long-term political effects of the unemployment challenge.

There are of course a range of factors that contribute to unemployment, but one of the more important is a skills mismatch—the new generations of workers lack the skills that employers need. High youth unemployment in the United States and Europe is a result not only of sluggish growth, but the lack of work-based learning opportunities. By narrowing the gap between education and employers, the United States can give future generations the opportunity not just to go to college, but to also earn a decent salary with the skills industry needs. In Europe and other countries

around the world, offering multiple pathways to career success is a matter of course. We have far to go in the United States before we can ensure that everyone has such opportunities.

### What Is Happening to the Employability of America's Youth?

There are two broad concerns that are driving the public debate about workforce education:

- evidence that U.S. students are falling behind their international peers in important subject areas like math, science, and literacy;
- concern from U.S. employers that they cannot find the right kind of workers to fill the available high-skill jobs—the “skills gap.”

These issues alone are considerable long-term challenges, but combined present a serious policy dilemma.

Tests run by the Organization for Economic Cooperation and Development (OECD), a group of the world's wealthiest nations, show sobering results for the United States almost every year. The performance of 15 year olds in terms of literacy, numeracy, and problem-solving has been slipping for many years. American students have fallen below the OECD average<sup>4</sup> and are well behind their peers in Japan, Norway, and Germany. As a consequence, the national conversation has turned toward improving STEM education (short for science, technology, engineering, and math).

Economists also now predict a looming shortfall of 3 million skilled U.S. workers by 2018.<sup>5</sup> Meanwhile, there are 2 million job vacancies across the European Union, despite the high levels of unemployment mentioned above. In response, the U.S. government and the European Union have both sought to expand career and technical training (CET) opportunities in key industries, like the European Union's Copenhagen Process or President Barack Obama's initiatives to build a “middle-skill” workforce.

Some economists, however, have cast doubt on the validity of the so-called “skills gap.” Earlier this year, the Nobel-prize winning economist Paul Krugman criticized employers for complaining about the lack of skilled workers. He called it a “zombie idea” that was not based on facts, but instead was intended to blame American workers and get the government to train their workers for them.<sup>6</sup>

Krugman's argument, however, misses several important points. First, employers have been warning about shortfalls in their skilled workforces for many years. This is especially critical now that millions of baby boomers are retiring from critical sectors without anyone immediately available to fill their shoes. Second, it is hard for any economist to quantify “skills,” but entirely new technologies are being implemented that really do require specialized knowledge and the ability to be able to solve complicated problems on the job.<sup>7</sup> Third, the “skills gap” is not only about these specialized skills. An IBM study last year showed that a majority of the 1,700 CEOs surveyed considered interpersonal skills like teamwork, communication, and flexibility as essential for employees. These “soft skills” can significantly affect firms' bottom line and are often developed through work-based programs that allow young people to become familiar with the working world.<sup>8</sup> Last, employers do not want the government to simply pay for skilled workers on their own, but need support when choosing how to invest their own money into working on new training programs with community colleges, universities, and other training providers.

States are rising to meet these challenges. A number of promising home-grown initiatives are attempting to resolve the “skills gap” by incentivizing employers and educators to work together. Unlike in Germany, the United States has had no comprehensive system that connects the dots. For example, a Republican-controlled South Carolina legislature in 2009 provided modest funding to employers and community colleges for initiatives that have increased apprenticeships in the state six-fold, but the U.S. government has only just focused on supporting workforce training initiatives throughout the country, including the recent announcement of a \$2 billion fund for apprenticeship training. Although small in scale, these efforts are demand-driven initiatives to

achieve a goal shared by industry and government—renewing American manufacturing and revitalizing the U.S. workforce.

### What Can Be Learned from Europe?

In highly structured systems like Germany, Austria, and Switzerland, nearly two-thirds of all students go through some form of “dual study” program that blends on-the-job experience with classroom instruction. Students come out of these programs not only with technical knowledge, but substantial work experience and qualifications. Many are immediately employed at some of the world’s leading manufacturers and can build upon their qualifications through further education.

Germany has three systems of education, one of which is oriented toward university and two that lead to faster entry into the workforce. Most students enter one of these three tracks by the age of 12. *Hauptsschulen* are secondary-level schools that primarily train students for the work world and many enter into a typical three-year apprenticeship as early as 15 or 16. Students at *Realschulen* are tracked not only toward apprenticeship, but also full-time vocational schools and eventually professionally-oriented universities. The typical university route is *Gymnasium*. Comprehensive schools (*Gesamtschulen*) are a more recent development that combines elements of all three.

While the “dual system” has become an all-purpose term referring to the blend of work-based and classroom-based education, there are also inter-company training centers where theoretical and practical education takes place under one roof. All dual study students work toward a qualification in one of 340 nationally-recognized professions, earn money, and still have the prospect of getting a higher degree. There are also “dual studies” programs at universities that combine a Bachelor’s degree program with an abbreviated form of apprenticeship.<sup>9</sup> As one U.S. observer has recently noted, there is thus a surprising degree of flexibility in the German system: “Americans worry that the European model requires tracking, and it’s true [...] But it turns out there’s a lot of opportunity for trainees to switch tracks later on. They can go back to school to specialize further or earn a master

craftsman’s certificate or train as a trainer in the company’s apprenticeship program—and many do. What education reformers call “lifelong learning” is still a distant dream for most Americans. In Germany, it’s a reality.”<sup>10</sup>

There are many actors that work together to make the German “dual system” work. Technical schools, employers, unions, and the federal and local governments work together on the shared goal that apprenticeship meets the standards required by both businesses and society, and that it prepares workers adequately for flexible and rewarding careers. Regional industry chambers represent companies’ interests and help identify, train, and employ students at the companies. On average, companies cover 75 percent of the costs of these programs, state governments cover the education in vocational schools, and the federal government oversees the “transition system” for those who need further assistance or remedial training. The system is remarkable in its ability to maintain a balance of interests among all of the “social partners.”

The feedback and expertise from these various actors is re-integrated back into vocational training programs. The constant modernizing of training curricula gives both employers and educators the opportunity to reassess needs and adjust to the demands of the market. It also makes clear the responsibilities of the different actors. For example, the German Confederation of Trade Unions (DGB) offers feedback to companies and helps design new standards.

The stackable credentials that apprentices earn is also critical to the dual system’s success. As workers move up the career ladder, obtaining industry-recognized certifications gives workers a measurable sense of progress and a sense of belonging to a wider community of professionals. The German Qualifications Framework (DQR) allows employers to reliably assess the quality of professional qualifications to best utilize the skills and abilities of their workers. The more recent European Qualifications Framework (EQF) is an attempt to adapt this system to a multi-national level. These nation-wide frameworks serve as a tool to transfer competencies across different employers and allow skill sets to be meas-



urable and stackable within the sector and to encourage lifelong learning.

It is important to note that a dual education system takes a long time to develop and cannot simply be transferred from one country to another. Germany has had its system in place for decades, is itself built upon the medieval craft and trade guilds, and union participation is far beyond what may be possible in the United States. Nonetheless, elements of this system are already being adapted in Greece, Italy, Latvia, Portugal, Slovakia, and Spain, all of which have recently signed agreements with Germany to advise them on vocational education.

In October 2014, AICGS visited France, Hungary, Germany, and the United Kingdom, which all have their own approaches to apprenticeship. The UK and Hungary have borrowed the most from Germany, including the establishment of relatively strong intermediaries (National Apprenticeship Service, Hungarian Chamber of Commerce and Industry), nationally-recognized qualifications, and a systematic approach to engaging employers. However, it has been harder to address misperceptions and maintain quality apprenticeship programs. France has a system that relies on a quota and mandatory training contributions from companies, but also has had difficulty with quality and a culture that favors college for all.<sup>11</sup>

### Would the Dual Model Work in the United States?

President Obama himself has repeatedly pointed out the success of other countries in educating their students for the jobs of the future. In a recent State of the Union address, he singled out the success of Germany's dual education system for "graduating their high school students with the equivalent of a technical degree" and has recently announced a \$100 million grant competition for innovative schools that can provide industry-relevant skills.<sup>12</sup>

Americans, however, are still accustomed to the idea that the only pathway to success is a four-year college degree. Community colleges are thought of as merely stepping stones for older workers, new immigrants, or those who cannot afford the increasing costs of university. Employer-educator interaction is much

more limited compared to systems in Europe. So what would motivate Americans to pursue forms of work-based education like apprenticeship?

For students and parents, it is an opportunity to earn while you are learning at school. A young veteran in the UK found an apprenticeship through the National Apprenticeship Service's online job registry. He chose apprenticeship because he wanted to apply the maintenance and mechanical skills he learned in the military to civilian life. He also had to support a family, which ruled out the expense and time commitment of a four-year degree. He is now receiving two nationally-recognized qualifications in engineering and maintenance and his employer will also pay for his "foundation degree" (equivalent to an associate's degree). This would be difficult to achieve for a veteran in the United States, where still over 20 percent of young veterans (age 18 to 24) are unemployed.

It is also important that parents realize there are many different types of learners. Many people are less motivated by theoretical discussions of complex topics, compared with actually making something happen. The challenge of applying one's knowledge immediately on a machine or with a patient can be more rewarding than studying textbook after textbook. Does it really benefit society to encourage everyone to pursue theoretical studies until they are 21 years old, only to later force them to figure out how things really work on their own?

For businesses, work-based learning is compelling for a variety of reasons: they can build a pipeline of talent that reduces the uncertainty caused by demographic change; they can screen for workers they know will be highly motivated to work in their industry; young workers bring a fresh perspective to the job; investing in training also means you are investing in the loyalty of workers; and by investing in the workforce, firms can improve the image and reputation of their brand. These benefits may be difficult to calculate for the average firm,<sup>13</sup> but the German experience tells us that even the youngest students can quickly learn on the job and become fully productive workers after only a couple of years.

Unfortunately in the United States, there are still persistent misperceptions and fears held by employers about work-based programs, such as the role and extent of government or union regulation, the potential risk of competitors poaching apprentices, and the relatively high startup costs. Some of these misperceptions are widely shared in the public, but some are also business specific. There is thus an opportunity for businesses to learn from each other about what kinds of programs works best.

For educators, apprenticeship is a means to engage employers and also obtain additional funding for programs that teach highly-relevant skills. Companies will only go so far on their own to train the skills needed by the future workforce. They will likely invest most in teaching the practical skills needed to finish a job and can provide colleges with the equipment to learn those skills, but students also need the classroom setting to establish a theoretical basis to solve larger problems and the skills to adapt to the changes they will encounter in their careers.

In the United States, community colleges have the most to gain from post-secondary, work-based education. They are rooted locally and their programs are more specifically oriented toward teaching technical skills and STEM subjects. However, universities too should see an opportunity in engaging with employers and designing programs that provide graduates both with a strong theoretical background for a particular industry and the “soft skills” required to be successful mid-level managers straight out of college.

### What Next?

U.S. community colleges, training academies, and other cooperative education institutions have long been seen as lesser forms of schooling. The negative impression of the concept “vocational” or career and technical education is a major factor and so are outdated views on “dirty, uncool, or limiting” careers in construction, health services, or advanced manufacturing—three of the fastest-growing industries in the United States. While our universities continue to attract the world's brightest, our community colleges are struggling to compete.<sup>14</sup>

Employers must play a leading role in tipping the scales in favor of work-based education. In the United Kingdom, the “Get In, Go Far” campaign has attracted several major employers to act as “Trailblazers” in promoting apprenticeship. They demonstrate to their peers that they are not afraid of pushing back against misperceptions and are willing to invest more in their workforce. This powerful message, supported by the National Apprenticeship Service, has grown apprenticeship from 65,000 in 2006 to nearly 500,000 in 2012. There is bipartisan consensus around the goal of creating another million apprenticeship starts in the UK by 2020. In the United States, political consensus will be critical in shifting policy incentives that exclusively support four-year degree programs to forms of work-based education like apprenticeship.

Germany's experience with the “dual system” can serve as a model, but also as a warning. There has been a steady decline in interest in apprenticeship over the past decade with a nearly 4 percent drop in new contracts over last year (despite the country's continued economic growth). Fewer and fewer students are motivated to be an apprentice. At the same time, German policymakers are investing more and more in elite “universities of excellence.” But by pushing the international profile of their four-year schools are they weakening the dual system? Is it possible for a country to have the best skilled workforce and the best universities?

It will take a greater amount of critical attention and leadership to answer these questions for the United States. After all, work-based education is not just about shaping the future workforce, but about shaping the future of the country in general. A highly-skilled workforce can produce the things the world wants; it is also an essential part of a highly engaged citizenry. Currently, there are mixed messages coming from our national leaders about the value of work-based education compared with university, but there is still an opportunity for a unifying message that advances the promise of educating our youth for the jobs of today and tomorrow.

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# GERMANY'S FOREIGN POLICY OF RECONCILIATION AS A REFLECTION OF VARIOUS FACES OF POWER<sup>1</sup>

LILY GARDNER FELDMAN

Seventy years after World War II, Germany is a respected and emulated member of the international community. One of the chief vehicles for this conversion was Germany's foreign policy of reconciliation.

At the 2014 Munich Security Conference, President Joachim Gauck, Foreign Minister Frank-Walter Steinmeier, and Defense Minister Ursula von der Leyen all called for greater German international engagement. While they all eschewed the actual term, as most German political elites do, they indirectly referred to varieties of "power." Germany, it was suggested, should project itself globally by connecting "interests with fundamental values"; by assuming greater responsibility, including the role of peace-broker; and, as a last resort, by exercising a more robust use of military force. Gauck emphasized Germany's unique postwar contribution: "Its most important achievement is that Germany, with the help of its partners, has turned a past blighted by war and dominance into a present marked by peace and cooperation. This includes the reconciliation with our neighbors."<sup>2</sup> If Germany does become a more active international player in conflict resolution, what exactly is the experience on which it will draw? What kinds of power can it assemble in its foreign policy? It may be less a question of defining and locating new types of power, and more a challenge of understanding the variety of past practices and re-tooling and re-combining them for a global agenda and different contexts.

This essay focuses on Germany's foreign policy of reconciliation as a way to understand three main

faces of German power: normative power (the power to convince, attract, and persuade others through values and ideas); material power (the power afforded by economic and military resources); and shaping power (the power to fashion bilateral institutions, norms, and practices with other countries to confront international anarchy with joint authority; and the power to use German experience with international reconciliation to mediate and shape the outcomes of regional conflicts).<sup>3</sup> Power, thus, is conceived in both soft and hard forms. Reconciliation is seen as a mutual and reciprocal process with partners; and as an institutional and attitudinal transformation from enmity to amity.<sup>4</sup>

After World War II and the Holocaust Germany had an existential need to be rehabilitated, to return to the "family of nations," to transform itself from the status of pariah state to one that was accepted and respected in the international realm and deserved the exercise of full sovereignty. Seventy years after World War II, Germany is a respected and emulated member of the international community. One of the chief vehicles for this conversion was Germany's foreign policy of reconciliation.<sup>5</sup>

## Normative Power

Germany needed to convince its former victims and enemies that it was no longer a hyper-aggressive state, motivated by conceptions of racial superiority and territorial expansion and remembered only for its profound and unprecedented acts of brutality and war crimes. The Federal Republic needed to demonstrate that it had understood and learned from its darkest past and that it was a new Germany with a deep capacity for peace and cooperation. Germany was propelled by both pragmatic interest and moral imperative before and after German unification.

Germany, in interaction with former enemies, has developed four main channels for demonstrating its commitment to confrontation with its past: history institutions; symbolic gestures of apology/acknowledgement, commemoration, and remembrance; cultural, political, and educational exchange; and initiatives of organized religion. Germany's past has been either a direct or indirect focus of these efforts. Civil society has often initiated the process, which has then been funded, consolidated, and codified by governments.

### HISTORY INSTITUTIONS AND DEBATES

The primary history institutions are two-fold: organizations of professional historians, who promote the analysis of German history together with former victim countries and victim groups; and professional educators, including historians and geographers, who investigate jointly with former victim states the content of school textbooks and recommend revisions.

Examples of the first instrument are the German Historical Institutes in Paris and Warsaw; the institutes for German history and contemporary German studies at the universities in Jerusalem, Tel Aviv, Beer Sheva, and Haifa; and the German-Czech Historians Commission.

The principal expression of the second instrument are the bilateral textbook commissions the Georg Eckert Institute for Textbook Research in Braunschweig has created with France, Israel, Poland, and the Czech Republic; and the joint Franco-German and German-Polish history text-

books. Both endeavors, for history analysis and history education, have helped develop epistemic communities between Germany and its former victims.

The work of history institutions has not meant that history is uncontested. Where appropriate (clearly not in the German-Israeli case), the joint history undertakings have not necessarily aimed at a common historical narrative, but rather at consecrating fundamental historical facts coupled with differing emphases and interpretations.

In the larger society and polity, this professional process characterized by relative stability and civility, has been counter-poised by more contentious debates over history that showcase differing interests and preferences. Contention over issues of the expulsion of Germans from land ceded to Poland and from the Sudetenland in Czechoslovakia after World War II was spurred by the initiatives of the Federation of Expellees to institute remembrance of expellees' plight in their forced removal (with little sense of historical context). The organization's efforts were largely resisted by the Schröder government, but resonated with Chancellor Angela Merkel (and her two administrations). Her fervent support means a Center against Expulsion, privileging the plight of German victims, will be opened in 2016 in the German House (Deutschland Haus) in Berlin. Throughout the process, which began in 2000, Poland and the Czech Republic have voiced substantial concern about the initiative to highlight German victimhood.

By contrast, efforts of the Prussian Claims Society and the Sudeten Germans to lodge compensation claims against Poland and the Czech Republic with international juridical bodies have met with universal rejection by the German government and its East European partners, often in joint responses.

### SYMBOLIC GESTURES

Symbolic gestures—in which Germany has acknowledged the suffering it wrought in World War II and assumed responsibility for the consequences; commemorated historical events of the war's barbarity; or committed itself to a new relationship—

occurred at the initiation of processes of reconciliation (1951 Israel, 1956 France, 1970 Poland, 1973 Czechoslovakia). Such gestures have continued with consistency and frequency across all German administrations regardless of political ideology, are conducted singly by German leaders and jointly with former victims, and still transpire today. Current examples include President Gauck's July 2014 speech for the 70<sup>th</sup> anniversary of the Warsaw Uprising; his visit to Israel and inscription at Yad Vashem in May 2012; the president's joint visit with French President François Hollande to Oradour-sur-Glane (the first by a German president) in September 2013; the German head of state's visit to the Czech Republic, including the first visit of a German head of state to Lidice in May 2014.<sup>6</sup>

Gauck's acknowledgement of the past and celebration of the contrasting new partnerships, coupled with similar efforts by Chancellor Merkel (speeches in the Knesset 2008, Warsaw university 2007, Prague university 2008, dedication of de Gaulle memorial 2008), reflect the reality that the drive for normative power does not cease with time and represents both an East German and a West German priority.

#### CULTURAL, EDUCATIONAL, AND POLITICAL EXCHANGES

Traditional cultural interaction, youth exchange, city and town twinnings, political foundations, and higher education and scientific relations constitute the five main channels the Federal Republic has chosen to portray abroad a new Germany in terms of values and practices, including democracy, diversity, and dynamism, and to emphasize positive aspects of its pre-1930s history.

Agents of cultural interaction have included state-funded organizations like the Goethe Institute with active presence in former victim countries, and non-governmental organizations like the Robert Bosch Foundation that has been committed since the early 1970s to a variety of cultural and professional exchanges with France, Poland, the Czech Republic, and Israel for the purpose of reconciliation.

Youth exchange, funded by governments but carried out by civil society organizations, is highly institution-

alized with France (some 8.2 million participants since 1963) and Poland (2.5 million since 1991). It also has a formal structure with Israel and the Czech Republic, but not the robust institutionalization or numbers of the other two cases. The purpose of exchange is to understand differences and the nature of the "other," not homogenization of views and interpretations. German history is an item of discussion, but there is a clear orientation to the present and future and to practical concerns for the younger generation, such as education, employment, and the environment.

The Deutscher Akademischer Austausch Dienst (DAAD) has been responsible for German students, and professors, to spend extended periods studying in the partner countries, and for students from former victim countries to be educated in German universities. The Alexander von Humboldt Foundation has played a similar role in linking individuals at various stages of research. In addition, there are formalized relationships between institutions of higher education in the partner countries, including the Franco-German university and over eight-hundred agreements between French and German universities; an equal number of cooperative educational arrangements between Germany and Poland; some 240 instances of German-Czech educational cooperation; and more than eighty institutionalized connections between German and Israeli institutions of higher education (a significant number for a small country with only six universities plus the Weizmann Institute of Science). Collaboration in science has been especially deep in all cases.

Sister-city, town, and regional relationships, which began early in all Germany's relations of reconciliation, are an active sub-national element of efforts to embed relations of cooperation reaching high levels in the Franco-German case (2,500), significant numbers in German-Polish context (600), and important in the Czech (300) and Israeli (100) examples. Sports, culture, friendship activities, and cross-fertilization of knowledge and best practices concerning local public policy and political issues form the content of these connections.

In addition to their political advocacy and policy work, the German political foundations, connected to but independent from the German political parties, have

also been fully engaged in both traditional and more broadly conceived cultural and educational exchanges. Their institutional activities commenced already in the late 1970s and early 1980s with Israel and France and after the end of the Cold War with Poland and the Czech Republic.

#### INITIATIVES OF ORGANIZED RELIGION

There have been two main tracks to the engagement of religious groups in attempting to atone for the past and healing the wounds of German history: the activities of Action Reconciliation/Service for Peace; and the formal connections between the churches in Germany and partner countries. Action Reconciliation was founded in 1958 by the Protestant Church to confront the impact of Nazism and the Holocaust by sending volunteers to countries occupied by Germany and to Israel to work at memorial sites, in history education institutions, with elderly victims, and with mentally and physically challenged individuals. More recently, young people from victim countries have begun to serve as volunteers in Germany, allowing the larger German society to be acquainted with the work of Action Reconciliation.

Links between the German Protestant and Catholic churches and their counterparts in France, Poland, and Czechoslovakia were central for the initiation of reconciliation in the 1940s, 1950s, and 1960s respectively, built around the idea of forgiveness and German acceptance of the consequences of war in territorial loss. Particularly after the end of the Cold War, cooperation between German and Polish and German and Czech churches was characterized by joint statements and documents commemorating historical events, lauding reconciliation, identifying common religious values, and seeking a common history.

Through these various channels and mechanisms, Germany and its former enemies have built epistemic communities, personal and professional networks, and a willingness for dialogue and joint activities that both reflect on the past and seek to shape the present and future. In some instances (particularly in the French and Polish cases), the fact of Germany's success in persuading and convincing former victims to have a benign or positive approach to Germany

came in the form of demonstrations of forgiveness. In other instances (particularly in the Israeli and Czech cases), forgiveness has not been possible, but there has been magnanimity and forbearance shown to Germany. In all cases, leaders of former victim countries now speak of trust and partnership. Most striking is the reality that Israeli leaders and societal elites refer to Germany as Israel's second best friend after the U.S.

Public opinion also reflects acceptance and positive attitudes towards Germany. According to a major survey undertaken on the occasion of the 50th anniversary of the 1963 Elysée Treaty, "evocation of conflict as characterizing France and Germany is much less present than in previous decades."<sup>7</sup> Eighty-eight percent of French surveyed believed that issues of war and peace no longer defined the relationship and were more interested in questions of the present and future. Furthermore, 56.6 percent like Germans "passionately," with an additional 23.5 percent liking Germans "a lot." Six decades after the first reconciliatory steps were taken, in 2009, 65 percent of Israelis displayed a positive attitude to Germany, with 26 percent not favorably disposed. A similar number of positive responses to Germany could be seen in the same period among Poles, and 80 percent of Czechs surveyed deemed relations with Germany good.

#### Material Power

The link between normative power, substantially driven by moral motives, and material power, largely propelled by pragmatic interest, has been formal compensation by Germany for its historic wrongs. Germany understood compensation to victims to be a core element of reconciliation, beginning with the Reparations Agreement with Israel in 1952; continuing with domestic compensation and restitution laws for German citizens and former citizens; and reaching to other agreements with Western European countries (before unification) and the former Soviet Union and Eastern European countries (after unification). Since 1952 Germany has provided some €70 billion in compensation for a variety of National Socialist crimes.<sup>8</sup> The moral imperative for compensation (Germans, not others, use the term *Wiedergutmachung*—making right) also has been

accompanied by a material benefit, shown most clearly in the Israeli case. Reparations to the State of Israel took the form of goods and services (not monetary payments, which were made to individual Israeli victims) that built the infrastructure of the Israeli economy and helped the individual German firms providing the machinery and equipment, including in the period after the payment of reparations; Israelis turned automatically to Germany when renewing their economic infrastructure.

#### ECONOMIC INSTRUMENTS

German material power in the processes of reconciliation has been demonstrated in a variety of other economic relations with former victims (constructing interdependence as an antidote to past conflict), and also in military ties (making war impossible). Trade and investment have been key instruments for binding former victims to Germany.

France and Germany represent each other's most significant trading partner. In 2010, Germany was the most important foreign investor in France, and the leading external creator of jobs.<sup>9</sup> Since the early 1990s, Germany has been Poland's leading trade partner, and Polish trade for Germany is not insignificant, occupying the tenth place in Germany's foreign trade. Germany is the most important foreign investor in Poland. Germany is Israel's key trading partner in the EU, and its third most important trade partner globally. Israel has been Germany's second-most important trading partner in the Middle East. Israel's expertise in high technology and innovation makes it an attractive location for German investment. For the Czech Republic, Germany is the most important partner in foreign trade, and one of the most important foreign investors, accounting for 20 percent of total foreign investment.

Economic interaction is principally conducted by private actors, whose activities on both sides of the partnerships have been consolidated by chambers of commerce and industrial associations. The dominant motivation is economic, but with Israel, non-economic commitments (e.g., staying in a precarious conflict zone; cancelling trade relations with Iran) have also been expressed by some German companies. To the extent that governments have been involved—by

providing the institutional, legal, political, and incentive frameworks—motives in the Israeli, Polish, and Czech cases have been dual: political stability and making up for the past (the Holocaust in the Israeli case; and their exclusion from European economic prosperity in the Polish and Czech examples).

In the Eastern European cases, Germany's advocacy of EU membership was central, as it was for Israel in the mid-1960s; when the Israeli membership scenario met French resistance, Germany became the successful, principal advocate for Israel's deep economic arrangements with the EC/EU, including a series of free trade agreements and Israeli inclusion in various research and technical programs. In both the Israeli and Eastern European cases, German development assistance was also key: for several decades starting in the early 1960s, Israel received German economic assistance even though it did not meet the criteria for a developing country; and in the 1990s, Germany provided half of EU member state assistance to Eastern Europe and 42 percent of all grants from member states.

#### MILITARY INSTRUMENTS

German military relations with former victim countries was an important first step in reconciliation, demonstrating German self-containment of military power through institutional arrangements, and continues in a prominent way. In the French case, it has included German membership of NATO in 1955; the military provisions of the 1963 Elysée Treaty (particularly regular meetings of defense ministers and bureaucrats); the 1988 creation of the joint Franco-German Defense and Security Council; the Franco-German brigade; joint defense training; joint exercises; exchange programs of officers in national military units; and the joint hosting of the 2009 NATO summit after France's return to the organization's integrated military command.

With Poland, intensive military cooperation developed after 1989, especially after Poland's 1999 entry into NATO, and has entailed regular visits of defense ministers and their subordinates (resulting from the 1991 Good Neighborliness and Friendly Cooperation Treaty); close cooperation in the Multinational Corps Northeast (of NATO); training of Polish officers in



German military academies and officers' schools; joint exercise; and the provision and sale of important weapons (Leopard tanks).<sup>10</sup>

Military connections to the Czech Republic have also been an important by-product of the Cold War's end. They have included, as in the Polish case, regular visits (in the framework of the 1992 Good Neighborliness and Friendly Cooperation Treaty); joint maneuvers; training; cooperation in the NATO context (the Czech Republic is now a member of the multinational German-Dutch Corps); and, additionally, arms control cooperation (for example in the multinational Czech Republic-based Joint Chemical, Biological, Radiological, and Nuclear Defense Center of Excellence); and cross-border humanitarian relief initiatives.<sup>11</sup>

Given the past, the German-Israeli military partnership has been the most astounding. Like the French example, German-Israeli military ties started early—remarkably, only a decade after the end of the Holocaust, but, for reasons of Germany's relations and economic interests with the Arab world, they were conducted for a long time in secret. The extensive military links began in the mid-1950s with Germany's provision of weapons to Israel, a track that has persisted to this day, including the delivery of submarines with a nuclear capability, despite German regulations that preclude weapons being sent to "areas of conflict." The weapons relationship has been mutual, with Germany purchasing military equipment from Israel at various points in the long partnership. Germany's supply of weapons, however, has not been automatic or uncontested by German public and political opinion, for example Chancellor Gerhard Schröder's 2005 refusal to allow the sale of armored personnel carriers, out of concern for their possible use against Palestinians, or Chancellor Merkel's May 2014 decision rejecting a subsidy for Israeli gunboat purchases (not the sale at full price) as a response to the failure of Israeli-Palestinian peace talks and concern about opposition to the deal in the Bundestag.<sup>12</sup>

Beyond weapons, the robust military relationship has covered frequent meetings of military leaders and defense officials, officer exchanges, joint training, and intelligence cooperation. The high level of trust devel-

oped between Germany and Israel through military inter-linkages has been demonstrated in Israel's request, beginning in the early 1990s, for Germany to represent the Jewish state in negotiations with Iran, Lebanon, Hezbollah, and Hamas for the return of Israeli soldiers or their remains; and its 2006 initiative to have Germany participate in the United Nations Interim Force in Lebanon (UNIFIL). Such a degree of trust is similar to that shown between France and Germany in the political realm in 2003 when Chancellor Schröder requested that President Jacques Chirac represent him and Germany at a European Union summit in Brussels.

#### SETTING ECONOMIC AND MILITARY INSTRUMENTS IN A BROADER CONTEXT

Economic and military relationships that facilitate self-containment of German power, and the expression of its influence through forging dependent and interdependent links as well as significant levels of personal and bureaucratic trust, are emblematic of the larger policy relationships in these four dyads of reconciliation. The pairs have created bilateral arrangements, institutions, and problem-solving mechanisms for all manner of public policy issues from the environment to transportation, from culture to education. The pinnacle of institutionalization has been the annual joint cabinet consultations Germany has evolved with three of the partners—France, Israel, and Poland—that consolidate, formalize, and strategize about the partnerships. These fora are also the occasion for Germany and its friends to forge together an international agenda for shaping the outcome of world events and problems.

#### Shaping Power

The role of shaping power is the most recent iteration of Germany's efforts to find a place for itself in the international arena, embracing bilateral and trilateral forms, and, ultimately, a unilateral option. Its relative newness determines its more limited treatment in this essay. Together with its reconciliation partners, there have been three principal manifestations of shaping power. The first is actually both old (but still not sharing the longevity of the practice of normative and material power) and relatively new. The clearest example is the joint efforts since the 1970s for the

Franco-German couple to fashion joint proposals and joint solutions for the practical nature and profile of the European Community/European Union, from the initial plans for economic and monetary union to the initiatives for common foreign and security policy to the more recent resolution of constitutional and euro zone crises. The process has typically started as varying notions from the two sides (sometimes quite different) that eventually have been blended through give-and-take to present a concerted approach to other member states. A similar, though much more tentative and fragile, version can be detected in the German-Polish and German-Czech coordinated efforts for an EU Ostpolitik: its Eastern Partnership, that ultimately failed in the face of then Ukrainian president Viktor Yanukovich's November 2013 rejection of a deal with the EU that morphed into the Russian seizure of Crimea in March 2014, and the ongoing Russia-Ukraine crisis.

Shaping power's second expression can be seen in the concrete initiatives of bilateral reconciliation dyads in the broader international arena, both in Europe outside the EU and beyond. Examples include, in the wake of the 40<sup>th</sup> anniversary of the 1963 Elysée Treaty, the Franco-German opening in June 2003 of a common diplomatic representation in Podgorica; in 2004 the initiation of joint cultural programs in forty-nine countries; and in 2005 joint visits by the special representatives for Europe to Croatia. The German-Israel Africa Initiative was formalized by the February 2014 joint bilateral cabinet consultations and builds on a 2005 joint commitment and many years of both countries being actively engaged in the region. The project supports environmental and agricultural projects and training in Kenya, Ethiopia, and Ghana, with plans to expand to three more countries. Its stated purpose relates to the goal of the German-Israeli relationship itself:

The new dimension in the bilateral relationship is of particular interest and importance in the context of history and relations between the two nations [...] Both Israel and Germany have embarked on a path of working towards a better world with a focus on developing countries and raising the standard of living of those who live in poverty.<sup>13</sup>

The third variety of shaping power is the international efforts of the Weimar Triangle among Germany, France, and Poland (thus combining two reconciliation dyads), founded in 1991 to promote policy and societal cooperation among the three countries. Extending beyond complementary or coordinated action in Afghanistan, Lebanon, and Congo, the key example of joint policy has been the triad's efforts to promote Ukrainian democracy in quieter times (including separate German-Polish activity) and to reach a settlement between opposing parties in the ensuing hot period of internal Ukrainian crisis and Russia-Ukraine conflict. The initiatives have entailed joint visits, negotiations, and joint statements, so far without success, although an initial agreement brokered by the triad was signed in February 2014 in Ukraine before the internal political situation collapsed.

A fourth option for Germany's shaping power profile may be gradually emerging, in which Germany alone could take initiatives to be both a framework of reconciliation behavior and practices for international conflicts and a mediator (continuing unilaterally the actions noted above in Ukraine). The leading candidate where Germany could be highly influential by serving as both framework and mediator is East Asia. The region is bedeviled by territorial conflicts between Japan and China and Japan and South Korea, rendered volatile and dangerous by the underlying unresolved and multi-faceted historical issues from Japanese colonial occupation and World War II. Germany's extensive economic ties with China, Japan, and Korea mean it and the region have important structural links and channels for dialogue.

Despite a German official reluctance, publicly at least, to take on a role of greater power and influence in East Asia, there are signs of change: for the first time in December 2013 a rebuke by the German government spokesman of Prime Minister Shinzo Abe's highly controversial visit to the Yasukuni Shrine, honoring Japanese war dead and war criminals; and Foreign Minister Steinmeier's reference at the Munich Security Conference (twice) to East Asia as a region in need of conflict resolution. Moreover, despite the German disinclination to be both model and mediator, there are two external forces driving it to respond with such influence. First, both the Chinese and South

Korean presidents have alluded to Germany's successful confrontation with its past (in general shape and in practical detail) as a model for Japan, most recently in their spring 2014 visits to Germany. Second, at a time when third-party mediation is critical to prevent conflict spiraling out of control, the U.S. arguably lacks the moral authority to deal with the underlying historical issues because of its bombing of Hiroshima and Nagasaki, acts that have helped Japan to see itself as victim rather than perpetrator in World War II; and cannot be neutral in light of its military alliances with both Japan and South Korea.<sup>14</sup> For East Asia, Germany could be viewed, just as it was by the Polish Foreign Minister in 2011 during the euro zone crisis, as an "indispensable" power.<sup>15</sup>

German reluctance to flex its influence muscles in East Asia unilaterally may indeed prevail, but it could well be the leader in an EU or U.S.-EU effort in the region. Such a new role of greater international engagement based on its own experience with peace-building with former enemies may not be supported by German public opinion. In a poll conducted by the Körber Stiftung in May 2014, results were contradictory. On the one hand, respondents indicated by a significant majority (60% to 37%) that they did not support greater international engagement in general. On the other hand, when asked about specific acts of German engagement, 85 percent of those polled supported German diplomatic negotiations (10% opposed) and the same number was for German involvement in projects that strengthened civil society. Equally clear was the rejection of traditional notions of foreign policy power: 82 percent was against the sending of German troops abroad (13% for).<sup>16</sup> Judging by the views of the German public, the tools of greater German engagement, if it occurs, will resemble those developed over seven decades in Germany's foreign policy of reconciliation.

## Notes

1 The notion of “faces of power” in foreign policy is borrowed from Seyom Brown’s *The Faces of Power: Constancy and Change in United States Foreign Policy* (New York: Columbia University Press, 1968, 1994). The author’s ideas on power and reconciliation in this essay have been developed in the context of a project on German power directed by Jeffrey Anderson and Eric Langenbacher at Georgetown University.

2 For the Steinmeier and von der Leyen speeches, see: <<https://www.securityconference.de>>. For Gauck’s speech, see: <http://www.bundespraesident.de>>.

3 For discussions of “normative” and “material” power concepts see: Janice Bialy Mattern, “The Concept of Power and the (Un)discipline of International Relations,” in Christian Reus-Smit and Duncan Snidal, eds., *Oxford Handbook of International Relations* (Oxford: Oxford University Press, 2005); and Alexander Wendt, *Social Theory of International Relations* (Cambridge: Cambridge University Press, 1999), chapter 3.

“Normative” and “material power” are related to Ja-Hyun Chun’s two types of reconciliation for East Asia: “ideational reconciliation” and “substantial reconciliation”: “Proper Remembrance – The Most Essential for Reconciliation,” *AICGS Transatlantic Perspectives*, 17 September 2012, <<http://www.aicgs.org>>.

The notion of “shaping power” comes from recent analysis of German foreign policy, including: German Marshall Fund/Stiftung Wissenschaft und Politik, “New Power. New Responsibilities. Elements of a German Foreign and Security Policy for a Changing World,” 2013, <<http://www.swp-berlin.org>>. Gauck also mentions “shaping power” in his Munich Security Conference speech.

4 Lily Gardner Feldman, *Germany’s Foreign Policy of Reconciliation: From Enmity to Amity* (Lanham, MD: Rowman and Littlefield, 2012) addresses the principle and practice of reconciliation over six decades from 1949 to 2009 in relations with France, Israel, Poland, and Czechoslovakia/the Czech Republic. Unless otherwise indicated, the details for this essay are drawn from the 2012 publication.

5 This chapter considers only the measures Germany pursued in its foreign relations to transform itself, not the variety of initiatives it undertook at home to confront the past.

6 Poland <<http://www.tagesspiegel.de/politik/erste-auslandsreise-gauck-wuerdigt-polen-als-land-der-freiheit/6442602.html>>;

Israel <<http://www.spiegel.de/politik/ausland/gauck-besucht-holocaustgedenkstaette-jad-vaschem-in-israel-a-835715.html>>;

France <<http://www.telegraph.co.uk/news/worldnews/europe/france/10284142/German-president-Joachim-Gauck-to-make-history-with-visit-to-Oradour-sur-Glane.html>>;

Czech Republic <<http://www.bundespraesident.de/SharedDocs/Reden/EN/JoachimGauck/Reden/2014/140506-Karls-University.html>>.

7 “Que pense l’Allemagne,” <[http://download.www.arte.tv/permanent/u1/trait\\_elysee/enquete.pdf](http://download.www.arte.tv/permanent/u1/trait_elysee/enquete.pdf)>.

8 Auswaertiges Amt, “Compensation for Injustice Committed in the National Socialist Era,” <<http://www.auswaertiges-amt.de>>.

9 Auswaertiges Amt, “France,” <<http://www.auswaertiges-amt.de>>; Invest in France Agency, “Germany,” <<http://www.invest-in-france.org>>.

10 Bundesministerium der Verteidigung, “Inspekteur des Heeres zu Gast beim Tag der Polnischen Streitkräfte in Warschau,” 19 August 2013, <<http://www.deutschesheer.de>>; “Deutschland und Polen unterzeichnen Vertrag zum Kauf von Leopard Kampfpanzern,” 22 November 2013, <<http://www.bmvg.de>>; “Vertrauensvolle Kooperation: Ministerin von der leyen besucht ihren polnischen Amtskollegen,” 7 March 2014, <<http://www.bmvg.de>>.

11 Bundesministerium der Verteidigung, “Vernetzes Wissen - Das ABC-Abwehr-Kompetenzzentrum in Tschechien,” 18 March 2014, <<http://www.kommando.streitkraeftebasis.de>>; “Sächsische Soldaten pflegen Gedenkstein in Tschechien,” 5 June 2014, <<http://www.kommando.streitkraeftebasis.de>>; “Grenzüberschreitende Katastrophenhilfe,” 30 April 2014, <<http://www.kommando.streitkraeftebasis.de>>.

basis.de>.

12 “Germany Nixes Gunboat Subsidy to Israel,” *Haaretz*, 15 May 2014.

13 Israel Ministry of Foreign Affairs, “Israel and Germany Launch ‘The Africa Initiative,’” 25 February 2014, <<http://mfa.gov.il>>.

14 On the notion of Germany as model and mediator in East Asia, see: Lily Gardner Feldman, “Reconciliation Means Having to Say You’re Sorry,” *Foreign Policy*, 2 April 2014, <<http://www.foreignpolicy.com>> and “Ihr seid Vorbild. Was Asien von Deutschland lernen kann,” *Die Zeit*, 3 April 2014.

15 Radek Sikorski, “Poland and the Future of the European Union,” Berlin, 28 November 2011, <<http://www.ms.gov.pl>>.

16 Körber Stiftung, “Einmischen oder zurückhalten?” May 2014, <<http://www.koerber-stiftung.de>>.





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