

Young Leaders Conference 2017

Santa Cruz & Silicon Valley, California

August 5 - 11, 2017

Report by Xanthi Doubara and Dr. Christian Pfrang

Executive Summary:

Within days of the Young Leaders Conference three separate events made international headlines: A Google employee was fired after releasing a ten-page memo criticizing diversity practices at the firm. President Trump invoked "fire and fury" upon North Korea in the case of "any more threats to the United States." A white supremacist rally in Charlottesville, VA, ended with the death of a counter-protestor and an accident claimed the lives of two police officers.

The events were manifestations of the trends that we had opportunity to debate with insiders, experts and among ourselves.

Three observations stand out:

1. There is a sincere demand for more active German leadership in global affairs.
2. Expertise about technology and an appreciation for its impact on society do not generally coincide. This dialogue must be strengthened.
3. The transatlantic relationship remains strong on an interpersonal level. But in order to preserve the priority of our close institutional ties, Germany should find ways to engage the broader American public more directly.

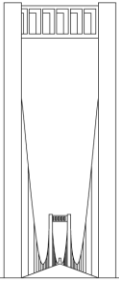
The summary following the brief program overview aims to present the debates and themes of various conference sessions in a format that respects the Chatham House rule.

Program:

Forty-seven young professionals and academics from the United States and Germany met in Santa Cruz, CA, for Atlantik-Brücke's 39th German-American Young Leaders Conference. It was a week full of engaged and inspiring discussions about the future of transatlantic relations, site visits and meetings with impressive guest speakers. It was a true once-in-a-life-time experience and a week that sparked many new friendships and connections.

Santa Cruz is in close proximity to the heart of Silicon Valley. The opportunities and risks arising from technology innovation such as automation and artificial intelligence were thus a natural focus of our discussions. We conducted site visits to firms such as Palantir and Udacity, and heard from distinguished guest speakers such as Kent Walker (SVP & General Counsel at Google) and John O'Farrell (General Partner at Andreessen Horowitz). Jessica Lessin explained the business model of The Information, a subscription based online publication about tech industry news she founded.

The group also met with Silicon Valley Rising, a labor rights group, and Emily Cohen from the San Francisco Department for Homelessness and Supportive Housing. A meeting with Santa Cruz Mayor Cynthia Chase



Magnus-Haus Am Kupfergraben 7 D-10117 Berlin-Mitte

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rounded off this exploration of the side effects of Silicon Valley's financial success on a local community that does not directly benefit from wealth creation in the technology sector.

Debates about international politics and security took up the rest of our time. Prof. Francis Fukuyama (Stanford University, YL '85) offered his perspective on the future of democracy. The group was received at the German Consulate General in San Francisco, hosted by Deputy Consul General Patrick Heinz, who stressed the importance in individual social responsibility and engagement. Prof. Donald Abenheim and Col. Peter Frank (both at Naval Postgraduate School, Monterey) conveyed vividly the challenges that NATO is facing from external military threats, propaganda operations, and internal dissent.

German soccer legend and former coach of both the German and the US national teams Jürgen Klinsmann honored the delegation with a surprise visit. His wide-ranging talk and the subsequent question and answer session were one of the most memorable highlights of the week.

Atlantik-Brücke made it possible for us to be part of this unique experience. We take away with us a deeper appreciation for the complexity of modern statecraft, a sense of responsibility for sustaining our close German-American ties and a new circle of friends and transatlantic partners.

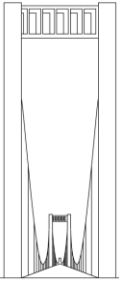
Delimiting the next five years

The issues we had come to Santa Cruz to discuss became real in the three events that framed the week of our conference. Projecting best- and worse case scenarios for the fortunes of our countries in the next half-decade revealed a consensus that the major risks and opportunities arise from developments in three core areas:

1. The impact of technological shifts on our societies
2. The level of support for illiberal and nationalist ideas
3. The adaptation of the international system to more complex geopolitics

Germany is facing its future from a position of relative strength. Its economy is booming and its international standing is strong. However, the car industry, on which the economy depends, is facing prosecution for breaches of environmental regulations and allegations of inappropriate collusion by the European Commission. Right wing movements have become a continual feature of the political landscape in recent years. The European Union is forced to redefine itself as Brexit negotiations unfold and the European debt crisis increasingly recedes from view in a macroeconomic upturn.

In the best outcome of the coming five years Germany might find itself at the heart of an invigorated European Union with a stronger parliament. The rejection of authoritarianism and nationalism on the continent could infuse a renewed purpose into a two-speed strategy and strengthen Germany's European identity. A working model of international cooperation for integrating refugees into the European economy could have been found. Domestically, a real opposition might emerge after the end of the grand coalition. The government would focus on improving the quality and the equitable access to education as well as invest in upgrading the country's infrastructure. Automation is fully embraced as an opportunity to increase national wealth from a strong



industrial base. Special economic zones would allow experimentation with digital business models and provide startups with a petri dish to grow from.

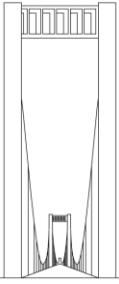
On a worst-case basis, the coming years might see carmakers reeling under fines and legal scrutiny, just as international competitors ramp up production of cheap and efficient electric vehicles. Demand for combustion driven vehicles would then be at the mercy of international environmental regulators. A severe attack could be committed by terrorists under the guise of refugee status. With millions of jobs under threat and rising xenophobia, support for the right wing could strengthen significantly. If Emmanuel Macron's reform agenda fails, France may see a renewed run for the presidency by Marine Le Pen. With a weak European core and lukewarm American support, Russia might decide to challenge the coherence of NATO directly by deploying forces into the eastern European Union. In this scenario Germany could find itself weak and isolated at the center of a Europe disposed towards aggressive nationalism.

The United States GDP has been growing – albeit slowly – out of the recession caused by the great financial crisis. Investment returns are buoyed by highly innovative technology companies. Real incomes have stagnated for many segments of society. President Trump was elected on a platform of economic nationalism which rejected consensus view about the benefits of globalization and welcomed supporters of extreme right wing ideas. High-quality health care and education are becoming increasingly inaccessible. The increasing national wealth is not being shared by society and only small pockets of society benefit from world-class innovation. The political system is stymied by the resulting inimical political discourse about taxes, identity and the role of the government. Such frictions have served to weaken respect for US leadership internationally.

Several actions could lead to achieving a best-case scenario within five years. At the heart of any such change lies a reinvigorated legislature. Congress could find a way to transcend the polarized electorate and thereby help overcome the increasing disappointment in the institutions of American democracy. Most immediately desirable would be a more productive handling of the annual negotiations of the federal budget. More broadly, political finance reform and electoral reform should be considered and serious steps should be taken towards ending the practice of gerrymandering. Reducing income inequality and improving equitable access to good education should become a focus of national policy along with a modernized approach to trade policy. Financial incentives should be used to encourage climate-friendly economic activity.

A corresponding worst case scenario could materialize over the coming years in the following way: An economic downturn leads to job losses, especially among less highly skilled workers. As a result, health care becomes increasingly hard to access. High temperatures and droughts lead to ever more severe water shortages in the western United States. Society's political divides could deepen and racism and misogyny lead to breakdown of order in some communities. It has been speculated that states could aim to assert their rights in a conflict with the federal government by calling upon their state defense forces under Title 32 of the United States Code. This unlikely tactic would have severe consequences and could be a potential step towards domestic conflict.

The likely path for both our countries lies between these extremes. But a clear assessment of the potential consequences of decisions made today is necessary in order to avoid the most undesirable scenarios. Individuals



should take steps to inform themselves about the real problems the status quo represents, engage with supporters of political creeds they disagree with and focus their efforts on the local level.

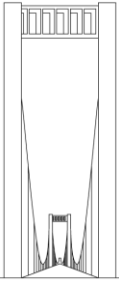
Politics:

Given the nature of our gathering as a forum for debate on the transatlantic relationship, political themes informed most conversations even outside of the two presentations by guest speakers on the topic. This summary cannot do justice to the breadth and energy of these debates. North Korea's nuclear program and its recent progress in intercontinental ballistic missile technology have caused great concern in the United States and the international community. Diplomatic efforts, such as the six-party talks have failed. Military options risk a backlash on South Korea and Japan. China is a key partner in addressing the threat, but its incentives in this context are not necessarily aligned with those of the United States.

The uneven impact of economic globalization was another recurring theme. While there is little doubt about the beneficial impact of freer global finance and trade on world GDP in total, there is a growing acceptance that the process has favored certain groups over others. Formerly successful industrial regions have fallen behind in recent decades. There is an increased gap between urban and rural populations when it comes to attitudes, wealth, health and opportunities. Successful populist leaders such as Donald Trump, Victor Orban, Recep Tayyip Erdogan and Jaroslaw Kaczynski have received relatively higher support by voters in rural regions. The correlation suggests that mending such polarization requires smoothing these gaps.

Citizens' ability to access information and disseminate their views has strongly increased due to the advent of social media. At the same time the amount of trust that media consumers have traditionally been willing to grant gatekeepers, such as editors at major news organizations, is eroding in parts of society. There need not be a causal relationship between these factors and the level of acceptance of nationalist and anti-egalitarian movements in the United States and Germany. But the formation of online "echo-chambers" may amplify such trends. In the United States the discourse on issues such as immigration, gender, social benefits or foreign policy is increasingly characterized by divisive overtones. The institutions of government and the media are being severely criticized by supporters of President Trump. Constructive dialogue between them and the administration's critics is often limited given the amount of personal vitriol which the extremes of either group appear to harbor. The constitution restricts the powers of the presidency to limit the impact of any populist impulses. For the time being many think that these constitutional barriers are working as designed. However, recreating a more consensual environment is seen as a desirable step towards making government more effective again. Electoral reform could aid that same goal, but is difficult to achieve.

As these divides in American society have intensified, so too have the perspectives of the United States and Europe grown apart. The origin of this development may have coincided with the end of the Soviet Union, but dissent about the War in Iraq, as well as the recent presidential election have highlighted the divergence. It has found its most recent vocal expression in American demands for greater military expenditures by the large European NATO member states. Such complaints have also been made by previous administrations. The advent of the Trump administration, however, marks the first time that the United States' commitment to collective defense in Europe has been seriously questioned. This inspired a new debate on European military reforms and collaborations. A rapprochement between President Trump and Russian leaders over their activities in Ukraine



seems increasingly unlikely. Even so, many in Europe watch the American president's expressions of admiration for Mr Putin nervously. Europe's geographic proximity to the Levant and Turkey – with its increasingly authoritarian government – leads to a different perspective on the region's conflicts as it remains a nearer haven for refugees and a more convenient target for terrorists.

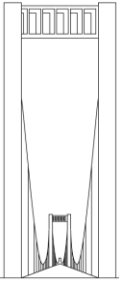
Despite electoral wins for European parties of the center, the right wing remains strong. Populist governments are in power in Poland and in Hungary and they form a significant platform for voters in western European countries. German right-wing opposition party AfD has a chance of entering the Bundestag in September's parliamentary vote. A growth recovery in many European countries has reduced the number of frustrated protest voters. But many of the trends on which they built their support remain intact: The risk of terrorist attacks, high youth unemployment in several European states and anger about the handling of the refugee crisis in the past years. Some point to the ideological connections between the European right and the American populist movements, as well as to the support that Russia appears to offer both groups — financially and otherwise. European leaders should be more vocal in defending democratic principles against those among them who aim to undermine them in their own countries. At the same time, they should remain open to the concerns of Europe's citizens. Their worries must be met with rational policy, instead of out-of-hand dismissal.

These concerns may be about local issues, as much as global ones. In the Bay Area, for example, growth for very high and relatively low skilled labor has outpaced the available jobs that pay mid-range salaries. A housing crisis has displaced workers, while the practice of subcontracting has led to wage erosion and contracts with fewer benefits. Subcontractors face pressure on their margins as the technology firms they serve control costs to preserve their own profitability. Labor organizations see one solution in higher degrees of unionization. They also aim to pressure tech companies to help create affordable housing. The relatively liberal environment they face in Silicon Valley often helps their cause, but it makes the strategy difficult to implement elsewhere.

Democracy remains the most popular form of government in the world. Citizens generally favor accountability of those who govern them. The populist ideologies that beleaguer Western countries do not have a credible agenda for long-term economic growth and prosperity, not even for the groups in society on which they rely for support. There are many reasons to be broadly optimistic about the long-term stability of the West and our democratic forms of government. Deterioration is always a risk, but it is never a foregone conclusion.

Technology:

New technologies based on artificial intelligence and automation have the potential to unleash dramatic gains in productivity that could help address the persistent global problem of underwhelming economic growth. At the same time the adoption of these ideas is likely to raise questions about disruptions in the labor market and increasing inequality. The extent of our readiness to cede decision making and control to automated systems raises difficult questions about how to encode a suitable set of ethics. Technology leaders should be more sensitive to the large-scale consequences of their activities, as well as more realistic about the potential impact of regulation.



The technology behind self-driving vehicles provide a useful example. Many jobs in the transportation industry could be threatened if vehicles do not require drivers anymore. Some believe that autonomous driving technology will drastically reduce driving related deaths. But such vehicles might still be presented with circumstances where injuries are unavoidable. Rules must be set that determine how to prioritize actions in these situations. The group discussed further examples. Applications include janitorial services, where robots can achieve three times the productivity of a human employee for simple building layouts, and the construction industry, where automation can help increase safety as well as the quality of work.

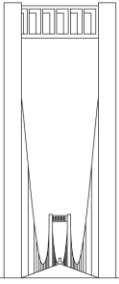
Silicon Valley investment firms are privileged in that world class ventures emerge in a very close geographic range. To some extent this reflects the parochialism of Silicon Valley's tech community itself. Founders tend to focus on solving very specific problems, rarely is there time to speculate about how their inventions fit into a broader national or global context. Moreover, Silicon Valley is home to a counter-cultural and libertarian mindset that revels in improving aspects of the world in opposition to accepted wisdom and authority.

Experimentation is necessary for innovation to thrive. But it appears that legitimate concerns about technology's impact on society are often brushed aside. Civil society pressure is too often perceived as uninformed and overly critical rather than as a valid incentive to seek compromise. A vivid example is the dissonance in perceptions of anti-trust issues. Publishers, regulators and private individuals criticize the ability of the largest internet firms to collect data, target advertisements and disseminate content. The firms themselves, however, see their competitive advantages as very fragile and constantly under threat from new technologies, products and business models. This leads them to dismiss the notion of monopolistic influence.

Nevertheless, mass media innovation has tended to eventually face regulatory restrictions. European competition rulings have had important consequences in the past. Legislation proposed recently in Germany shows increased willingness to act. It also highlights the difficulties of addressing legitimate concerns about user behavior online appropriately while avoiding unacceptable infringements on freedom of expression.

Diversity in the tech industry has become a highly-debated subject. Insiders observed that most founders and most of the very early stage hires are engineers and technical personnel. For both VC investor positions and start up jobs the pipeline of suitable candidates is not large enough to supply competitive candidates to support the diversity of employees that would be desirable. Some firms have started initiatives that aim to address the bottleneck at earlier education stages.

Silicon Valley is the result of nearly a century of beneficial interplay between the public and private spheres. Many factors contribute to its uniqueness and replicating the model elsewhere might be near impossible. Nearby universities provide highly skilled labor especially in Science and Engineering and help fund some very early stage ventures. Big companies provide role models, funding, and competition that helps generate ideas. A concentration of experienced VC firms helps provide the amounts of funds necessary to pursue and implement risky ideas. They, too, can provide guidance and help find an initial customer base. Other start-ups can provide feedback and a wealth of experience for new founders to draw on. Most importantly the culture favors risk takers and entrepreneurs with a desire to prove themselves. Nevertheless, delegates point to a degree of insularity as



well as the fact that innovation and entrepreneurship prosper in other parts of the world – often under much more adverse circumstances.

The success of early stage companies often depends strongly on the ethics and the character of the founder. Venture investors spend a lot of effort on understanding their backgrounds and motivations. In addition to the usual risks investors are facing a very competitive environment. Increasingly large sums of funds are pursuing for a limited amount of promising investment opportunities in the start-up area. This generally depresses expected investment returns.

Valuations are often too high compared to the attendant investment risks. For those investors with access to advantageous early stage investments, however, the environment is favorable, because highly valued follow-on investment rounds or very profitable exits have become the norm.

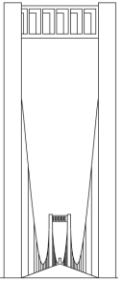
Unintended side effects

Shifts in technology and consumption patterns have had meaningful unintended and unforeseen consequences. Policy responses can help mitigate some of the negative effects. But stakeholders often take a long time to recognize the potential for negative externalities. The below examples aim to highlight common factors that grow both scale and impact quickly. It is important that leaders learn to better assess the potential for such disruptive change so that consequences can be assessed and responses implemented early on.

An upsurge in demand for housing by highly skilled workers in the technology industry has contributed to the emergence of a homelessness crisis in Silicon Valley and San Francisco. At first glance, attracting educated and well paid workers is desirable from the perspective of both the community and the firms that hire them. At this stage a decreased availability of truly affordable housing may have already become apparent. Landlords, companies and municipal authorities all have competing incentives. Some of these incentives reward delaying a response. Landlords, for example, favor higher house prices and rents, communities are keen on higher tax receipts and companies need housing for their employees. Poverty, on the other hand, exhibits network effects. The highest risk of homelessness is faced by those individuals who cannot count on friends or relatives with a minimum level of wealth to offer shelter in a crisis. Such support networks, however, are often self-contained. As some members face eviction, the risk for other members to lose access housing then increases quickly.

Nevertheless, San Francisco's efforts to provide housing for its homeless can be seen as a success. Despite a thirty percent increase in the homelessness population in other west coast cities, its homeless population has not increased. This has been achieved by addressing the needs of specific homeless groups first. The Department of Homelessness aims to house all homeless veterans and families and cut homelessness by 50 per cent. It aims to strengthen its ability to house homeless individuals quickly. The city is working closely with state and federal agencies to make this vision a reality.

Much attention has been given to the crisis in opioid addiction. Overdoses have become the leading cause of death for Americans under 50, exceeding car accidents last year. One important reason for the spread of opioid addiction is the prevalence of prescription opioid painkillers.



These types of drugs initially achieved prevalence, because they were very effective in quantifiably reducing perceived pain across a wide range of ailments. This was the desired outcome for patients, doctors as well as Pharma firms. All three groups had a variety of incentives. A subset of each group's incentives rewarded following a wait-and-see approach to warnings about potential risk of addiction: Patients and Doctors were keen to keep an effective pain treatment available to them. Pharma firms derived profits from the drugs, but also helped provide measurable improvements to patients' well-being, at least in the short term. In this case the speed of acceptance and the rapid expansion of the subsequent crisis was caused by a property of the treatment which the above near term incentives were conducive to cause all groups to ignore: its addictive potential.

A further example is the spread of propaganda and fake news online. Western technology firms have unwittingly provided a tool for such content to be spread in efficient ways to influence public opinion and undermine trust in the media or the institutions of government. Russian "trolls" were among the first to make use of the technology in this way, through bots or by providing shareable content which resonates with users who then propagate it themselves.

Technology companies are navigating a fine line. On the one hand, they have an interest in ensuring that the content that is being presented to their users is genuine and corresponds to their values as well as applicable rules and regulations. On the other hand, their businesses are built on sharing views and encouraging debates. Reigning them in too harshly can be detrimental. In this case the content is multiplied through the friendship networks and "shares" of the users themselves. In response, artificial intelligence technology as well as human moderators aim to identify problematic accounts and content.

Going through a period of uncertainty and accelerating change, it is worth acknowledging that these three scenarios share certain traits. In particular, small scale initial effects often provide an indication for where a trend might be going. Complex incentive structures delay a response, while network effects accelerate the impact. On balance, it is reassuring that the above examples — at least in theory — are addressable with sensible public policy. The private sector would do well to acknowledge an increasing public demand for regulation to minimize some of the above-mentioned side effects. A clearer understanding for the demands of either side could help to make sure that technological innovation benefits society most broadly, while preempting undesirable externalities.