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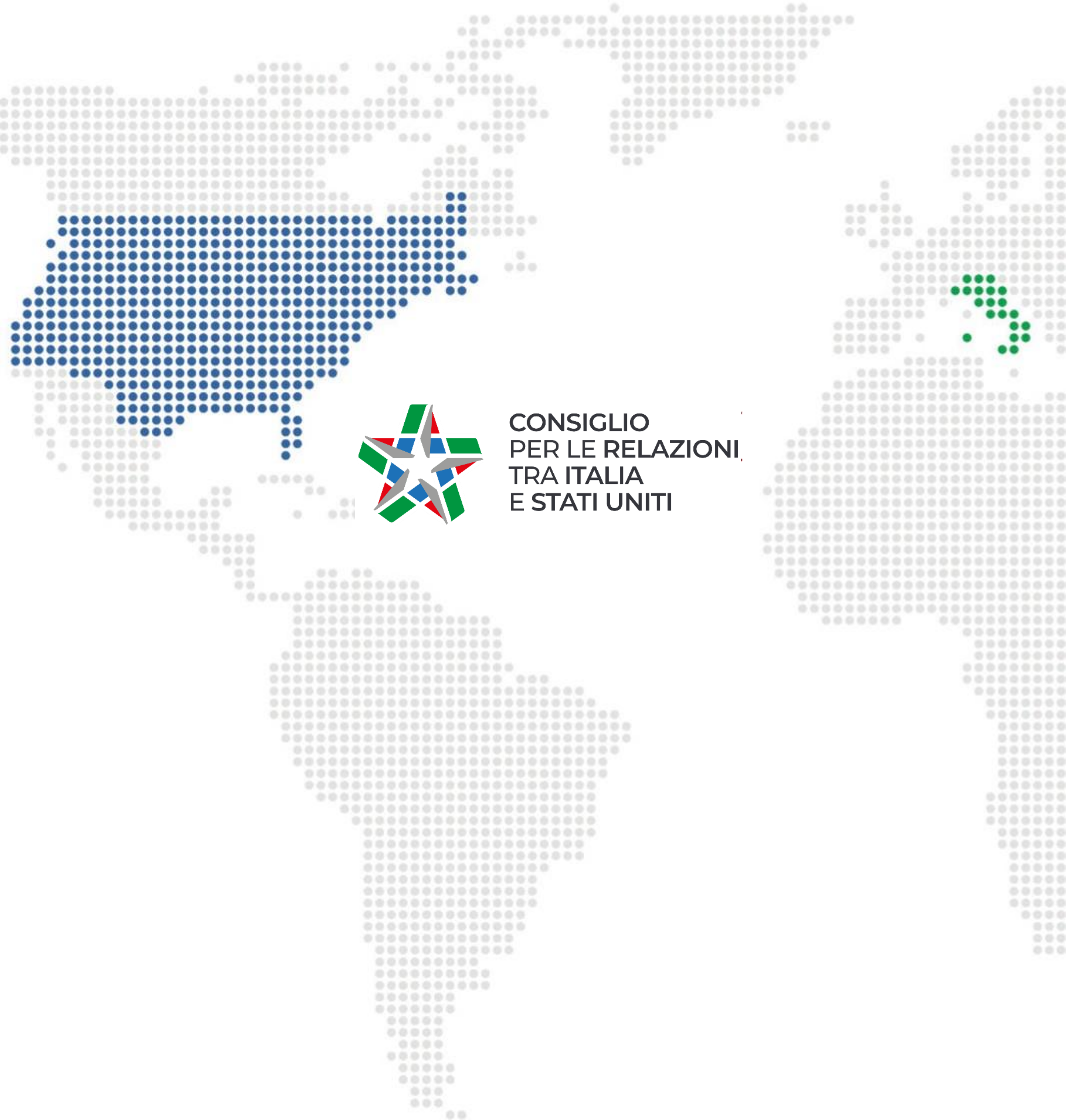

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ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

The Council for the United States and Italy is a private non-profit organization, founded in Venice in 1983 by Gianni Agnelli and David Rockefeller, who served as honorary presidents until 2003. Marco Tronchetti Provera followed them as Chairman, then Sergio Marchionne until 2018. Domenico Siniscalco is the current Chairman, Gianni Riotta Executive Vice Chairman. The Council for the United States and Italy promotes and creates economic relations between Italy and the United States, linking them to Europe, Asia and Africa through knowledge and free trade. Its members are leaders in the economy, industry, finance, technology, services, consulting, law, and culture - a team in which economic growth is viewed as promoting humanity and wealth as a cultural value to be shared.

This monthly newsletter is prepared jointly by the Council for the United States and Italy and The European House - Ambrosetti.

WEBINAR | Macroeconomic Outlook and ESG| December 2 @ 5pm

Douglas Peterson, President and CEO, Standard & Poor's Global

None of us have put pandemic in the scenario planning. From Asia to the rest of the world, the global economy was not ready for this unprecedent global shutdown. But projects that appear to have stabilized, along with vaccine discovery, potentially provide solid ground for growth ahead. One of the major risks is the unemployment that still stay weak. Regarding United States, today's situation is very critical. Two short term issues for the recovery are the vaccine distribution and fiscal stimulus. Looking at Impacts of COVID-19 on the Private Sector, small- and mid-sized businesses have demonstrated a disproportionate impact from the pandemic. Bigger companies are less likely to run aground because they are more diversified across markets and they are better able to survive shocks whose force varies from place to place. Of course, Tech sector is a clear winner during this evolving time. Also, telecommunications, media, and entertainment have shown positive impacts. The COVID-19 pandemic has accelerated digital transformation for all. This year almost every aspect of the way we conduct business changed and the pandemic impact will likely be felt for decades to come. Referring to the financial sector, since the crisis of 2007–2008 between central banks and financial regulators there has been a coordination through stress testing, new liquidity, and capital rules with a much more predictable approach. Despite some signs of weakness, the financial sector has been a stabilizing factors during the pandemic. Looking at the future, it is important to reconsider the purpose of a corporation. The pandemic has exacerbated the call for corporations to pursue long-term value while taking a broader view of stakeholder interests that takes into account healthcare, political and socioeconomic issues when making business decisions. The purpose of a corporation is not the sole pursuit of profits but the animating force for achieving them. It makes sense to expand the purpose of a corporation from creating shareholder value alone to include a firm's other stakeholders – customers, employees, suppliers, and communities – as well.

PROJECT SYNDICATE

Thanks to the collaboration with Project Syndicate all Members of the Council for the United States and Italy have unlimited access to the original contents of the platform. This month we would like to share:

- An Interview with Pinelopi Koujianou Goldberg. She explains how to alleviate short-run economic pain in developing economies, considers how China's "dual-circulation strategy" will affect its regional neighbors, and identifies what drives legal reforms to improve gender equality.
- An analysis by Mohamed A. El-Erian: "Avoiding America's Vicious COVID Cycle"
- A commentary by George Soros "The Costs of Merkel's Surrender to Hungarian and Polish Extortion"

"Pinelopi Koujianou Goldberg Says More…"

(Project Syndicate, December 15, 2020)

***Pinelopi Koujianou Goldberg,** a former World Bank Group chief economist and editor-in-chief of the American Economic Review, is Professor of Economics at Yale University.*

Project Syndicate: You recently observed that women's careers have suffered disproportionately during the pandemic and argued for flexible work schedules and free childcare to help women in the longer term. But what about the short term? As you note, "job losses during downturns have long-lasting effects, because the unemployed tend to lose relevant job skills and professional connections over time." For example, women in academia have reported a significant decrease in manuscript submissions – a lapse that can put them significantly behind their male colleagues. Are there targeted measures that can mitigate women workers' pandemic losses and reverse them faster?

Pinelopi Koujianou Goldberg: Targeted measures need to be context-specific. Let me use academia as an example, as you have. A helpful short-term measure would be to slow down tenure or promotion clocks for women with children at home, giving them time to make up for the interruption to their efforts to build up their research credentials. Alternatively (or in addition), women with children could be granted temporary reductions of their teaching loads and administrative responsibilities. This would enable them to keep up (or catch up) in other areas, such as publications.
Such measures sound easy enough to implement, yet they are highly controversial. Many well-meaning employers, especially universities, pride themselves on having adopted gender-neutral policies (for example, by offering paternal leave). One can certainly understand the rationale behind a gender-neutral approach, and there is no question that many men are actively involved in housework and childcare these days. Yet research has shown that, at least in economics, this approach has not only put women academics at a disadvantage; it has advanced the careers of male economists, often at women's expense.
Whether we like it or not, women still overwhelmingly bear the responsibility of raising children. And, controversial as it may be, I would argue strongly for targeted measures, both within and beyond academia, that recognize this reality.

PS: You also highlight the struggles of working women in low-income countries, most of whom are employed in the informal sector. What programs and policies – or changes to existing programs and policies – would enable these women to secure the support to which they currently lack access?

PKG: In the long run, it is important to ensure that women can participate in the formal sector, giving them access to stable, well-paying jobs with benefits, and to an employment-based social safety net. Beyond the overt discrimination many women experience in the workplace, especially in developing countries, rigid scheduling demands often keep women out of formal employment. To meet their family obligations, women frequently need more flexible working hours, and informal employment arrangements are often the only way to get them. So, while addressing women's exclusion from formal employment will require a multifaceted approach, flexible work schedules and childcare assistance are an essential part of the equation.
Of course, this does not solve the immediate problem of how to assist women currently in need. During the COVID-19 crisis, it has become clear that a creative combination of technology, informal networks, and cash transfers can alleviate short-run economic pain.
Real-time surveys by the World Bank and other researchers showed that cash transfers were successful in reducing food insecurity during the pandemic. The challenge lay in identifying and reaching the intended beneficiaries. Technology, such as smartphones and digital IDs, has helped, but this approach puts women at a disadvantage, because they have less access to digital devices. That is where informal networks – for example, self-help groups – come in. As is usually the case with such interventions, programs and policies need to be context-specific.

PS: In July, you made the case for open borders. As strong as that case may be, it is a political non-starter in much of the world. What initiatives and approaches may be more feasible in the shorter term, and could help to increase public

support for increased immigration?
PKG: I do not think it is a political non-starter. No one is advocating uncontrolled immigration, with anyone who wants to move to a high-income country doing so unobstructed. What I support is, first, the end of the anti-immigration crusade. This crusade is not a grassroots movement; it did not originate with voters. It came from the top, spearheaded by populist leaders in the United States and Europe as a means of deflecting longstanding frustrations with rising inequalities and diminished economic opportunities. Immigrants lack the means to defend themselves, making them easy targets. Stopping the toxic, hateful rhetoric would go a long way toward building support for increased openness.
Next, we need to do a better job of communicating to the public that in many countries, immigration is not good just for immigrants, but also for their host communities. In the US, some of the most dynamic sectors of the economy – such as the tech industry – would be devastated if skilled workers stopped coming. In academia, research and innovation would be much more difficult without the talents of international students. And in construction, restaurants, and many service industries, unskilled immigrants take jobs no American wants. In other high-income countries, especially those with rapidly aging populations, such as Germany or Japan, the need for immigrants is even more acute.
Finally, we should be clear that immigration is not development policy; it is no substitute for offering developing countries a path toward prosperity and growth. But, even from the most self-serving perspective, controlled immigration is highly desirable for high-income countries.

PS: In May, you pointed out that the "obsession with short-term efficiency and profits" has left firms and supply chains "too lean to deal with a major crisis like COVID-19." We should thus seek ways to ensure a certain amount of extra capacity or redundancy "by thinking in terms of dynamic rather than static efficiency." Which "we" should lead the way? Are these purely firm-level decisions? Or should governments get involved, whether by requiring a certain amount of extra capacity, as they do with, say, bank capital requirements, or by creating incentives for firms?

PKG: To be clear – and I have often noted this – firms and supply chains did remarkably well, considering the scale of the shock. There were no food shortages or major price spikes. (Increased food insecurity reflected the loss of income, not supply shortages.) I am no defender of unbridled capitalism or globalism, but I do think this represents a remarkable achievement for the market economy.
But that does not mean that the world could not do better. Many countries experienced a shortage of masks and other personal protective equipment back in March. Though this shortage was short-lived, it raised serious concerns, especially because it affected health-care workers on the frontlines of the pandemic.
One obvious way to avoid such situations in the future would be to maintain "strategic reserves" of some critical products, as we currently do with oil and helium. The main challenge would be deciding which commodities or items to stockpile. In hindsight, we know that it would have been helpful to have PPE reserves. But who would have anticipated that a year ago?
In any case, this would have to be a government-led initiative. But, given how little coordination there was across localities during the COVID-19 pandemic, reserves would need to be held locally. Moreover, cooperation with scientific experts and the private sector is essential. I am skeptical, however, of regulation as a means to address this issue, especially given that, at present, we don't know what to regulate.

BY THE WAY . . .
PS: Your recent study with Tristan Reed showed that, "if international integration becomes less tenable in the future," eliminating poverty will require policymakers in poor countries to focus on "equalizing the distribution of income." Accounting for challenges like large informal sectors, weak tax collection, and lack of financial inclusion, which egalitarian policies are compatible with the rapid growth these countries need to boost their people's standard of living over the long term?

PKG: First and foremost, the mindset that growth and equality are incompatible needs to change. Rather than chasing growth alone, developing-country policymakers must pursue equitable growth. Where there is the will, there is a way.
Second, a strongly progressive tax policy, based on the principles of equity and efficiency, would help build a solid tax base – a precondition for the effective provision of public goods. A good starting point would be appropriate resource taxes – many low-income countries are rich in natural resources – followed by a gradual transition to other forms of taxation. Efforts to suppress informal businesses and employment would likely be counterproductive, resulting in even

higher poverty rates. By contrast, free education for all and long-term investment in human capital would help level the playing field. Finally, technology can play a positive role. It can help to curb corruption: social media, for example, can strengthen accountability. And it can enable the poor to participate more effectively in the economy: digitalization can be harnessed to improve aid distribution, and mobile money and banking have been shown to promote financial inclusion.

PS: As you and Reed also argue, sustained poverty reduction depends significantly on market size. China, with its enormous internal market, has already made great strides in poverty reduction, and is now set to implement a "dual-circulation strategy," aimed at cutting its dependence on overseas markets and technology. If this strategy boosts China's middle class, will it do so at the expense of China's smaller, poorer neighbors, or can they benefit as well?

PKG: There are certainly ways in which China's poorer neighbors could benefit. It depends on implementation.
I understand the "dual-circulation strategy" primarily as a plan for moving away from China's export-oriented growth of the past. But it does not preclude increased imports, especially given China's traditional trade surplus, which leaves plenty of room for more imports. Those imports would be most likely to come from China's neighbors.
In fact, one can envision China as the new US or Europe – a lucrative destination market for other countries' exports. The recently signed Regional Comprehensive Economic Partnership – a free-trade agreement involving 15 Asia-Pacific countries, including China – could be a step in that direction, as it deepens integration of Asian markets.

PS: While you were Chief Economist at the World Bank, you spearheaded a study of how legal gender discrimination affects women's economic opportunities. Based on that research – which took advantage of a newly extended World Bank database – what legal reforms are particularly effective when it comes to boosting women economically, both in the short and longer term?

PKG: This is a fascinating question, but I do not have the full answer yet. One of the advantages of having an extended database of legal reforms implemented over 50 years is that the research it enables will address questions exactly like this one.
What I can tell you, based on the research my co-authors and I have conducted so far, is that across all countries, the earliest and most common reforms are the ones that allow women to participate in the workplace (for example, reforms of laws that guarantee freedom of movement or open up certain professions that were previously closed to women). Legal reforms that guarantee equal pay, accommodation of parenthood, or equal treatment in pensions are less common and often come at a later stage of a country's development.
In my view, this suggests that reforms are often driven by the need to integrate women in the labor market during periods of increased labor demand. And women cannot participate in the labor market unless they are free to move and apply for jobs. So, laws that guarantee the right to live where a woman wants, travel outside the home without the husband's permission, or apply for a passport – laws we take for granted in advanced economies, but are prerequisites for labor-force participation – often come first.

PS: Not long ago, you returned to your position at Yale. Has your experience at the World Bank affected your research interests or your teaching?

PKG: Without a doubt. My experience at the World Bank has reinforced my long-run interests in the areas of international trade and development, exposing me to some of the questions that are most relevant to policymakers today. For example, the project with Tristan Reed on the role of market size and international integration in development was inspired by conversations with World Bank colleagues and other relevant stakeholders on the need for a new vision for development in this era of deglobalization (or slowbalization). But the World Bank experience also opened new areas of interest for me, such as gender equality in developing countries and the role of human capital in development.

GOLDBERG RECOMMENDS
We ask all our Say More contributors to tell our readers about a **few books that have impressed them recently**. Here are Goldberg's picks:

- *Good Economics for Hard Times* by Abhijit V. Banerjee and Esther Duflo

When Nobel laureates Banerjee and Duflo wrote about "hard times" in their 2019 book, they had no idea how hard 2020 would be. Yet their insights are as relevant for the management of the COVID-19 crisis as they are for the many topics the book covers, such as slowing growth and rising inequality, technology and globalization, immigration, and climate change. In each case, they carefully review and present existing evidence, always based on cutting-edge research, and show how economic research can meaningfully inform policy. Their views on the demonization of the poor and the role of incentives, in particular, strike a chord today, as the US Congress debates the merit of further relief payments to those in need.

- *Deaths of Despair and the Future of Capitalism* by Anne Case and Angus Deaton

Although the book is less than one year old, the phrase "deaths of despair" – meaning deaths due to suicide, drug overdose, and alcoholism – has become part of our collective vocabulary. Case and Deaton offer a set of novel, striking, and thought-provoking facts: life expectancy has been declining in the US, but not in other high-income countries, over the last few years; mortality rates have increased among white, male, blue-collar workers; and unemployment seems to be most important socioeconomic driver of this phenomenon. The authors tie the health crisis to the rise of large corporations, the weakening of labor, and the many limitations of the US health-care system. Their analysis gets to the heart of many of the grievances that have driven the rise of populism.

- *The Third Pillar: How Markets and the State Leave the Community Behind* by Raghuram Rajan

Economists have long wondered why the public resists policies that benefit the economy as a whole, such as opening up to trade and immigration. Recent research has emphasized the impact of municipality- or commuting-zone-level effects: policies with positive effects in the aggregate may still affect different local communities very differently. Rajan builds on this idea in a penetrating analysis of the interdependence of a society's three pillars: markets, the state, and community. He shows how the decline of communities goes hand in hand with the breakdown of social structures and loss of identity. In the spirit of Deaths of Despair, the book ties these phenomena to the recent decline of rural, white, blue-collar communities in the US and the rise of populism.

"Avoiding America's Vicious COVID Cycle"

(Project Syndicate, December 16, 2020)

Mohamed A. El-Erian, *Chief Economic Adviser at Allianz, the corporate parent of PIMCO where he served as CEO and co-Chief Investment Officer, was Chairman of US President Barack Obama's Global Development Council. He is President of Queens' College, University of Cambridge, senior adviser at Gramercy, and Part-time Practice Professor at the Wharton School at the University of Pennsylvania.*

The United States has the means not only to arrest current negative public-health and economic dynamics but also to transform them into a virtuous cycle. But this will require sustained and simultaneous efforts in four areas.

LAGUNA BEACH – As excited as we all understandably are about the arrival of the first COVID-19 vaccines, the immediate road ahead remains treacherous. The United States, in particular, could be on the verge of a horrible scenario in which ongoing slippages in each of four areas – public health, the economy, policy, and household behavior – end up making those in the other areas even worse. Over the next few weeks, they risk setting in motion a vicious cycle that, if it materializes, could shatter the lives and livelihoods of many more people, even though vaccines are in sight.

Fortunately, through individual and collective action, the US has the means not only to arrest these dynamics but also to transform them into a virtuous cycle. This will require a set of sustained efforts rather than simple repetition of one-off measures.

Notwithstanding the restrictions that one state after another is putting in place, America's current wave of COVID-19 hospitalizations and deaths is unlikely to subside in a lasting fashion. Yet, rather than regarding these measures as necessary but insufficient, too many Americans will instead be inclined to conclude – incorrectly – that restrictions are ineffective except in their very narrow role as temporary circuit breakers.

Moreover, the US is failing to get a handle on public-health challenges at a time when the economy is already weakening. The recent string of increases in weekly jobless claims confirms that the recovery in both the labor market and the overall economy is losing steam. More granular daily indicators of economic activity (such as mobility, restaurant bookings, and search activity) further support this view.

A growing number of economists now believe that the more comprehensive monthly jobs report for December, released in early January, may show negative job creation. It could be only a matter of time until we start worrying about the threat of a US double-dip recession similar to the one that Europe may already be experiencing.

The third area of concern is the overall US policy response to the economic crisis, which remains unbalanced and inadequate. Yes, monetary policy is still in “pedal to the metal” mode, with the US Federal Reserve expected to do even more at its December 15-16 policy meeting to support economic recovery. Unfortunately, the world’s most powerful central bank is essentially pushing on a string when it comes to long-term economic well-being.

Little of what the Fed does these days addresses the structural impediments to short and longer-term inclusive and sustainable economic growth. Meanwhile, its ample and predictable liquidity injections continue to decouple Wall Street from Main Street, worsen wealth inequality, and encourage excessive risk-taking that threatens future financial stability.

The policy response that can make a difference – a comprehensive fiscal package and pro-growth structural reforms – is nowhere to be seen. Any economic rescue measures that emerge from the painfully protracted negotiations in Congress will likely be too small, too narrowly designed, and insufficiently timely to stop the scarring that risks smothering the US economy’s dynamism.

This triple worry – public health, the economy, and economic policies – in turn fuels problematic household behavior. The US government’s inability to control yet another COVID-19 wave is certain to erode public trust further and undermine the adoption of guidance on healthy behavior. Increased restrictions inevitably add to the short-term economic pressures on many households and are likely to dampen consumer sentiment, robbing the economy of an important driver of growth. Delays in fiscal transfers compound the risks to US consumption and investment at a time when the global economy is in no position to take up the slack.

It is not hard to see how this combination of factors can trigger a negative feedback mechanism, with nearly every disappointment in any of the four areas making the other three more likely to disappoint even more. Economists call this an adverse multiple equilibrium, meaning that one bad set of outcomes makes it highly likely that the next outcomes will be worse. The good news is that this dynamic can be arrested and turned into a favorable multiple equilibrium.

Achieving this will require America to make simultaneous efforts in all four areas. For starters, the US needs better pool testing for the SARS-CoV-2 virus, timely tracing, and focused isolation of COVID-19 infections. The country also needs an economy that builds consumer and investor confidence while limiting its decoupling from frothy and increasingly speculative financial markets.

The third key element is a more balanced policy approach that supplements much-needed relief measures with steps to counter the mounting downward pressures on both supply and demand dynamics. These should include initiatives to modernize and expand infrastructure, increase skills acquisition in the labor force, counter uncompetitive firm concentration, improve safety nets, and enhance other efficient redistribution mechanisms. Finally, more responsible household behavior – in particular, strict adherence to social distancing, hand washing, and mask wearing – can help to limit COVID-19 transmission.

While counting down the days to widespread adoption of effective COVID-19 vaccines, we must not lose sight of the difficult journey still ahead. Without pronounced and sustained efforts now to turn a vicious cycle into a virtuous one, the US runs the material – and unnecessary – risk of many more deaths, and of a sluggish, partial, and insufficiently inclusive recovery.

"The Costs of Merkel's Surrender to Hungarian and Polish Extortion"

(Project Syndicate, December 10, 2020)

George Soros, *Chairman of Soros Fund Management and the Open Society Foundations. A pioneer of the hedge-fund industry, he is the author of many books, including The Alchemy of Finance, The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What it Means, and The Tragedy of the European Union: Disintegration or Revival? His most recent book is In Defense of Open Society (Public Affairs, 2019).*

German Chancellor Angela Merkel has been laboring under enormous pressure to prevent a veto of the European Union's 2021-27 budget and COVID-19 recovery fund. But the compromise she reached with Hungary and Poland is the worst of all possible worlds.

NEW YORK – The European Union is facing an existential threat, and yet the EU's leadership is responding with a compromise that appears to reflect a belief that the threat can simply be wished away. Prime Minister Viktor Orbán's kleptocratic regime in Hungary and, to a lesser extent, the illiberal Law and Justice (PiS) government in Poland, are brazenly challenging the values on which the European Union has been built. Treating their challenge as a legitimate political stance deserving of recognition and a compromise solution will only add – massively – to the risks that the EU now faces.

I recognize and understand the enormous pressure under which German Chancellor Angela Merkel has been laboring. She has been Germany's chancellor for 15 years and is now approaching retirement, in September 2021. With French President Emmanuel Macron temporarily distracted by the laïcité issue and other serious security concerns within France, Merkel has become something of the sole main decision-maker for the EU.

I also understand why the German chancellor does not want another country, Hungary, to announce its intention to leave the EU on her watch. That is reportedly what Orbán was preparing to do in recent days, because he cannot afford to have the sheer scale of his regime's corruption exposed, which the EU's "rule of law" conditionality for the disbursement of Union funds would invariably have done.

Orbán has stolen and misappropriated vast sums during his decade in power, including EU funds that should have gone to benefit the Hungarian people. He cannot afford to have a practical limit imposed on his personal and political corruption, because these illicit proceeds are the grease that keeps the wheels of his regime turning smoothly and his cronies in line.

Threatening to torpedo the EU's finances by vetoing its budget was a desperate gamble on Orbán's part. But it was a bluff that should have been called. Unfortunately, Merkel has, it appears, caved in to Hungarian and Polish extortion.

As I write, it seems clear that Merkel has brokered a compromise with Orbán and Poland's de facto leader, Deputy Prime Minister Jarosław Kaczyński. The deal that Germany made with the EU's two rogue member states, however, constitutes the worst of all possible worlds. The widely leaked text of the proposed compromise, to be embedded in the concluding statement of this week's European Council meeting, has three fundamental flaws.

First, the declaration alters in substance and intent the text of the regulation that was agreed by EU institutions on November 5, weakening the rule-of-law conditionality considerably. Neither the European Commission nor the European Parliament, let alone the national governments that made the integrity of the regulation their main concern in the European Council, should allow themselves to be elbowed aside in this way.

Second, some provisions in the deal serve to delay the implementation of rule-of-law conditionality by up to two years. That would be a true coup for Orbán, as it would delay any possible action until after the next scheduled Hungarian parliamentary elections in 2022.

The reprieve would give Orbán's Fidesz party ample time to change Hungarian laws and constitutional provisions, and allow Orbán to continue redefining what constitutes "public funds" in Hungary in ways that enable him to channel ill-gotten loot from public bodies into private "foundations" controlled by his cronies. The primary victims of the deal that

Merkel has reportedly struck with Orbán will be the people of Hungary.

Lastly, the proposed summit declaration is a case of the European Council acting beyond its authority in constraining the European Commission's ability to interpret and act on agreed EU legislation. That is a dangerous precedent, because it reduces the Commission's legal independence and may very well contravene the Treaty on European Union, at least in spirit.

The deal, as it is understood to exist, is ugly and flouts the express wishes of the European Parliament. But because of the urgent need to use the €750 billion ($909 billion) COVID-19 recovery fund, the European Parliament may very well approve it.

All I can do is to express the moral outrage that people who believed in the EU as the protector of European and universal values must feel. I also want to warn that this compromise may severely dent the hard-won confidence that the Union's institutions have gained through the creation of the recovery fund.