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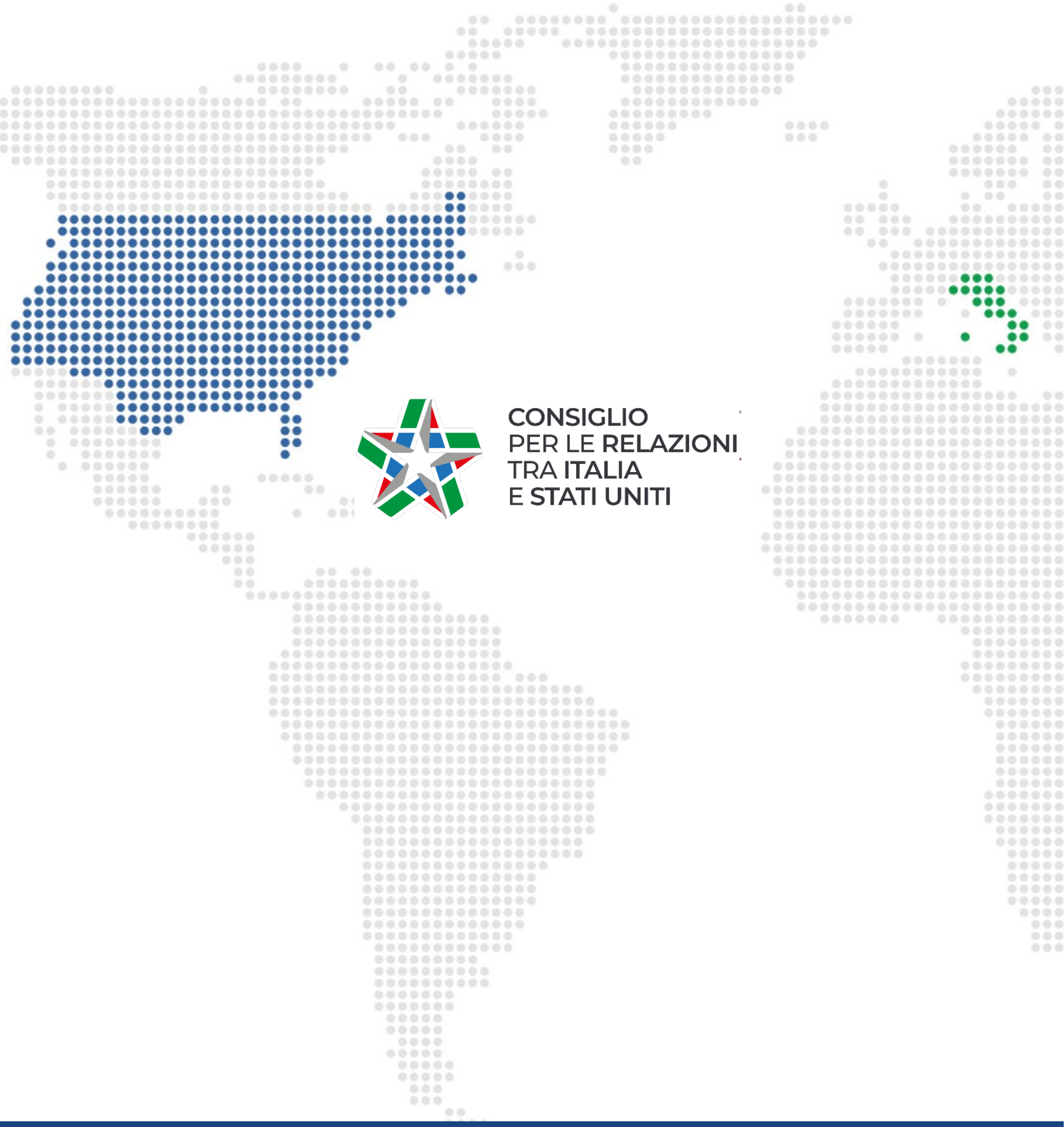

CONSIGLIO PER LE RELAZIONI TRA ITALIA E STATI UNITI

ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

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WEBINAR | Global economic prospects| April 27 @ 6.15pm

Nouriel Roubini *(CEO, Roubini Macro Associates; Professor of Economics, Stern School of Business)*

Known as forecaster of the global crisis of 2009, Nouriel Roubini provides brilliant remarks on the global economic outlook after Covid-19. To understand how and when the recovery will take place, it is important to comprehend what happened last year: world economies experienced a synchronized recession due to a policy-induced coma that stopped the economy aimed at flattening the virus outbreak. Luckily, it was one of the shortest recession thanks to a fast recovery eased by (probably too fast, too soon in some regions) re-openings, monetary accommodation, fiscal stimulus and credit easing. In the context of the global financial crisis, it took three years to get to similar strategies, whereas vast responses to the Covid-19 crisis took place in few months.
The timing and shape of the recovery will depend on several factors:

1. New strains of the virus and relative "stop-go" cycles: last year, economic activity re-started too early due to political pressures but risks will persist as long as contagion is not stopped around the world;
2. Rate of vaccine distribution and its resistance of existing vaccines to new strains in order to ensure herd immunity;
3. Presence of liquid but insolvent firm that risk bankruptcy and hysteresis effect in the labor market where a temporary shock becomes permanent;
4. Indebtedness of SMMEs and households that drives down aggregate demand of consumption;
5. Widening of wealth inequality also due to K-shaped recovery where wealthy individuals are safe while partially employed individuals bear the worse consequences, leading to not only rising political pressures but also slowdown of aggregate demand due to redistribution from wages to capital: progressive policies such as those introduced by the Biden administration can prevent this outcome;
6. Long-term sustainability of fiscal and monetary stimulus.

The impact of these variables will differ across countries and regions, with uneven and differentiated trends: nowadays, it appears that a V-shape recovery will take place in the US and China. Europe and other emerging markets might experience a weaker recovery where contagion is high and vaccination rate is low. But why can the US expect a V-shaped recovery? Thanks to containment of Covid-19; high vaccination rates; the arrival of spring with good weather; the volume of monetary and fiscal stimulus; an overall improvement in business sentiment and consumer confidence and finally positive financial conditions with encouraging stock markets, low credit spread and negative real bonds yields.
An important issue to be addressed is whether there is a risk of return of high inflation. According to some, in the US the fiscal stimulus is becoming excessive on some standards. At the same time, there are signs of bottlenecks in the supply side together with the disruption of global supply chains thus there might be an imbalance between strong aggregate demand and limited aggregate supply, becoming an engine for rising inflation. Furthermore, the fiscal stimulus is monetized by central banks that combined with negative supply shocks might bring additional risk of inflation or even stagflation as in the 1970s.
In Italy, a recovery will occur with a delay compared to the US.

Other negative supply shocks that could undermine growth include protectionism, aging population, rising inequalities, "cold war" between the US and China with fragmentation of the global economy and fiscal dominance where stocks of private and public debt might impede the normalization of policy rates eventually risking assets and good inflation.

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BITCOIN AND BEYOND



Christian Catalini *(Associate professor, MIT Sloan School of Management)*
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From the growing attention to Bitcoin and "decentralized finance" to the latest excitement spurred by non-fungible tokens, the crypto economy is here to stay. But will it develop the social consensus and institutional arrangements needed to go fully mainstream?

CAMBRIDGE – What is money? Some have described it as a shared fiction, or as a form of collective memory. To document and facilitate transactions between parties, we have relied on everything from seashells and rare metals to strips of paper and – more recently – entries in digital ledgers. These technologies all facilitate the creation, transfer, and destruction of value, and each works only because a group of participants – a "tribe" – has reached a fundamental agreement about what holds monetary value. It is this underlying agreement that enables the use of money to measure credits and debits and record exchanges among market participants. The users of money must be confident that it will remain exchangeable for goods and services; and the larger the group of users, the more useful that money becomes.

A crucial question for any monetary arrangement is who, if anyone, has the power to create money, take it out of circulation, and determine how it can be used. While we often think of money as inherently fungible, modern societies regularly restrict the supply and use of money in order to achieve broader goals, such as keeping prices stable and fighting financial crime.

In practice, then, societies create and maintain a consensus about money through a combination of technology and institutions. While technology can enable better forms of money, when and how such new forms are actually adopted depends critically on the presence or absence of complementary institutions. As Jacob Goldstein recounts in his recent book Money: The True Story of a Made-Up Thing, it took centuries for the institutions built by Genghis Khan (who introduced the first paper currency in 1227) to turn the technology of printing plates and paper notes into modern money. The notes' redeemability for silver or bronze first had to be broken.

THE BITCOIN BREAKTHROUGH

Cryptocurrencies represent the latest iteration of this long historical process. From its conception in a 2008 white paper by Satoshi Nakamoto (a pseudonym) to its peak valuation this year, Bitcoin has gained traction during a period of unusually low trust in the traditional institutions behind money in the developed world.

Beyond a clever new technology, what Nakamoto was (or were) really proposing was a new type of institutional arrangement. With Bitcoin, reaching an agreement about the value of money does not require trusted third parties like central banks or financial intermediaries. Instead, Bitcoin relies on a combination of cryptography and game theory to allow currency holders to reach a consensus about the supply, individual balances, and transfers of what they hope will become new form of money.

To establish, update, and secure its digital ledger, Bitcoin depends on investments by decentralized network of infrastructure providers called "miners." To provide miners with an incentive to perform the computations needed to secure and process the exchange of Bitcoin, the Bitcoin protocol rewards them for each batch of transactions with the associated transaction fees and a decreasing amount of newly minted Bitcoin. But while this process minimizes the need for trusted third parties, the computation by miners comes at a significant environmental cost, owing to the massive electricity use it requires.

Moreover, to the extent that we rely on institutions to ensure that the use of money adheres to our values and principles, Bitcoin's design can become either a major strength or a serious weakness. In places where institutions are weak, undemocratic, or openly repressive, Bitcoin can provide its users with a more equal and robust store of value than anything they can access through the local financial system. But Bitcoin on its own does not come with any recourse or protections against theft, loss, or broader forms of financial crime. Because there are no third parties, users are left to their own devices. Bitcoin's neutrality also inevitably means that benign and malign actors have equal access to the system.

To address these problems, new types of intermediaries such as custodial wallets have emerged. But, of course, these actors are replicating some of the features of the traditional financial system that Bitcoin was supposed to overcome. This highlights a key point: the social contract underpinning Bitcoin is unambiguously less compelling in places with strong institutions.

When people have come to enjoy sound monetary policy, a range of consumer protection laws, and government guarantees such as deposit insurance against bank failure, Bitcoin's institution-light design has less to recommend it, and its environmental costs seem all the more outrageous.

Nonetheless, while some traditional institutions have been able to withstand fraught market and political conditions over the last few decades, Bitcoin and other cryptocurrencies remain an alternative for when those institutions turn out to be more fragile than expected. Similarly, cryptocurrencies can offer a way to restore competitive conditions when intermediaries have accumulated too much market power.

DESIGNING CRYPTOCURRENCIES

Each cryptocurrency places different weights on key inputs such as technology, institutions, and the beliefs of its supporting tribe in the provision of money. The weights across these inputs are design choices, which is why we have seen an explosion of cryptocurrency experiments. So far, each promising design has given rise to complementary intermediaries that counterbalance the design's key weaknesses.

For example, by default, cryptocurrency holders (or "HODLers") have no way to access their coins if they forget their private keys. As a result, consumers often hold cryptocurrency through centralized intermediaries – crypto wallets – that provide them with the familiar password-recovery and access-protection features they know from online banking.

Worried about energy consumption, cryptocurrency developers have also started exploring different incentive systems and technological solutions to replace wasteful computation with more energy-efficient models. Systems based on proof of stake, for example, can establish a consensus about a transaction faster by giving more weight to information presented by larger coin-holders. This ensures that as long as the majority of a coin's holdings are in the hands of honest participants, the system correctly represents reality. But it also inevitably gives large coin-holders disproportionate influence over the process.

Proof-of-stake systems' reliance on weighting votes by holdings stems from the fact that coin balances can be easily verified on a digital ledger without access to any outside information. Moving a proof-of-stake system away from a coin-based plutocracy and toward more representative governance thus would depend on the availability of additional information. Identity verification, for example, could be used to give each participant a single vote. But, of course, only third parties, typically governments, currently can reliably maintain the bridge between a person's real identity and their online representation.

DISINTERMEDIATING WALL STREET?

The wave of innovation that started with cryptocurrencies is not limited to "money" per se. Designs have rapidly ventured away from storage and transfer of value to more complex financial arrangements. Decentralized finance (DeFi), as the name suggests, uses digital-ledger technology to create decentralized financial markets.

For example, decentralized exchanges ("DEXes") match buyers and sellers of cryptocurrency without requiring users to trust or assign custody of their assets to a traditional exchange. By removing regulated exchanges from the picture, DEXes could improve competition, efficiency, and transparency, although they also introduce significant challenges in areas such as compliance. New intermediaries may emerge to meet DeFi participants' maturing needs – as has already happened with crypto wallets. But in the absence of intermediaries, it will be extremely difficult to safeguard consumers and ensure financial stability, and regulators may have to achieve their goals in new ways, including by trying the more challenging route of regulating user access or transactions directly.

Thus, while DeFi may eventually bring greater transparency, automation, and competition, it also could reduce our ability to ensure that financial markets reflect values and principles beyond the profit motive. While some will see this as an improvement, others may wonder how these systems will stop participants from exploiting insider information, manipulating the market, or destabilizing the system as a whole for their own benefit.

THE TOKEN OWNERSHIP SOCIETY

If someone had asked us to predict where cryptocurrency enthusiasts would move next, digital art would not have been our first guess. But with hindsight, the rise of non-fungible tokens (NFTs) at a time when investors are frantically seeking new assets to invest in makes perfect sense. Art can be an expression of a tribe's enthusiasm, and that enthusiasm can be channeled into a platform – and associated institutional arrangements – supporting decentralized engagement, social discourse, and related economic transactions.

Unlike Bitcoin, where coins need to be fungible to be used as money, NFTs are meant to be one-of-a-kind. As such, they offer a solution to a longstanding puzzle: in a world where digital copies are costless to produce and indistinguishable from their originals, artists must rely wholly on external enforcement through copyright laws to control the sale and use of any copy after the first. Worse, by merely displaying their art in its unaltered form on the web, artists make it easy for anyone to take a copy for free. By linking easy-to-replicate digital art with a unique token representing canonical ("original") ownership, NFTs restore creators' ability to design agreements and rights relating to the use and distribution of their work. Critical to this arrangement is the connection between the easy-to-copy object and its digital token.

As with cryptocurrencies and fiat money, whether this link confers any value to the token depends on a tribe reaching agreement about how the link is established, maintained, and/or destroyed. If those with confidence in it lose faith or move on to something else, NFT holders would be left with nothing but a worthless bundle of bits. Like cryptocurrencies and fiat money, NFTs therefore derive their value from group beliefs and consensus. In the case of money, the medium's usefulness grows with the size of the tribe. But with a new NFT protocol, the key issue is whether its design choices are well suited to a specific tribe's idiosyncratic needs and preferences.

By adding programmability to digital assets, NFTs allow a group of creators and their audiences to track ownership of digital artifacts, consume and recombine different media into new products and services, and build novel business models around them. In the same way that cryptocurrencies enable the unbundling of financial services, NFTs open opportunities for new types of content curation and distribution. After all, a single NFT can be divided into fungible ownership shares, allowing multiple parties to split economic and control rights over a single object (be it art, a meme, a digital baseball card, or even real estate). And because the underlying code for NFTs is open and programmable, the potential for recombination across formats and monetization strategies may resemble what we observed with the early internet.

For example, in a world in which music rights can be enforced through rules written into an NFT, a musician linking a song to a token could distribute her work not through a single streaming channel but through a number of different platforms – all by licensing access through the token. Moreover, the token itself could share compensation with other tokenized assets, such as those associated with a song sampled or remixed within the artist's track. And if a musician got off the ground and recorded a song thanks to a group of crowdfunders, those supporters could receive a share of the future revenues.

In this world, newspapers, streaming platforms, social networks, and marketplaces may face more competition. Owing to the interoperable nature of NFT-based networks, online content – digital representations of offline goods, social profiles, and interactions – becomes more portable and modular across providers. As such, consumers may benefit from more choice concerning the types of intermediaries they rely on, and businesses may be able to tap into new types of economic arrangements. Regulators have long been looking for ways to limit the power that platform architects retain over digital ecosystems; by advancing interoperability, NFTs and cryptocurrencies could be part of the solution.

THE CRUCIAL INTERPLAY

While it may be tempting to think of cryptocurrencies as yet another instance in which "software is eating the world," the journey from Bitcoin through DeFi to NFTs implies a much more nuanced interplay between code and institutions. For any cryptocurrency experiment to last and be ultimately useful, society will need to develop complementary institutions supporting it. Paradoxically, the types of constraints institutions may impose on crypto technology are precisely the ones that will allow the technology to channel our values and reach mainstream adoption.

AN INTERVIEW WITH ROBERT J. BARRO

Robert J. Barro *(Professor of economics, Harvard University; Visiting scholar, American Enterprise Institute; Research associate, National Bureau of Economic Research.)*

In February, you warned that the US Federal Reserve is squandering the reputational capital that former Fed Chair Paul Volcker bequeathed to it (by maintaining high interest rates despite a recession), noting that, today, "fiscal deficits as a share of GDP are running at unprecedented peacetime levels." But the coronavirus pandemic has often been compared to a war, in terms of its casualties and economic impact, and maintaining high interest rates during such a crisis would, according to the conventional view, exacerbate the recession. How can policymakers balance the need to keep long-term inflation expectations low with the short-term imperative of fostering economic recovery?

Large fiscal deficits make sense as a way to finance large temporary outlays, such as in a war or to fund major infrastructure projects or emergency transfers. Deficits are also reasonable during a recession, as a means of supplementing government revenue – which would be shrinking, due to declining real GDP – without resorting to a tax hike during a downturn. The real question is how much government should have spent after the pandemic-induced recession began last year. In the United States, it made sense to help businesses maintain their connections to employees, such as through the pay-check-protection program, and to expand payments to people who had lost their jobs, such as through extended unemployment insurance.

But the package the US federal government implemented in March 2020 went much further than that. Among other things, it increased unemployment insurance to levels that made working less financially rewarding than leisure for many people.

Overall, at over $2 trillion, that package was much too large, though it was probably helpful overall – that is, it was likely better than nothing. The same cannot be said for the $1.9 trillion "relief" bill that was passed a year later.

At that point, the US was already experiencing a V-shaped economic recovery – one that will likely be complete by the third quarter, not because of the government stimulus, but because a highly successful vaccination program will unleash pent-up demand in key sectors, especially travel and leisure. Given this, the additional stimulus was a waste of money. Moreover, it makes high inflation substantially more likely, and increases public debt to dangerous levels.

From the Fed's perspective, (slightly) higher inflation doesn't seem to be a problem. Last year, it adjusted its inflation framework, saying that after periods of persistently low inflation, it "will likely aim to achieve inflation moderately above 2% for some time." You've written that we lack a convincing explanation for why inflation has remained subdued for so long. So, what could go wrong with the Fed's new "flexible form of inflation targeting"?

The problem is not average inflation targeting, per se. It is that the Fed changed its approach specifically to rationalize doing nothing about intensifying inflationary pressures. And this is not a situation where the inflation rate is at risk merely of rising from 1.5% (where it has been for a while) to 2% or 2.5%; instead, the US could be in danger of returning to the uncontrolled inflation that prevailed until Volcker took action in the early 1980s, with rates as high as 10%.

We have learned that the most important determinant of inflation is long-term inflation expectations, which are hard to change. It took tremendous resolve for Volcker to take expectations from something like 6-10% to a range of 2-3%.

When long-term inflation expectations are contained, the Fed has a lot of short-term policy leeway. That is why, since the financial crisis of 2008, it has been able to maintain near-zero short-term nominal interest rates for extended periods. But if the anchor is lifted, and long-term inflation expectations rise to, say, 5% (or more), the US will have to incur heavy costs to get expectations back down. And, frankly, I doubt that the current leaders of the Fed and the Treasury have the Volcker-like credibility that would be needed.

You were critical of former US President Donald Trump's trade war with China, warning in 2019 that it "could well push the US economy into recession." Now, as the US gears up for a robust post-pandemic recovery, the trade and technology war with China is among the only areas where President Joe Biden is staying the course Trump set. Would you advise Biden simply to give up on curbing China's restrictive trade practices, and "live with a situation that falls short of the ideal"?

From a growth perspective, Trump's favorable tax and regulatory policies were offset by his protectionist trade policies, which targeted China above all, but also affected Europe, Canada, Mexico, and others. Trump's protectionism was also reflected in his decision not to participate in the Trans-Pacific Partnership.
The Biden administration's general stance should be to embrace free trade. That said, the situation with China is complicated, owing to its record of technology theft and restrictive business practices, as well as national-security concerns. For example, it makes sense to prevent a company like Huawei – which is effectively an instrument of the Chinese government – from gaining control over the internet's infrastructure. China's ongoing authoritarian shift – including its suppression of Hong Kong and hostility toward Taiwan and in the South China Sea – further reinforces the need for policymakers to tread carefully.

In praising the tax cuts US Republicans implemented in 2017, you focus almost exclusively on investment and GDP growth. But, in recent years, there has been much discussion about the continuing usefulness of GDP as a measure of economic activity and a proxy for human welfare, with sharply rising inequality perhaps the clearest indicator that there is a problem. Likewise, the focus on employment rates has been criticized for failing to reflect the quality of jobs and the adequacy of incomes. As a self-declared "pro-market" economist, do you think it's time to look beyond these metrics?

Real per capita GDP is an imperfect metric, but it remains the best overall gauge of a country's welfare. Some other useful indicators – such as infant mortality, life expectancy, and educational attainment – tend to move closely with real per capita GDP over the medium and long term. That is not the case for income inequality, shifts in which are largely independent of the level and growth rate of per capita GDP. But while US income inequality – with income interpreted broadly to include transfer payments and taxes – rose from the 1970s up to around 2000, it has not changed greatly in recent years.

In 2016, you and Tao Jin wrote that among the measures that could have promoted a faster recovery after the Great Recession were public infrastructure, such as highways and airports, and fiscal discipline (including a moderate debt-to-GDP ratio). In view of this, how do you assess the Biden administration's proposed $2 trillion, eight-year infrastructure plan?

A major infrastructure package, combined with comprehensive tax reform (to finance the outlays), could have been a good idea. But, immediately after spending so much money on the second "stimulus" program, the US simply cannot afford it. The level of public debt has grown too large, so rather than continuing to expand it, we need to focus on how to manage it.
In addition, the proposed infrastructure program provides relatively little spending on actual infrastructure, such as roads, bridges, airports, ports, and energy and water facilities. Instead, it would channel large amounts of funding to other areas, such as subsidies for electric vehicles and alternative energy, climate action, elderly home care, and job training.

Regarding the COVID-19 pandemic, you wrote last year that "it makes sense to increase accessibility and benefit levels for programs like unemployment insurance, food stamps, and Medicaid." The American Rescue Plan Act includes provisions designed to increase coverage, expand benefits, and adjust federal financing for state Medicaid programs, as well as a limited extension of unemployment benefits and food assistance. Do you think the ARPA went far enough in these areas? More broadly, if such programs are so vital to protect the most vulnerable during a crisis, is there not a case for making their expansion permanent?

On health care, the answer is yes. I favor a universal public health-insurance system, likely an expanded version of Medicaid. The idea would be to ensure that everyone has access to baseline health care, while allowing individuals to spend more if they wish. This system is analogous to those in some European countries, such as the United Kingdom and France.
On unemployment insurance, however, the US went much too far during the pandemic. Existing unemployment-insurance programs in the US strike a reasonable balance between providing income to people who have lost jobs and discouraging people from accepting work. The expansion included in the COVID-19 stimulus program should therefore not be made permanent.
Finally, the food-stamp program is a mistake and should be eliminated. It is better to provide poor people – particularly those who have lost jobs – with money. A universal basic income could be a reasonable mechanism by which to achieve this. In fact, it was part of the "negative income tax" that Milton Friedman proposed in the 1960s. But such a system should replace – not augment – existing transfer programs.

In your 2002 book, Nothing is Sacred: Economic Ideas for the New Millennium, you showed why even the most *widely accepted beliefs should be open to analysis. A generation later, are there some sacred cows you wish would die – or at least be re-examined?*

Minimum-wage legislation is essentially a prohibition on formal employment for persons with productivity below a designated level. It should therefore be eliminated.
Furthermore, it is a bad idea to tax income on capital, because it amounts to a double tax – first when production and income occur, and then when the invested portion yields capital income. By this logic, we should not tax capital gains, corporate income (separate from income of owners), or inheritance, either. The best tax is a value-added tax at a uniform rate, with few exclusions. Outside of the US, VAT – implemented more efficiently in some countries than others – is an important source of government revenue.

In 2019, you and Rachel M. McCleary published The Wealth of Religions: The Political Economy of Believing and Belonging, and you teach classes on religion and political economy at Harvard. What inspired you to delve into the "economics of religion"? Which findings have struck you as particularly surprising or important?

Religion is one of the most important cultural influences in society. And it can largely be analyzed much like a market, through the lens of economics or social sciences. For example, the Reformation in the 1500s brought in Protestantism as a competitor to Catholicism, thereby breaking the inefficient monopoly that Adam Smith discussed in The Wealth of Nations. As Max Weber showed in his 1904 book The Protestant Ethic and the Spirit of Capitalism, Protestants' emphasis on work, thrift, and education supported the Industrial Revolution in parts of Europe.
Of course, not all aspects of religion are economically productive. For example, the resources consumed by formal religion – including time spent in church – can be counter-productive. And some religions, such as Islam, impose restrictions that can hinder economic growth. These restrictions relate to corporate legal form, the functioning of credit and insurance markets, and respect for private property. Our ongoing research concerns the saint-making process as a way for the Catholic Church to energize the faithful, especially to counter the competitive threats from Evangelical Protestantism. Under Pope Francis, this process has emphasized martyrs, notably in places like Latin America, which the church historically neglected.