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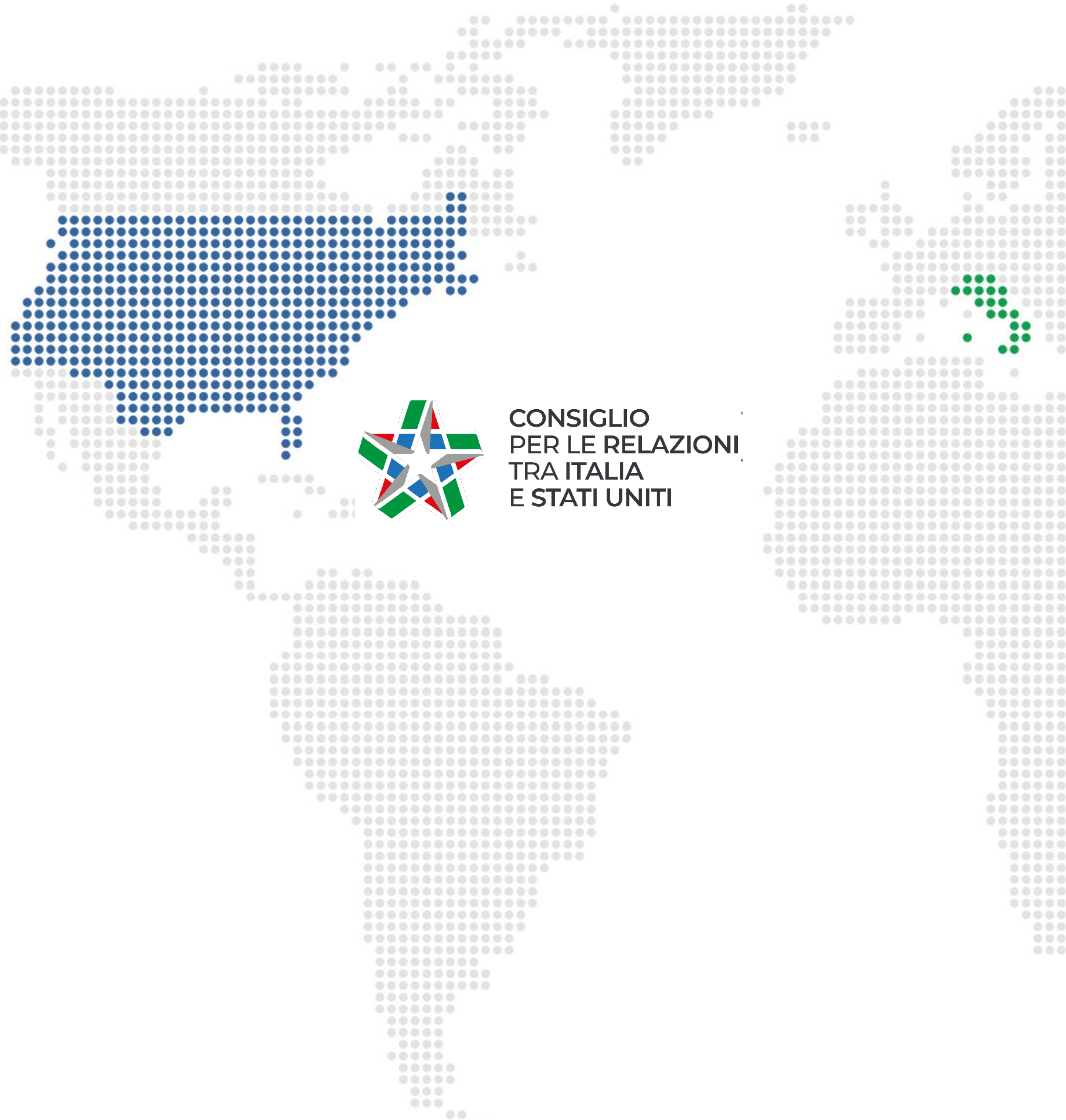

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ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

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 | The Economic Outlook| July 6 @ 5 pm

Lawrence H. Summers *(Charles W. Eliot University Professor and President Emeritus, Harvard)*

One of the most original thinkers of our time, Professor Lawrence H. Summers was defined by former President Clinton as someone who "has the rare ability to see the world that is taking shape and the skill to help to bring it into being". He offers his personal, yet insightful, view on the future.

Starting for the macro-economic outlook in the United States, the economic model from 2013 to 2020 was characterized by secular stagnation: the main challenge involved the excess of private savings over private investment, which put substantial downwards pressure on interest rates. As a result, demand was sluggish with a disinflationary tendency. At the same time, there was a tendency for savings to flow into existing assets. The policy orientation was towards expansionary fiscal policies in order to have lower interest rates and structural policies oriented towards the promotion of demand and supply.

As it happened in the late 1930s in the United States with the advent of World War II, the Covid-19 pandemic dramatically changed the economic fundamentals, with excess demand rather than excess supply being the main issue. Indeed, in 2020, it was necessary to provide substantial financial support, inducing an artificial coma in the economy in the expectation of a recovery. Today, as the economy is back to trend level of GDP and the labor vacancy rate (i.e., unfilled jobs) is at its highest level ever. These indicators suggest a strong economy and yet three factors need to be taken into consideration:

1. Covid-19 dynamics: last year, around $2.6 trillion of savings were accumulated.
2. Extraordinary fiscal policy with $2.8 trillion of fiscal stimulus and additional stimulus programs under consideration.
3. Monetary policy where the interest rates' expectation is near zero, both at the Federal Reserve and in the market and real interest rates are expected to be negative for substantial period of time, despite large budget deficits.

These conditions are setting the stage for a significant increase in inflation – and a complex policy problem for the Federal Reserve. The probability of such outcome is very high, and the data seem to corroborate this trend with increases in Consumer Price Index and Phase Change Index.

Given the degree of chronic shortfall in the labor market, risks involve high interest rate and a collision between either financial conditions or monetary policy or both and the current rapid expansion.

Considering that policies operate with a lag of six months/one year, a widespread apprehension of policy makers towards inflation would raise the probability of a positive outcome.

In the fall, the economy might experience rapid economic growth thanks to increase in productivity. However, a higher US interest rates might destabilize other countries, especially emerging markets. Higher inflation expectation might lead to downshift away from dollar assets and consequently to an adverse moment for the dollar. Coupled with rising economic nationalism in the United States, it might bring an unpredictable scenario for the economy.

PROJECT SYNDICATE

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WHITHER THE US-GERMAN RELATION?

Joschka Fischer *(Former Germany's foreign Minister and Vice-Chancellor and leader of the German Green Party)*

With German Chancellor Angela Merkel on her way out, and America still vulnerable to Trumpism, Germans can neither rely on their traditional protector nor pursue outright strategic autonomy. In a world beset with risk and uncertainty, the long, complicated history of the bilateral relationship may be about to enter a new phase.

BERLIN – German Chancellor Angela Merkel's farewell visit to the White House this month offers an ideal opportunity to reflect on the state of US-German relations. But it is not a sentimental opportunity. The long, complicated history of the bilateral relationship may be about to enter a new phase.

From the aftermath of World War II until Germany's reunification in 1990, the United States shepherded the country's reconstruction and economic resurgence. This epoch could be summed up under the heading "Guardian and Ward," which was far more fortuitous than the preceding chapter, "Enmity and War." In that chapter, Germany's ruthless pursuit of world power in two savage world wars eventually ended in its complete and utter defeat. The Allies victory in WWII left Germany divided into four occupation zones. Large swaths of its eastern territory were lost, resulting in 12 million refugees and expellees. And, everywhere, there was the moral abyss of the Nazis' monstrous legacy.

Since post-war reconstruction relied on US protection and aid, it occurred exclusively in Western Europe, and thus also only in West Germany. Joseph Stalin viewed the Soviet Union as the socialist Greater Russian counterpoint to the US-led capitalist West. From the late 1940s onward, this ideological and geostrategic posturing sustained the Cold War, which played out largely in Germany, and particularly in Berlin, the central point of the new great-power divide.

Germany's twice-defeated bid for European hegemony and global domination gave way to a close alliance between the US and the Federal Republic of Germany. A degree of political distrust on the part of the US persisted, but German "transatlanticists" refused to see it. From their perspective, the alliance (which included a military component with the establishment of NATO) had supplanted all previous antipathy, and that was that. They were wrong. Throughout the Cold War, the US pursued a multi-pronged strategy, both deterring the Soviet Union and maintaining control over Germany, in recognition of its vital position at the heart of Europe. The transatlantic relationship was never as simple as its champions wanted it to be, and it still isn't today.

In normative terms, the Federal Republic was successfully integrated into the West more or less immediately, under its first post-war chancellor, Konrad Adenauer. But in terms of raw interests and political economy, significant differences remained. Since the mid-1950s, for example, the transatlantic perspective competed with a more distinctively European one. And with German Chancellor Willy Brandt's Ostpolitik (Eastern Policy) in the 1970s – which coincided with the nascent détente between the US and the Soviet Union – the protector and the ward's diverging interests became even more obvious. Nonetheless, when the Soviet Union collapsed, the US was the only transatlantic power to issue immediate and wholehearted support for German reunification. For Germany's European neighbors, its potential return as a geopolitical force brought back old fears of the "German question."

When Germany became a fully sovereign state through reunification, the old protector-ward relationship necessarily changed. And yet, Germany has not shaken the post-war mindset. Consider other similarly sized European powers. The United Kingdom and France are nuclear powers with permanent seats on the UN Security Council, where they do not hesitate to lay claim to a global leadership role. By contrast, Germany – the world's fourth-largest national economy – makes no such claims. Germany therefore will remain dependent on the US security guarantee for a long time to come. Not only is it haunted by its own history; it also must manage enormously complex security conditions. Lying in the heart of Europe, Germany must account for the interests of smaller Central and Eastern European countries – both within and outside of the European Union – while also

getting along with an increasingly expansionist, nuclear-armed Russia. And it must do all of that at a time when its economic foundations are fracturing.
Moreover, Germany must account for the strategic interests of its protector, even though they are not always congruent with its own.
The US is engaged in an escalating confrontation with China, the twenty-first century's new global power; but China is one of Germany's most important trade partners. Even more important is the EU, whose future Germany has a key role in shaping. German diplomacy is an immensely complicated enterprise, to say the least.
After Donald Trump's presidency, which did more serious damage to US-German relations than anything else since WWII, the question for President Joe Biden is whether the US can regain its allies' trust. What happens if the Trump era resumes – either with Trump himself or one of his many ambitious acolytes?
For Germans, this question will dwarf all other considerations in the coming years. The protector-ward relationship is no longer functional; but nor can Germany establish a fully independent role for itself within a European framework. To make matters worse, differences in interests – starting with China and Russia – will bring more controversies and friction between the US and Germany. The next phase of the bilateral relationship, one hopes, will be defined by the high art of compromise.

The dangers of decoupling

Daron Acemoglu *(Professor of Economics, MIT)*

With Sino-American relations increasingly coming to resemble the geopolitical dynamics of the original Cold War, the world is heading toward a fraught new equilibrium. While some in the West long for a new "Sputnik moment" to motivate investments and reform, they should be careful what they wish for.

BOSTON – The Chinese government's crackdown on Alibaba last year, and on the ride-hailing company Didi this month, has generated fevered speculation about the future of that country's tech industry. Some view the recent Chinese regulatory interventions as part of a justifiable trend paralleling US authorities' own intensifying scrutiny of Big Tech. Others see it as a play for control of data that might otherwise be exploited by Western countries. And still others, more plausibly, see it as a shot across the bow to remind big Chinese companies that the Communist Party of China is still in charge.
But, most consequentially, the Chinese government's actions are part of a broader effort to decouple China from the United States – a development that could have grave global implications. Despite steady deterioration in Sino-American economic and strategic relations, few thought the rivalry would turn into a Cold War-style geopolitical confrontation. For a time, the US was overly dependent on China, and the two economies were too closely intertwined. Now, we may be heading toward a fundamentally different equilibrium.
Three interrelated dynamics defined the Cold War. The first, and perhaps most important, was ideological rivalry. The US-led West and the Soviet Union had different visions of how the world should be organized, and each tried to propagate its vision, sometimes by nefarious means. There was also a military dimension, illustrated most vividly by a nuclear-arms race. And both blocs were eager to secure the lead in scientific, technological, and economic progress, because they recognized that this was critical to prevailing ideologically and militarily. While the Soviets eventually proved less successful than the US in driving economic growth, they did chalk up early technological-military victories. The successful launch of the Sputnik satellite served as a wake-up call for the US.
The stark rivalries of the Cold War were possible largely because the US and the Soviet Union were decoupled. US investments and technological breakthroughs did not automatically flow to the Soviets (except, sometimes, through espionage) in the way that they have with China in recent decades. But now, Sino-American hostilities, exacerbated by Donald Trump's incoherent diplomacy, have created modern analogs of the Cold War rivalries. The ideological rift, which was not even on the horizon 20 years ago, is now well defined, with the West extolling the virtues of democracy (warts and all) while China confidently pushes its authoritarian model around the world, especially in Asia and Africa.
At the same time, China has opened new military fronts, not least in the South China Sea and the Taiwan Strait. And, of course, the economic and technological rivalry has been escalating over the past decade, with both sides concluding that they are in an existential race to achieve dominance in artificial intelligence. Although this focus on AI may be misguided, there is little doubt that mastery of digital technologies, bioscience, advanced electronics, and semiconductors is of paramount importance.

Some observers have welcomed the new rivalry, believing that it will give the West a well-defined common purpose. The "Sputnik moment," after all, motivated the US government to invest in infrastructure, education, and new technologies. A similar mission for public policy today might yield many benefits; indeed, the Biden administration has already begun to frame US investment priorities in terms of the Sino-American rivalry.
It is true that many of the West's Cold War-era success stories depended on the Soviet Union serving as a foil. Western Europe's model of social democracy was viewed as a palatable alternative to Soviet-style authoritarian socialism.
Similarly, market-driven growth in South Korea and Taiwan owes much to the threat of communism, which forced autocratic governments to eschew overt repression, undertake land reforms, and invest in education.
And yet, the potential benefits of a new Sputnik moment are probably far outweighed by the costs of decoupling. In today's interdependent world, global cooperation is fundamental. The rivalry with China, though essential to the defense of democracy around the world, is not the West's sole priority. Climate change also poses a civilizational threat, and it will require close China-US collaboration.
Moreover, commentators nowadays tend to downplay the Cold War's tremendous costs. If the West now lacks credibility when advocating human rights and democracy – including in Hong Kong and China – that is not only because of a generation of disastrous military interventions in the Middle East. During the years when the US thought that it was locked in an existential conflict with the Soviets, it toppled democratically elected governments in Iran (1953) and Guatemala (1954), and supported vicious dictators like Joseph Mobutu in the Democratic Republic of the Congo and Augusto Pinochet in Chile.
It is an equally grave mistake to think that the Cold War fostered international stability. On the contrary, the nuclear arms race and brinkmanship on both sides prepared the ground for war. The Cuban Missile Crisis was hardly the only time that the US and the Soviets came close to open conflict (and "mutually assured destruction"). There were also close calls in 1973, during the Yom Kippur War; in 1983, when Soviet early-alert systems sent a false alarm about a US intercontinental ballistic missile launch; and on other occasions.
The challenge today is to achieve a model of peaceful coexistence that allows for competition between incompatible visions of the world and cooperation on geopolitical and climate-related matters. That doesn't mean the West should accept China's human-rights abuses or abandon its allies in Asia; but nor should it allow itself to fall into a Cold War-style trap. A principled foreign policy should still be possible, especially if Western governments allow their civil societies to lead the scrutiny of China's abuses at home and abroad.

THE ANTITRUST WAR'S OPENING SALVO

Eric Posner *(Professor, University of Chicago Law School)*

With a major new executive order calling for stronger enforcement of antitrust laws, Joe Biden has become the first president since Harry Truman to take a strong public anti-monopoly stand. And though his agenda will face insurmountable resistance in the courts, that does not mean it is futile.

CHICAGO – US President Joe Biden's new executive order on "Promoting Competition in the American Economy" is more significant for what it says than for what it does. In fact, the order doesn't actually order anything. Rather, it "encourages" federal agencies with authority over market competition to use their existing legal powers to do something about the growing problem of monopoly and cartelization in the United States. In some cases, the relevant agencies are asked merely to "consider" ramping up enforcement; in others, they are directed to issue regulations, but the content of those regulations remains largely up to them.
Nonetheless, it would be a mistake to dismiss the order's tentative language as mere rhetoric. Antitrust is the main body of law governing market competition in the US, and it has been the object of sustained attack by business interests and conservative intellectuals for more than 50 years. Biden is the first president since Harry Truman to take a strong public anti-monopoly stand, and he has backed it up by appointing ardent anti-monopoly advocates to his government.
The executive order is ambitious in its scope and style. In strongly worded passages, it accuses businesses of monopolistic and unfair practices in major industries, including technology, agriculture, health care, and telecommunications. It laments the decline of government antitrust enforcement, and identifies numerous harms that have resulted – including economic stagnation and rising inequality. The order also establishes a new bureaucratic organization in the White House to lead the anti-monopoly effort. Demanding a "whole-of-

government" approach, it calls on the vast resources of numerous agencies, and not just the two that traditionally oversee antitrust (the Department of Justice and the Federal Trade Commission).

Still, the Biden administration's antitrust agenda will face significant judicial obstacles. Over the past 40 years, an increasingly business-friendly Supreme Court has gutted antitrust law. In ruling after ruling, it has weakened the standards used to evaluate anti-competitive behavior; raised the burden of bringing an antitrust case; limited the types of antitrust victims who are allowed to bring cases; allowed businesses to use arbitration clauses to protect themselves from class action lawsuits; and much else.

On top of that, the Supreme Court has disseminated throughout the judiciary a generalized suspicion of antitrust claims. Judges at all levels have absorbed an academic skepticism about antitrust law that is now 30 years out of date.

Accordingly, business plaintiffs are usually seen as sore losers who have resorted to the law because they were beaten in the marketplace. Consumer cases are attributed to the machinations of trial lawyers. The pretexts businesses offer for their anti-competitive practices are swallowed whole.

So, while Biden is right that "federal government inaction" is partly to blame for the decline in antitrust enforcement, there is little that his (or any) administration can do unless it has the courts on its side. This probably accounts for the order's careful language. Agencies like the DOJ and the FTC would surely like to enforce antitrust laws more vigorously than in the past, but they are not going to commit resources to bringing cases that will fail in court.

Still, there are grounds for optimism in the near term, because the executive order has broken new ground with what it says about labor. For the first time ever, a US president has declared that antitrust law should be brought to bear against employers.

Unlike the tech, agriculture, and health-care sectors, labor markets received virtually no attention from the federal government until just a few years ago, and only baby steps have been taken since then. But as Biden's executive order acknowledges, "Consolidation has increased the power of corporate employers, making it harder for workers to bargain for higher wages and better work conditions."

This new focus reflects the influence of recent economic research showing that countless labor markets have become dominated by a handful of employers. Such concentration is partly the result of mergers and partly the result of the natural growth of large businesses, which often locate plants and warehouses in thinly populated areas where there is little competition for workers. Under these conditions, employers have the upper hand, resulting not only in lower incomes for workers but also in less economic activity and output, higher prices, and greater inequality.

Employers have also entered into anti-competitive agreements with one another to fix wages or to refrain from poaching each other's employees. Back in 2010, Apple, Google, and other major tech firms received a slap on the wrist when it was discovered that they had agreed not to recruit one another's software engineers. But a spate of more recent cases, including several criminal indictments brought against employers, indicates that the 2010 case was no anomaly.

There is also important new research showing that non-compete clauses that block workers from securing employment with their employers' competitors have become ubiquitous. Biden's executive order rightly mentions these clauses, which prevent workers from credibly threatening to quit when bargaining for higher wages. While these agreements supposedly protect trade secrets, that justification beggars belief, given that they also cover unskilled workers who have no access to such information. Moreover, California is one of the few US states where non-compete clauses are illegal, and it hardly lacks for innovation.

Adam Smith called labor-market collusion "the natural state of things which nobody ever hears of." Fortunately, US courts have acknowledged that antitrust law applies to employment practices, so the federal government has significant scope for enhanced involvement in attacking labor-market abuses. A vigorous federal response could make real progress in helping workers. It is here that Biden's contribution to antitrust enforcement may have its most significant impact.