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THE COUNCIL FOR THE
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CONSIGLIO PER LE RELAZIONI
TRA ITALIA E STATI UNITI

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 | Geopolitical implications of the Covid19. Winners and losers
June 18 @ 5pm



***Jami Miscik, CEO and Vice Chair of Kissinger Associates, Inc;
former Central Intelligence Agency's Deputy Director for Intelligence***

We have recently experienced two major crises, first the financial crisis and then the Coronavirus crisis, which have created profound inequalities everywhere. First, in Western democracies, which are also apparently in crisis and decline. Is this a trend that COVID has exacerbated?

It is now clear that the pandemic has affected, affects and will affect many economic sectors (from manufacturing to real estate, through tourism and hospitality) with serious long-term consequences also at the social level. Certainly the West will pay the price, but the negative impact of the crisis will be even more severe in emerging economies, characterized by poverty areas, weak health systems and overcrowding of cities and suburbs that make it difficult to control the pandemic.

As for the political impact of COVID in the United States, the contrast between federal and local leadership seems evident: while the central government proved divided, poorly prepared to deal with the emergency and irresponsible in underestimating the threat, many local governments reacted well, giving examples of good management of the pandemic. The same can be said of the management of the BLM protests throughout the country, badly dealt with at the central level and more effectively at the local level. The BLM movement comes at a time not easy for the country, but it is the natural response to a phenomenon never completely extinct and exacerbated by technology. Videos, phones and social media have confronted America with the problem in an unequivocal way.

This will certainly also have an impact on the autumn elections, but it is very difficult to predict who will win. If it is Trump, he will certainly try to speed up his programme more aggressively, as it is the last term at his disposal. If it is Biden, then the USA will probably live a new season of multilateralism: the country will return to engage more internationally, working with its traditional allies. As always, there will be crucial States (e.g. Wisconsin, Florida, Ohio) which will provide a real image of the country's sentiment.

The electoral climate will also be significantly influenced by relations with China, which is now facing the second wave of the epidemic and is seriously affected by a slowdown in growth and rising unemployment. Perhaps, misled by the effectiveness of China's response to the first wave, many analysts have too soon decreed China's definitive rise as the world's leading power at the expense of the West. The fact is that the Coronavirus represents an element of uncertainty also for relations between Washington and Beijing. Everything suggests that the two countries will continue to have tense relations both politically and commercially, even because many American companies will redesign their supply chains and reduce their ties with Asia. This is especially true in the event of a Trump victory, which in the election campaign will be increasingly aggressive towards China, but not only. In fact, China is one of the few bipartisan issues in the country, and there are more and more officials in the American establishment who use COVID to show that Beijing is an unreliable interlocutor.

Another fundamental legacy of COVID will be the increased role of the State in the economy, both in Asia, Europe and America. The role of governments will increase especially in the technological and digital fields, sectors considered strategic in times of uncertainty. And it is precisely uncertainty that countries do not like. They want, as do their citizens, stability and security, both internally and externally. At this delicate time, it would be said that authoritarian leaders could benefit from this, since they take decisions quickly and apparently more effectively. Democracies, on the contrary, are often messy and slow. However, democratic societies have an unprecedented opportunity to address deep-rooted problems that had only partially emerged before COVID, primarily income inequality. What we are experiencing is a great opportunity to remedy it.

WEBINAR | Looking Ahead: Innovation and Labor | June 30 @ 5pm



Alec Ross, *Distinguished Visiting Professor, Bologna Business School;*
Author of "The Industries of the Future"

When we talk about post-COVID recovery, it must be made clear that it will not be a recovery like that experienced after 9/11 or after the financial crisis. This time everything will be different and based more and more on the future of the industry and its developments. It is now known that there are three types of recovery scenarios: V-shape, U-shape and L-shape.

V-shape recovery will characterize some segments of the world economy, in particular public equity markets and companies related to the digital world. U-shape recovery, instead, (which we are seeing in Italy at the moment) will affect all those companies that will be able to adapt quickly to the changes brought by the Coronavirus. Finally, L-shape recovery will mark the death of many companies, especially SMEs, with reduced access to anti-crisis funds and unable to digitize their services. For them, COVID will be the end.

In addition to these three types of recovery, the pandemic has exacerbated some trends that were already taking place in recent years, but which the Coronavirus has greatly accelerated. The result? Socio-economic and technological changes that, instead of years, have taken only a few months to materialize. These trends are mainly 8:

- 1. E-Commerce.** The migration from commerce to e-commerce is taking place much more rapidly than expected before COVID, and companies are redirecting online product sales to survive. For example, Amazon's value has quickly increased from about \$900 billion to nearly \$1.5 trillion! This will certainly also have an effect on the influence and power that the e-commerce giants will acquire, already substantial: policy makers will have to handle the issue carefully.
- 2. Digital and contactless payments.** The use of cash, before COVID, was already decreasing, even in countries like Italy. The trend, therefore, was already present: the difference is that, thanks to the pandemic, the phenomenon has accelerated considerably. We would probably have reached this point in three years without COVID, and instead we are already here now.
- 3. Future workspaces and work processes.** Now that many companies have realized that smart working does not negatively impact productivity, this will become the norm for many workers. COVID has meant that in the future there will be more hybrid ways of working (mixed smart and physical): a blending of online and physical spaces that will tremendously modify our habits.
- 4. Distant learning.** Also education will be blended: many lectures will be soon available online, especially after COVID.
- 5. Tele-health.** During the pandemic, going to the doctor became a risk for obvious reasons. As a result, doctors had to move some basic services and check-ups online. Perhaps, however, healthcare is the area that will change the least because of the virus: while we are going to come back to 90% of our engagement with doctors as it was before COVID, there will be a small percentage of procedures that will be done online.
- 6. Online entertainment.** During the lockdown, appetite for entertainment went up, and the trend is continuing. For older people this means the access to passive entertainment (e.g. TV shows, films, series, sport), but for younger generation this means active video gaming. This sector will grow exponentially.
- 7. Cloud.** Especially after COVID, if you don't have a cloud strategy, you don't have a strategy at all to be productive. With smart working, being able to access all the documents and tools of the office from home will be crucial. Indeed, the companies which are performing better are those who invested on cloud computing. This won't change.
- 8. AI and automation.** Finally, the definitive rise of automation enabled by artificial intelligence and robotics. If in 2019 the 72% of the global labor was done by humans, 2025 will be the first year when machines will work more than men. This entails opportunities, but also risks: workers and employees who do not have the necessary skills to survive this revolution, will be lost. That is why investing in R&D is important both for companies and for governments: Asians, in this case, do it better (especially Japanese and South Koreans), as well as the US Western coast. Europe is still behind!

“THE PANDEMIC RESPONSE – ACT II”

(Project Syndicate, June 29, 2020)



Jean Pisani-Ferry, Senior fellow at Brussels-based think tank Bruegel and Senior non-resident fellow at the Peterson Institute for International Economics

As the pandemic recedes in Europe, the public and policymakers alike are increasingly focusing on the pace and strength of economic recovery from the crisis. What should governments do to minimize the lasting damage?

PARIS – Twelve years ago, governments in the world’s major economies responded swiftly and effectively to the financial crisis. Teetering banks were nationalized. Monetary policy went into overdrive. Massive fiscal support was provided. Global coordination was intense.

But big mistakes were made, with consequences that emerged only gradually. Failure to punish those responsible for the financial meltdown paved the way for the populist surge of recent years. And Europe’s economy stumbled repeatedly, because banking woes were denied for too long and fiscal support was withdrawn too early. The results were deep socioeconomic and political scars that remained very visible when the COVID-19 crisis arrived. Will the same pattern be avoided? As Act II of the pandemic crisis begins, this is a key question.

Wide disparity in the pandemic’s effect on countries is already apparent. The differences are bewildering: the United Kingdom has recorded 650 deaths per million inhabitants, while South Korea’s death rate per million is just five. Likewise, death tolls within the EU are a hundred times larger in the most affected countries than in the best-sheltered ones.

These gaps partly reflect sheer luck: while the virus spread under the radar in Italy, north-eastern European countries saw it coming and could prepare. But they also stem from the uneven effectiveness of public-health policies. In this regard, the eventual ranking will likely put East Asia far ahead of anyone else, Germany ahead of the rest of Europe, the United States at the bottom of the developed countries’ league, and Brazil and India well behind some less developed countries. Anger against states that failed to protect their people is bound to be a major factor shaping future political developments.

Strict lockdowns have proved effective but economically costly: the stringency of administrative measures turns out to be a very good predictor of output losses in the first half of the year. But nuances also matter. Because its response proved more decentralized and adaptable, Germany was able to minimize the economic cost of containing the virus. Its strategy displayed the bright side of federalism (the US embodies the dark side).

Fiscal responses have been remarkably homogenous across Europe: governments implemented credit guarantee schemes that helped firms access liquidity, and job retention schemes whereby the state assumed the payroll cost of furloughed employees. This proved quick and effective: businesses survived, employment relationships were preserved, and household income was protected.

In the US, by contrast, employees were laid off *en masse*, and unemployment skyrocketed. Despite their generosity, the premium added to unemployment benefits, the tax breaks for households, and the grants for small firms that rehire after the lockdown

did not prevent hardship. Overall, comparison with France shows that the cost of mitigating the pandemic's economic fallout was 50% higher, and the disruption far larger, in the US. So, kudos to the European welfare state.

Where the pandemic has receded, the focus is increasingly on the pace and strength of economic recovery. The OECD and the International Monetary Fund note that Italy, Spain, France, and the UK have been hit particularly hard. Their economies are rebounding, but how much of the lost output will they recover? After the global financial crisis, it took Spain eight years to return to pre-crisis *per capita* GDP, and it has yet to happen in Italy and Greece. The risk now is a further weakening of southern Europe.

To avoid lasting damage, the first priority is to continue supporting the recovery for as long as necessary. The risk of excess public debt is very real, but the risk of economic contraction is even more serious – including from a fiscal standpoint. Deficits nowadays are costless in the short run (though potentially costly in the long run, which is why public finances must be managed responsibly). There is still fiscal space. It must be used wisely, but it should be used. Governments should continue playing the role of buyers of last resort.

Demand-side policies alone won't do the job, though. A second priority is to prevent a wave of bankruptcies. Many businesses have been hit severely. Even when discharged of their payroll costs, they still had fixed costs to shoulder. Liquidity provision has been a helpful treatment, but not a cure.

Solutions must therefore be found for viable but heavily indebted companies. So many of them will be in a dire situation that normal legal proceedings will threaten to overwhelm court systems.

To avoid this scenario, governments should establish mechanisms for large-scale debt restructuring. Tax deferrals and guarantee schemes have made governments creditors to a large number of small businesses. In a paper with Olivier Blanchard of the Peterson Institute and Thomas Philippon of New York University, we propose to let private creditors – primarily banks – know that governments will support decisions to restructure viable companies' debt and will participate in the resulting rescheduling or forgiveness of existing claims. Because governments value the positive impact of businesses' survival on all sorts of stakeholders, they should even let it be known that it will add a "continuation premium" to whatever private creditors do. This could save a lot of jobs.

Governments should also help address the consequences of productivity shortfalls. Health standards seriously affect the profitability of some sectors. A restaurant, for example, will now typically serve fewer customers with about the same number of employees; a gym nowadays must devote extra staff to cleaning and hygiene. This makes them temporarily less profitable, to the point that they may close or decide to lay off employees. To limit the impact of productivity shortfalls, Blanchard, Philippon, and I propose temporary wage subsidies. Again, this may save jobs at a time when a major unemployment spike risks making job reallocation ineffective.

The worst of the pandemic is over, at least in Europe, and the news is likely to remain good in the coming weeks. By providing insurance to employees and firms, governments have done their job so far. But this was just the first step. It is imperative that they maintain economic support for as long as necessary and take new measures to contain lasting damage.

“Priorities for the COVID-19 Economy”

(Project Syndicate, July 1, 2020)



Joseph E. Stiglitz, a Nobel laureate in economics and University Professor at Columbia University, is Chief Economist at the Roosevelt Institute and a former senior vice president and chief economist of the World Bank.

With hopes of a sharp rebound from the pandemic-induced recession quickly fading, policymakers should pause and take stock of what it will take to achieve a sustained recovery. The most urgent policy priorities have been obvious since the beginning, but they will require hard choices and a show of political will.

NEW YORK – Although it seems like ancient history, it hasn’t been that long since economies around the world began to close down in response to the COVID-19 pandemic. Early in the crisis, most people anticipated a quick V-shaped recovery, on the assumption that the economy merely needed a short timeout. After two months of tender loving care and heaps of money, it would pick up where it left off.

It was an appealing idea. But now it is July, and a V-shaped recovery is probably a fantasy. The post-pandemic economy is likely to be anemic, not just in countries that have failed to manage the pandemic (namely, the United States), but even in those that have acquitted themselves well. The International Monetary Fund projects that by the end of 2021, the global economy will be barely larger than it was at the end of 2019, and that the US and European economies will still be about 4% smaller.¹

The current economic outlook can be viewed on two levels. Macroeconomics tells us that spending will fall, owing to households’ and firms’ weakened balance sheets, a rash of bankruptcies that will destroy organizational and informational capital, and strong precautionary behavior induced by uncertainty about the course of the pandemic and the policy responses to it. At the same time, microeconomics tells us that the virus acts like a tax on activities involving close human contact. As such, it will continue to drive large changes in consumption and production patterns, which in turn will bring about a broader structural transformation.

We know from both economic theory and history that markets alone are ill suited to manage such a transition, especially considering how sudden it has been. There’s no easy way to convert airline employees into Zoom technicians. And even if we could, the sectors that are now expanding are much less labor-intensive and more skill-intensive than the ones they are supplanting.

We also know that broad structural transformations tend to create a traditional Keynesian problem, owing to what economists call the income and substitution effects. Even if non-human-contact sectors are expanding, reflecting improvements in their relative attractiveness, the associated spending increase will be outweighed by the decrease in spending that results from declining incomes in the shrinking sectors.

Moreover, in the case of the pandemic, there will be a third effect: rising inequality. Because machines cannot be infected by the virus, they will look relatively more attractive to employers, particularly in the contracting sectors that use relatively more unskilled labor. And, because low-income people must spend a larger share of their income on basic goods than those at the top, any automation-driven increase in inequality will be contractionary.

On top of these problems, there are two additional reasons for pessimism. First, while monetary policy can help some firms deal with temporary liquidity constraints – as happened during the 2008-09 Great Recession – it cannot fix solvency problems, nor can it stimulate the economy when interest rates are already near zero.

Moreover, in the US and some other countries, “conservative” objections to rising deficits and debt levels will stand in the way of the necessary fiscal stimulus. To be sure, the same people were more than happy to cut taxes for billionaires and corporations in 2017, bail out Wall Street in 2008, and lend a hand to corporate behemoths this year. But it is quite another thing to extend unemployment insurance, health care, and additional support to the most vulnerable.

The short-run priorities have been clear since the beginning of the crisis. Most obviously, the health emergency must be addressed (such as by ensuring adequate supplies of personal protective equipment and hospital capacity), because there can be no economic recovery until the virus is contained. At the same time, policies to protect the most needy, provide liquidity to prevent unnecessary bankruptcies, and maintain links between workers and their firms are essential to ensuring a quick restart when the time comes.

But even with these obvious essentials on the agenda, there are hard choices to make. We shouldn’t bail out firms – like old-line retailers – that were already in decline before the crisis; to do so would merely create “zombies,” ultimately limiting dynamism and growth. Nor should we bail out firms that were already too indebted to be able to withstand any shock. The US Federal Reserve’s decision to support the junk-bond market with its asset-purchase program is almost certainly a mistake. Indeed, this is an instance where moral hazard really is a relevant concern; governments should not be protecting firms from their own folly.

Because COVID-19 looks likely to remain with us for the long term, we have time to ensure that our spending reflects our priorities. When the pandemic arrived, American society was riven by racial and economic inequities, declining health standards, and a destructive dependence on fossil fuels. Now that government spending is being unleashed on a massive scale, the public has a right to demand that companies receiving help contribute to social and racial justice, improved health, and the shift to a greener, more knowledge-based economy. These values should be reflected not only in how we allocate public money, but also in the conditions that we impose on its recipients.

As my co-authors and I point out in a recent study, well-directed public spending, particularly investments in the green transition, can be timely, labor-intensive (helping to resolve the problem of soaring unemployment), and highly stimulative – delivering far more bang for the buck than, say, tax cuts. There is no economic reason why countries, including the US, can’t adopt large, sustained recovery programs that will affirm – or move them closer to – the societies they claim to be.

MEMBERS AREA

The editorial by Corrado Passera (CEO of illimity) published in the Financial Times on 29 June 2020:

<https://www.linkedin.com/pulse/eu-needs-5-trillion-euro-tech-green-investment-plan-corrado-passera/>