



OFF THE NEWS

Poised to Be the Most Influential Treasury Secretary in Decades

Janet Yellen is set to be the most influential Secretary of the Treasury in decades. Her unmatched qualifications and personal gifts make that attainable, but it is the circumstances in which she takes office which make that outcome likely. Between the Republican control of the Senate and the constellation of other nominations that President-elect Biden has made, she will be the administration's dominant voice of macroeconomics and finance both internally and externally.

The Senate Republicans' highly partisan approach to appointments and to the federal budget means that other Biden cabinet officials with economic portfolios will be limited in their ambitions—both ideologically and in expenditure. There will be important extensions of regulations through executive orders and administrative actions, particularly in the areas of energy and environment, antitrust, and health and labor protections. But there will be no grand spending programs and no large-scale tax reforms.

As a result, the U.S. Treasury's international agenda—on taxation of the digital economy, funding of vaccine distribution, convening the G20 around and endorsing the new activist fiscal orthodoxy, fighting tax evasion, profit-shifting and corruption, and potentially climate change via carbon taxation and financial supervision—will be one of the few places for positive economic initiatives, at least through the 2022 congressional elections.

Yellen's rebuilding of the Treasury staff and coordination with the Federal Reserve will rightly extend her reach. And one cannot rule out some Republican senators crossing the aisle to vote for restrictions on the digital giants or changes in the taxation of multinational companies. Equally, but internally, the Treasury will be able to block initiatives to weaken or weaponize the dollar rising from the trade side of the administration.

In the end, a Treasury Secretary's impact is a function of taking advantage of openings in the context she is in, even for as staggeringly accomplished a public servant as Yellen. We have just seen how her predecessor, Steven Mnuchin, played a hugely constructive role in passing well-structured bipartisan stimulus legislation after the pandemic hit in March 2020, but then turned into a spoiler of Fed and other government capabilities following the election. What is best about Yellen is that the American people and the world can trust she will grab such opportunities only with the public interest in mind, and the best of intellectually open preparation.



—ADAM POSEN

*President, Peterson Institute
for International Economics*

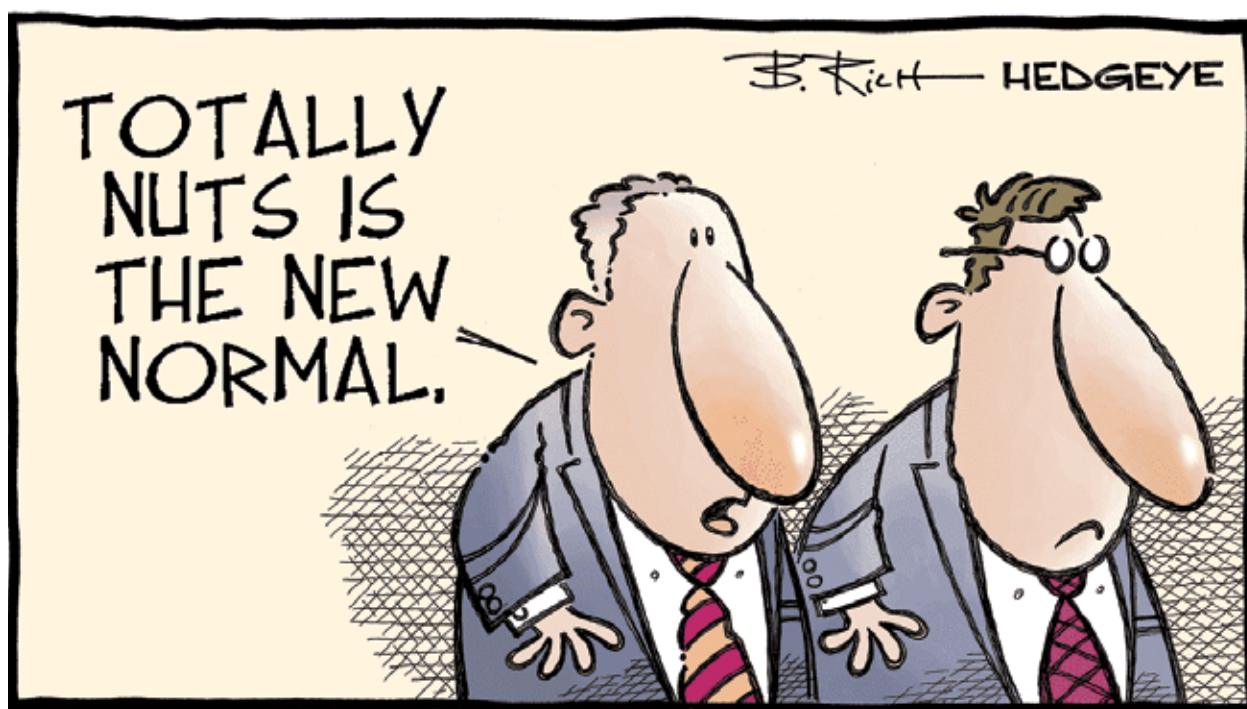
Dollar-Euro Currency War Fantasy

When members of the European Central Bank's executive board, including President Christine Lagarde and Chief Economist Philip Lane, made comments in early fall 2020 about the strengthening of the euro, particularly against the dollar, speculation began about a potential currency war. But it is highly unlikely that European policymakers will be guided by an exchange rate target anytime soon. ECB strategists say this is because the euro's strengthening in 2020 has little to do with ECB or Fed monetary policy. Instead, strengthening of the euro started after the heads of state agreed on a recovery program. Of course, that proposal for €750 billion for coronavirus virus rescue efforts plus €100 billion for a reinsurance scheme was considered a "game changer" by many in the markets. Strategists add, however, that there is no consensus on how the funds will be spent. The details are still very sketchy.

Adding to the sense of momentum for the euro was the notion suggested by German Finance Minister Olaf Scholz that Europe had reached its "Hamiltonian moment" with the issuance of EU bonds. Many have called the bond issuance a "revolution." Yet German Chancellor Angela Merkel quickly responded that such a notion is far off the mark. The EU bond issuance was a one-time occurrence, she said. So the threat of a great coming dollar-euro currency war has been grossly exaggerated.



*German Chancellor
Angela Merkel: The EU
bond issuance was a one-
time occurrence.*



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U.S. Federal Reserve Chairman
Jay Powell

Jay Powell's Pleasant Surprise

“The big banks have been a pleasant surprise,” a Fed strategist told *TIE*. “They have a lot of assets. Their liquidity is good. True, they are becoming more like utilities and would like more return on equity. But the banks are part of the solution and not the problem for the Federal Reserve at this point.”

German Savings Explosion

Even before the latest surge in the coronavirus throughout Europe, German economic policymakers were worried that German private consumption is weakening. At the same time, the savings rate has jumped from 10.9 percent in 2019 to a saving ratio approaching 20 percent. Despite optimism about Germany and capital markets, the consensus on the ground in Germany itself reflects a deep concern.

Sir Samuel Brittan, 1933–2020

Sir Samuel Brittan, who died at age 86 earlier this year, was a great friend of this publication. When I approached him in early 1987 about the idea of a policy magazine offering a variety of viewpoints, he responded: “Do it. I’ll write and include me on your editorial advisory board.” Sam Brittan was a helper.

Several years earlier, I had called the distinguished journalist to ask his opinion of the “Congressional Summit on the Dollar and Trade” that I was organizing with Senator Bill Bradley (D-NJ) and former Congressional staff advisor Richard Medley. The “summit” became a bipartisan rejection of the floating exchange rate system and, as we worked behind the scenes with the U.S. Treasury led by James A. Baker, it laid the groundwork for the subsequent Plaza Accord.

But what would Brittan, a staunch defender of the floating system, think of our project? Ever the pragmatic, he was from the start a great enthusiast and promoted the conference behind the scenes. With the dollar soaring and trade tensions rising to dangerous levels, Brittan said he welcomed a vigorous discussion of the exchange rate issue.

Sam Brittan was the premier economic journalist of his time. But his role as an influencer behind the scenes was just as impressive.

—DAVID SMICK
Editor and Publisher, TIE

