



# OFF THE NEWS

## The More Things Change...

In the great 2021 debt/Fed debate, the more things change, the more they stay the same.

“Despite an unusual personal and social style, [Larry] Summers was the least partisan, most intellectually daring, and most courageous financial official I’ve met in more than thirty years in Washington. A diamond in the rough, only Summers, a democratically appointed Treasury secretary, took on the questionable financial leveraging practices of one of the Democratic Party’s biggest sources of fundraising cash, Fannie Mae.

For decades, the politically untouchable Fannie Mae enjoyed an implicit assumption in the markets that the U.S. Treasury guaranteed its huge portfolio of low-income mortgage loans. This allowed the firm to borrow at much lower interest rates than its competition, but created a dangerous market distortion by encouraging excessive borrowing. For Summers, the partisan maneuvering was significantly less intellectually appealing than the pursuit of a policy breakthrough, or, for the lack of a better word, the old-fashioned pursuit of honest policy. In this case, a firm needed to be pulled back from the edge, just as the broader banking sector less than a decade later needed to be pulled back from its infatuation with subprime mortgages.”

—Excerpt from *The World Is Curved: Hidden Dangers to the Global Economy* by David M. Smick (*Portfolio*, 2008)

**Larry Summers:** *Washington’s last honest policy power broker?*



## Vaccination’s Winners and Losers

With only 6 percent of the population vaccinated for Covid-19 as of early March, Europe has seriously fallen behind the United States with 19 percent of its public vaccinated. France and Germany have performed the worst, with only 3–4 percent of their public vaccinated.

Why such a poor performance, particularly for Germany which historically has prided itself on its ability to be well-organized? German policy strategists place the blame first on the European Union, which attempted to implement an ultra-centralized European approach to the pandemic, and second on Chancellor Angela Merkel’s unusual handling of the situation.

The German government was ready to move much more quickly on vaccinations. But the chancellor wanted to show solidarity with the rest of Europe. She insisted that Berlin “wait for the green light from the European Union,” as a strategist put it. Others say that the so-called “European project” has been damaged significantly as a result of mishandling the response to the virus. Whereas the United States is expected to hit herd immunity in late April or early May of this year, Europe may not reach that point until the fall, half a year later.

By that time, Europe may be facing a mutation of the current version of the virus. Surprisingly, Germany is expected to fare economically better than expected. The German economy for 2021 is expected to grow in the 3 percent-plus range, bolstered by healthy Chinese purchases of German imports. But France and Italy? Much worse, with 10 percent-plus unemployment and much slower economies.

## He Saved the Euro. Can He Now Save the Atlantic Alliance?

Europe is in a major transition with a vacuum in leadership, particularly in Germany. General elections take place in Germany in six months. The most powerful economy in Europe will transition to a new chancellor. And all three candidates being discussed have no international or even European experience. Most are local political operatives.

Meanwhile, Chancellor Merkel has found herself personally in a position of huge ambiguity. While she was pushing a quick economic and tech deal with China, the United States, the United Kingdom, and France continued pointing to China's egregious human rights violations. In private discussions, Merkel's response is said to have been timid to the point of being defensive. Merkel's position on Russia, including the Kremlin's chemical poisoning attacks against its citizens on foreign soil, have put her in a similarly awkward position.

Former ECB President Mario Draghi senses the vacuum that Merkel will leave. While he has become prime minister of Italy, the likelihood is that he becomes president of the Italian Republic in January 2022. That would provide Draghi with a global stage on which to

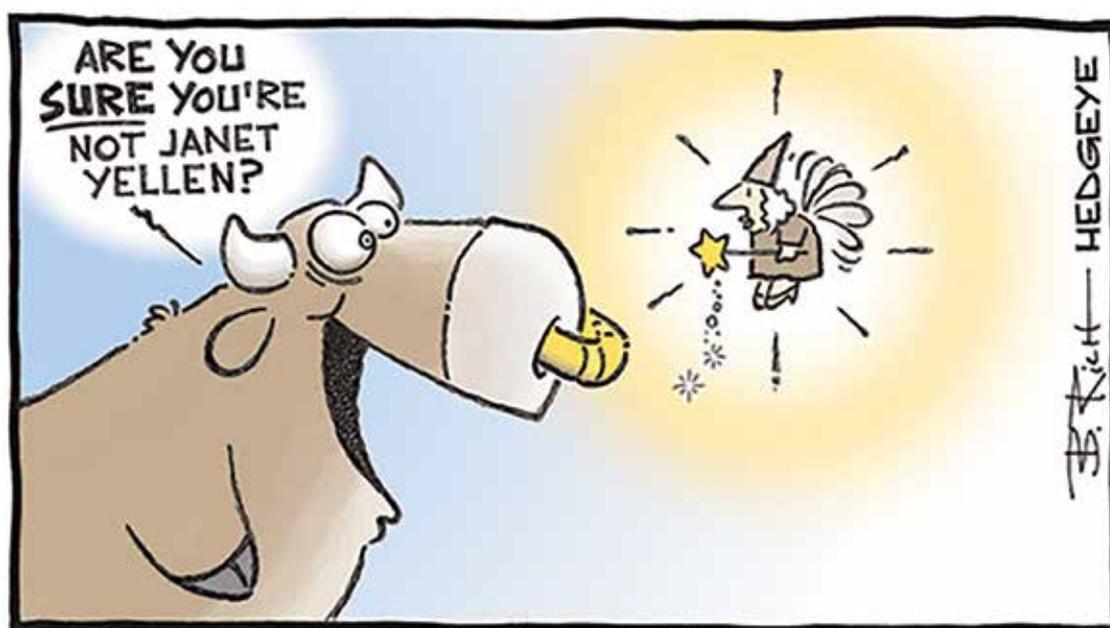
operate. By the way, Draghi has a history of being very much pro-Atlantic Alliance.

Yet Draghi will find himself facing a Europe that has drifted into a policy of "strategic autonomy." Initially, this phase was a reaction to Trump's hardline positions on NATO spending and other matters associated with the Atlantic Alliance. But now the approach of strategic autonomy is being applied to economic issues driven by the pandemic, the European Union, and, to a certain extent, by French mercantilism.

With the end to hyper globalism, Germany finds itself with a rising anti-Americanism, particularly among elites. By the same token, the love affair with China may not be as strong as it seems. A recent paper made the rounds in German policy circles detailing how China, through intellectual property theft and other maneuvers, has been undermining German companies on the global stage for years. The paper has created a lot of anger, a German policy strategist said. So Germany's position, balancing between China and the United States, is probably not sustainable.



*Italian Prime Minister*  
**Mario Draghi**



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