European Central Bank chief's interview points to shock of trade war threat

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29 November 2024

The intensity of the shock wave hitting Europe because of the threat by the incoming Trump administration to impose a tariff of 10-20 percent on all its products coming into the US is indicated by a rather unusual interview given by the president of the European Central Bank, Christine Lagarde, to the *Financial Times* (FT) this week.

Normally central bankers, as part of their desire to maintain their so-called independence, do not comment on government policies or lay out policy prescriptions. But in this case Lagarde addressed what she considered the European Union should do in response to the Trump tariff threat.

The basic line of her remarks was that the response should not be retaliation but negotiations and the fact that Trump had put out a range for the tariff measures against Europe meant it was "open to discussion."

Ignoring the possibility this is just wishful thinking, Lagarde pressed on.

Europe, she said, should employ a "cheque-book strategy" to deal with the Trump administration. It should offer to "buy certain things from the United States," including liquified natural gas and defence equipment.

The EU should "signal that we are prepared to sit at the table and see how we can work together. I think this is a better scenario than a pure retaliation strategy, which can lead to a tit-for-tat process where no one really is the winner."

Lagarde focused on the contrast between the threat against China and Europe. Trump had "clearly announced the magnitude of the tariffs that he has in mind: 60 percent for China, 10-20 percent for the rest of the world. But he has not been very specific about the scope and the basis on which those tariffs would apply. That's a really interesting area for clarification and better understanding."

The Lagarde perspective for discussion and negotiation seems to be based, at least in part, on the conception that the tariff threat is a continuation of the agenda of the first Trump administration—a tool to be used in making agreements beneficial to the US.

That may still be the case to some extent. But the tariff war now being prepared goes well beyond what was done previously and there is a definite shift in orientation.

Trump has insisted that tariffs are a means of raising revenue—harking back to the days of President William McKinley in the 1890s when there was no income tax—as he proposes further tax cuts for corporations. They would also be aimed at compelling foreign-owned companies to operate on American soil.

Asked by the FT to comment on her remarks in January that Trump was a threat to Europe, Lagarde replied: "It was prescient. Just look at the debates we are having in many countries in Europe."

On the longer-term outlook for Europe, she warned that "tariffs will be negative for global growth. That's always been the case. If you raise tariffs on a global basis, it reduces global GDP across the board. I find it difficult to reconcile myself with the proposal to 'make America great again.' How do you make American great again if global demand is falling."

Lagarde said she would not describe the present situation in Europe as a crisis but as "an awakening. It's a big awakening."

She acknowledged that the productivity gap between the US and Europe had widened over the past 30 years. "We have missed the transformative impact of the first IT revolution. In the 1990s, the United States rode with it and in that particular field, we have lost competitiveness."

Pressed on the point by the interviewer, who noted that in the field of artificial intelligence (AI), regarded as the driving force for economic development in the coming period, the US and China were “way, way ahead.” Lagarde replied: “I wouldn’t give up on Europe on that one.”

But data points to the widening gap in the AI transformation as detailed in the recent report on the state of European capitalism prepared for the European Commission by former ECB president Mario Draghi.

It found that with the new digital revolution underway, Europe “currently looks set to fall further behind” the US.

“The largest European cloud operator accounts for just 2 percent of the EU market. Quantum computing is posed to be the next major innovation, but five of the top ten tech companies in terms of quantum investments are based in the USA and four in China. None are based in the EU,” it said.

Whatever the precise form the Trump tariff hikes take, there is no question they will lead to an intensification of the attacks on the working class now underway as seen in the wave of sackings already ripping through the manufacturing industry in Europe.

In the latest news of job destruction, following the announcement of plans by VW to close three plants and sack tens of thousands, the German steel firm Thyssenkrupp aims to axe 11,000 jobs, some 40 percent of its current workforce of 27,000.

The crisis is not confined to industry. With European governments confronted with rising debts, social benefits are going to come under the hammer as European capitalism, locked in a dog-eat-dog struggle for profits and markets, determines that the so-called social contract can no longer be afforded.

This issue was broached, albeit in a somewhat vague manner, in the interview when Lagarde was asked to comment on a remark she made in a recent speech that Europe appeared to “have agreed on a trade-off to have better social services and less animal spirits and innovation” and whether this needed to be “re-examined as part of Europe’s awakening.”

Lagarde began her response by saying; “I think the equilibrium that we have had for a long time needs to be re-examined.”

After that she sought to dodge the question by raising the need to eliminate the burden of overregulation, bureaucracy and paperwork on businesses and ensure that innovation is part of the landscape.

Under the social relations of capitalism, governed by the laws of profit, “innovation” always entails attacks on the working class. They have already begun and will intensify under conditions of deepening trade war.