

Trump could actually Make Europe Great Again

As president's radical policies start to take a toll on the US economy, EU and UK are set to benefit

by Emma Duncan, The Times, Friday 7th March 2025

The European Union, says Donald Trump, “was formed in order to screw the United States”. That claim would surprise the postwar European leaders who created the EU in order to stop screwing each other and were grateful to the transatlantic ally helping to rebuild their continent. Of course, Trump’s comment was made less with an eye to historical accuracy than to make it clear he does not like Europe, so it is ironic that he could be the spur needed to Make Europe Great Again.

On the face of it, that seems implausible. Trump’s apparent willingness to abandon America’s security commitments means that Europe will have to spend much more on defence. At the same time, he is threatening to impose 25% tariffs on goods from Europe. The impression he gave Sir Keir Starmer that Britain might escape tariffs is, like everything else about Trump, not to be relied on.

These blows will cost Europe, but they may well bring benefits too.

In order to pay the defence bill, Europeans are going to have to make our economies work better. Europe’s population is bigger than America’s and its economy is around the same size, so the idea that we can’t afford to defend ourselves is absurd. The problem is that living under American protection has allowed a degree of self-indulgence that is not altogether beneficial.

George Osborne pointed out a decade ago that Europe accounted for 7% of the world’s population, a quarter of its economy and half of its welfare spending. The numbers have shifted a bit since then, but the point stands.

That’s going to have to change. Briefing in advance of Rachel Reeves’s spring statement suggests that Britain’s government is preparing to cut welfare. Other countries – France in particular, where social spending is half as high again as it is in Britain – will need to follow suit. It will be a painful process, but since unemployment causes depression, if it gets people back to work it will benefit individuals as well as society.

Germany has already responded to the kick up the pants that Trump has provided. Friedrich Merz, the incoming chancellor, is showing the powerful leadership the country has been lacking. He has committed to doing “whatever it takes” to defend Europe, including lifting the constitutional “debt brake” which limits the federal deficit to 0.35%, and establishing a €500 billion fund to spend on infrastructure, energy and housing. While Germany’s experience of inflation justifies a conservative attitude to debt, when there is war in Europe and economic stagnation at home the straitjacket needs loosening.

Europe is pulling together. Ursula von der Leyen, president of the European Commission, has announced an €800 billion defence fund. Since Britain is the biggest military power in Europe, it is central to the continent’s rearmament plans. It was Starmer who convened a conference of European leaders on Ukraine, and he and President Macron put together the peace plan that is now under discussion. This effort will help restore the bonds between Britain and Europe that Brexit broke. Anybody who thinks that is bad for either party is daft.

Trump's economic policies, meanwhile, may already be making America weaker. Consumer confidence in February took its biggest dive for four years and consumer spending has dropped. Inflation is ticking back up and expectations of inflation have surged. The Atlanta Fed – part of the US central banking system – is predicting that the American economy will shrink at an annual rate of 2.8% in the first quarter of this year.

If America is heading towards stagflation or even recession, it wouldn't be surprising. Tariffs raise costs, make consumers poorer and discourage firms from investing. At the same time, the administration is doing a bunch of other things that cast doubt on the future health of the American economy: capturing the federal payments system, creating a "strategic crypto reserve" to swindle taxpayers and benefit cryptocurrency creators, and disbanding two committees whose job is to ensure the quality of government economic data. That sort of behaviour is to be expected from the governments of Latin American economic basket cases, not from the US.

America isn't going to turn into Venezuela swiftly but the fear that its economy is no longer run by grown-ups is reflected in the relative performance of American and European stock markets since Trump's inauguration. While the S&P 500 has fallen by 4%, the FTSE has risen by 1% and Germany's Dax by 11%. In the context of decades of American outperformance, it's a significant vote of confidence in European business. And I bet that, over time, investors' enthusiasm for Europe will be enhanced by an inflow of research scientists whose funding Trump has axed.

What has been happening to the dollar is also interesting. Tariffs generally raise the value of the currency of the country that imposes them because they lower the demand for imports and thus for other currencies. But since Trump's tariffs were announced, the dollar has fallen. Normally, it is regarded as a safe haven in times of trouble but now that America is causing the trouble it may be losing that status.

Because Europe's bond markets are fragmented, they don't offer international investors the stability that America's does. That could change. The bonds that the European Commission issued to help pay the costs of the pandemic were hugely popular. Bonds issued to cover its new defence needs now would probably be taken up with similar enthusiasm. The EU has the opportunity to create a large and liquid debt market that would undermine America's dominance of the global financial system. Perhaps Europe really will screw the United States. MEGA!