Trump escalates tariff war against Europe

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US President Trump has escalated his trade war against the European Union with the threat to impose a 200 percent tariff on champagne and wines coming from Europe.

The threat, announced on his social media platform yesterday, came in response to the imposition of a 50 percent tariff by the EU on a range of products, including whiskey, which were imposed in retaliation for the 25 percent US tariff on steel and aluminium.

Denouncing the EU decision as "hostile and abusive," Trump declared: "If this tariff is not removed immediately, the US will shortly place a 200 percent tariff on all wines, champagnes, and alcoholic products coming out of France and other EU represented countries."

There is little likelihood of the EU backing down as it has set out a plan for retaliation, the first phase of which will go into effect on April 1.

It will be followed by a series of measures directed against US agricultural products that will come into effect in the middle of the month, targeting rural areas which form a base of Trump's support. The plan was drawn up in the expectation that Trump would respond as he has.

In a post on X yesterday, Laurent Saint-Martin, the French foreign trade minister, said: "We will not give in to threats and we will always protect our sectors." Trump "is escalating the trade war he chose to unleash."

Nor is there any sign of an easing of the economic war against Canada. After it had sent a delegation to Washington yesterday aimed at trying to calm the situation, Trump said: "I'm not going to bend at all."

In an example of how day-to-day decision-making is taking place in the White House, in a Bloomberg interview yesterday, Commerce Secretary Howard Lutnick warned countries against provoking Trump.

"If you make him unhappy, he responds unhappy," he said.

But he then went on to at least indicate the underlying logic of the growing economic madness. Some countries, he claimed, such as Britain and Mexico, had thoughtfully examined their relationship with the US. As for others, which responded with tariffs, pointing to the EU, "the president's going to deal with them with strength and power."

The overriding aim of Trump's economic war is to form a bloc, centered on North America, but including others as well provided they bow to the US, which can take on China, which the US regards in the longer term as the greatest threat to its global hegemony. Those that do not comply and are also seen as threats to the US, such as the EU, will be dealt with.

The Trump tariff war is causing chaos for large sections of US industry unsure of what is going to happen from one day to the next, let alone undertake longer-term planning. The stated aim of the Trump regime is to force corporations to locate their operations in the US.

But the economic irrationality of this perspective in a world of globalized production was highlighted in a letter from Tesla, the Elon Musk owned company, to the US Trade Representative Jamieson Greer earlier this week.

The letter was unsigned because, as one person familiar with its drafting told the *Financial Times*, "nobody at the company wants to be fired for sending it."

The company said that while it supported fair trade—a nod to Trump's bogus claim that he is making the global system fairer because the US has been taken advantage of—it warned that US exporters were "exposed to disproportionate impacts when other countries respond to US trade actions."

Pointing to the situation which faces a myriad of US firms, it said that "even with the aggressive localization of the supply chain, certain parts and components are impossible to source within the US.”

It called on Greer to “further evaluate domestic supply chain limitations to ensure that US manufacturers are not unduly burdened by trade actions that could result in the imposition of cost-prohibitive tariffs on necessary components.”

The growing chaos in US industry and the fears that tariffs are going to bring a surge in inflation as well as recession is starting to impact heavily on Wall Street.

Yesterday, the S&P 500 index, the market’s leading indicator, extended its fall and entered what is known as “correction” territory—a fall of 10 percent since its previous record high barely three weeks ago on February 19. In that time, some $5 trillion has been wiped off the total market capitalization.

In another sign of growing uncertainty, gold has continued its steady ascent and yesterday reached a new all-time high of $2,985 per ounce, bringing its total rise this year to 14 percent.

The market selloff has hit stocks hard with the tech-heavy NASDAQ index already having fallen by more than 10 percent. The stock price of Tesla, one of the so-called Magnificent Seven, is down by 40 percent since the start of the year.

It is not only tech stocks that have been hit. The Russell 2000 index of smaller companies has fallen 18 percent since its high last November and is on the edge of entering bear market territory—a decline of 20 percent.

Previously, there have been claims that the reaction of the stock market – in the absence of any opposition from the Democrats, the trade unions, and the complicity of the courts – would form a kind of “guard rail” to curb the Trump regime, that it would pull back from some of its economic madness if Wall Street started to fall.

But so far, the administration has brushed off what the *New York Times* has characterized as “the market turmoil.” Yesterday, Treasury Secretary Scott Bessent said he was focused on the “real economy” and was not concerned about “a little bit of volatility over three weeks.”

In fact, the real economy is presenting a rapidly darkening picture. Consumer confidence is falling, consumer spending was down in real terms at the start of this year, business surveys indicate a fall in new orders, and business investment plans are being put on hold because of the lack of certainty about the direction of the real economy. And the latest job surveys show a major spike in layoffs for the first two months of the year.

Growth estimates are being revised down, with the Atlanta Federal Reserve warning that the US could experience a contraction of more than 2 percent in the first quarter. Goldman Sachs has cut its forecast for US gross domestic product from 2.4 percent to 1.7 percent.

Connecting the fall in the markets to the underlying real economy, Kristina Hooper, chief market strategist at the investment management firm Invesco, told the *Times*: “I think what the markets are telling us is that they are very concerned about the potential for a recession. That is certainly not what markets expected going into 2025.”