

FAZ

March 12, 2018

Cut tariffs, don't raise them

by Michael Heise

Amongst the risks that could put an end to the economic upswing in Germany and the world, two things stand out: protectionism and the misguided defense of national interests. The US tariffs on steel and aluminum imports will not only harm the US economy, but they also carry the risk of an extended trade war in which everyone will lose. US consumers are the first to suffer, as they have to pay higher prices for their cars, washing machines or beverage cans, among other things, as production costs rise in steel and aluminum-intensive industries. In addition, US-based companies processing steel and aluminum will face stronger competition. Their competitors abroad do not have a tariff-related cost disadvantage and they will want to increase their market share in the USA. As a result, domestic companies will have to cut costs - and that will cost jobs. The policy response is predictable: it will be the call for further protective measures, as is already being discussed for the automotive sector.

Should the EU shoot back with tariffs, perhaps even targeted at industries that are strong in republican-ruled "Trump" states? This would be the wrong reaction, as it would lead to a further escalation in a situation that is already heated by populism. Instead one should think for a moment about how to get out of this dangerous situation. Why should we Europeans not propose to America to simply abolish all trade tariffs on goods in a free trade area between the US and the EU? Then, there would be no reason for any country to complain about unfair treatment and "rip-off", as President Trump likes to do. About two years ago, the US and EU negotiators had already come very close to reaching an agreement on this point. They should be reassigned to negotiate reciprocal tariff dismantling, not tariff tightening. We must also act within the EU. What sense does it make for us to increase the price of American cars in the EU, which are not particularly competitive anyway, by 10% in tariffs, while our export cars in the USA are subject to a 2.5% increase? What sense does it make that freight wagons exported to the USA are taxed at 14%, while we impose a duty of 1.7% on American wagons? One can threaten Trump with retaliatory measures so as not to appear defenseless. Above all, however, he should get the message that we are still prepared to reduce customs duties, to the benefit of both economic regions. The free trade project between the EU and the USA (TTIP) did not fail because of the planned dismantling of tariffs in goods trade, but because there was no agreement on product standards and investment protection. Dismantling customs duties should not be taken off the agenda. One should confront and challenge Trump on these grounds.