

Funding the Future

Article URL

Published: January 12, 2026, 6:59 pm

To the surprise of no-one who has been watching what Donald Trump has been doing since he won the US Presidential election last November, but to the immense surprise of the world's car makers, who appear not to have noticed what he is up to, he imposed 25% tariffs on all cars imported into the USA yesterday, plus a similar tariff on all car parts imported into that country for use in its home-based car manufacturing industry.

The impact is going to be dramatic.

One US car manufacturer apparently told the New York Times that they thought that US car production might fall by 20% as a consequence of what Trump is doing, because so many of the components used in US car manufacture are imported.

One-half of all cars sold in the USA are imported and will therefore be subject to this tariff.

The UK exports a considerable number of cars to the US each year, with around 130,000 cars a year being shipped from the UK to the USA.

In return, just 18,000 cars are imported from the USA into the UK each year. As I understand it, most of the Teslas bought in this country do, in fact, come from Germany. They are not, as a result, made in the USA.

It is pointless to pretend that this tariff will not have a significant impact on world trade or on wider economic issues, because it will.

Trump has now made it clear that he is engaged in a trade war with the rest of the world, and members of his administration have made it just as clear that they hate Europe, in particular, which is what appears to be motivating this action.

The first, the most obvious implication of this tariff will, however, be seen in the USA. That is a country that runs on cars. If the price of cars increases dramatically, as it clearly will in most cases, or cars cease to be as readily available, the impact upon the US way of life will be significant, even if there might be some beneficial environmental consequences of that.

There will be massive resentment about this in the USA.

There will also be enormous resentment about the inflationary impact of this price increase that is going to be seen in that country.

If the Federal Reserve is then stupid enough to react to this deliberately stoked inflation by increasing interest rates, which will of course have no impact in curing the problem that Trump is deliberately creating, then the ramifications of that increased US domestic inflation will be felt around the world. I do not rule out such a consequence: monetary economists are really capable of acting in such a stupid fashion.

They are also the domestic implications of this issue to consider in Europe, Mexico, Japan and Korea, in particular, which are the major exporters of cars to the USA. It is pointless to pretend that this will not have a knock-on effect, because it very clearly will. Demand for cars from these places is, inevitably, going to fall, although the precise market reaction will be hard to predict, precisely because demand for US cars might be price inelastic, meaning that the increase in price may not have a dramatic consequence for the overall level of physical demand, but this cannot be known as yet.

What we can be sure of is that some of the assumptions made by the Office for Budget Responsibility prior to Rachel Reeves' Spring Statement are now blown apart. The likelihood is that much of her so-called fiscal headroom has now disappeared, although I would stress that fiscal headrooms are always works of fiction that are created by Chancellors to have real-world harmful consequences.

So, what should we do?

Firstly, we should, as Mark Carney has said in Canada, make clear that our relationship with the USA has changed forever. To pretend that there is a special relationship between the UK and the USA is now so absurd that Starmer should stop the pretence. We have to face the reality that the US is a hostile state, and treat it as such. A total change in our world view is required, with massive ramifications.

Second, we cannot give in to US demands on things like digital taxation.

Nor can we give in to demands that we should not retaliate against tariffs because we have a VAT, because the two things are utterly unrelated to each other.

Thirdly, we do have to consider tariff retaliation. If the USA is to cause deliberate harm in the world, then it must appreciate that the price of doing so is something that it must bear, and that we will not. I took part in a discussion on Nicky Campbell's show on BBC Radio 5 Live yesterday on this issue, and had to suffer the thoughts of someone from the Institute of Economic Affairs on this issue, who quoted pure competition theory as if the real world did not exist. I never got the chance to point out that his fantasy economics was as real as Minecraft. I would have done if that had been possible. And, as

I did say, in the real world, we have to stand up to bullies, which is what we are seeing.

Any decision that is made on tariffs is not about economics. It is about opposing the impact of fascism, which is what Trump is trying to impose upon the world.

Fascism is imposed by thugs and bullies. It is only by unified action in response to those thugs and bullies that we can hope to defeat them. The UK must stand alongside the EU on this issue if we are to have any chance of beating the curse that is Trump. There may be a price to pay, but that is what economic warfare demands. In the grand scheme of things, beating the tyranny of Trump is more important than just about anything else right now, because if he really succeeds, other governments will fall to similar types of tyranny, with the risk that Reform could create such a situation in the UK.

Fascism advances quickly. We know that. There is no point pretending otherwise. Trump is using a shock-and-awe tactic. Labourer's pussyfooting in response is just about the worst possible reaction, most especially now it is apparent that it has absolutely no impact on Trump at all.

It really is time that Starmer, Lammy, Reeves and their colleagues stopped telling the media that they are in serious negotiations with the USA when we all know that is complete nonsense, because no such negotiation has any impact on what is being decided in the White House.

Fascism is not beaten by people who pretend that normality is still well and thriving in the world, and that the existing rules are still in operation. It is beaten by people who understand the threat that they face. It is time that Labour did so.