Radical Options for Scotland and Europe

For public ownership and democratic control

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Trade rivalry between the EU and the US sharpens Scholz seeks closer links with China

The past month has seen increasingly sharp expressions of disagreement between the EU and the United States over US subsidies to its electric car industry and its suppliers. The US Inflation Reduction Act now provides a 20 percent government subsidy to all US manufactured electric cars and their components sold in the US – but not to products manufactured elsewhere.

On 26 November Margaritte Vestager, EU Trade Commissioner, condemned the Act and the EU Commission set up a special task force. On 31 November President Macron of France and Chancellor Scholz issued a joint statement condemning the US action. On 7 November the EU Commission threatened a direct appeal to the World Trade Organisation. France called for immediate sanctions.

This conflict has erupted at a time of crisis in the electric car market in the US. In the first half of 2022 China sold over 2 million electric cars, the EU 1 million (mainly German) and the US 0.3m. New Chinese models about to be launched, such as the BYD selling at below $30,000, threaten to sharply increase the Chinese lead.

At the end of October Scholz made an official visit to China to discuss trade and international relations and issued a joint statement with President Xi condemning any threats to use nuclear weapons and calling for enhanced trade between the two countries. China is Germany's biggest trading partner. Scholz has been attacked by his coalition partners, the Greens and the Liberals, for seeking a negotiated settlement in eastern Europe. There are also differences over attitudes to the boycott of Russian energy supplies which has forced Germany to purchase much more expensive shale oil and liquified gas from the US (*Financial Times* 27 October, 7 November; *Asia Times* 7 November). The profits of US oil companies for the half year to September exceeded $200 billion.

Policy differences grow between Germany and other EU countries as inflation soars

German Finance Minister Christian Linder has rejected calls from other EU members for a common EU fund to raise cash to meet the acute financial crisis facing members. Inflation is running at 10.9 percent across the bloc and the European Central Bank has raised interest rates by 0.75 percent to 1.5 percent.

The impact of the crisis has been very uneven. Germany now has an inflation rate of 11.6 percent and its growth rate for the past year fallen to 1.1 percent – but because of its size can borrow on international markets at a lower rate. The EU borrowing rate is 2.89 percent. That for Germany significantly lower and for countries like Italy, Greece and the Balkans very much higher.

The EU Commission is putting forward plans for a transitional phase before EU countries are required to re-impose strict EU limits on government borrowing in 2024. In the transitional phase members will be able to develop their own programmes for debt reduction but then be subject strict monitoring by the Commission.

Levelling-Up:
Gove struggles to defend basic elements of White Paper plans

Michael Gove, now again Minister for Levelling Up, is fighting to secure the basic elements of his Levelling Up White Paper issued at the beginning of the year. This contains pproposals for an overhaul of local government structures with councils effectively replaced by elected majors working in partnership with central government and business. The new centralisation was to be sustained by central government grants that levered in development by (big) business.

These plans were compromised by the Truss government's proposals for 200 investment zones (costing £15 billion) and economic crisis. Sunak and Hunt are reported to be about to axe the Investment Zones along with trans-Pennine high-speed rail link in the Autumn statement on 17 November – leaving some funds to relaunch Levelling Up (which may also have some implications for City Regions in Scotland).

Scottish government poised to impose massive additional cuts: highlights the Scottish parliament's lack of borrowing powers

On 2 November the Scottish Government announced further cuts on top of those outlined in Swinney's financial statement earlier this autumn. The cuts include £40m for mental health services, £116m for Covid, £65m for primary care and undisclosed cuts to Social Care.

The comment of the Fraser of Allander Institute was that there would be disproportionate impact on those groups that already suffered socio-economic disadvantage. It adds that still further cuts are likely to result from the Autumn Statement from the Chancellor on 17 November and be incorporated in the Scottish Budget on 15 December.

It highlighted 'the real limitation of the existing fiscal settlement and the inability of the Scottish government to borrow or drawn down resources from its reserves'.

The gravity of the situation is indicated by the report that Scotland's biggest local authority, Glasgow, faces, before the further cuts likely later in November, a budget shortfall of £114m, over ten percent of the total, equivalent to 150 percent of the entire Glasgow Life budget.