



The U.S.-E.U. Trade Deal: Too Awful To Be True

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Dimitri Lascaris (DL): Good day. This is Dimitri Lascaris coming to you from Greece on July 30th, 2025, for Reason2Resist. On July 27th, after months of wrangling and sometimes heated rhetoric, the Trump administration and the European Union announced last week that they had struck what Trump described as a colossal trade deal. They've named the deal the Cooperation Agreement on Reciprocal, Fair, and Balanced Trade. As the smoke has settled from their colossal announcement, many analysts argued that the deal is a disaster for Europe. On July 28th, the White House fueled the controversy by issuing a fact sheet on the terms of the deal. The fact sheet portrays the US as the huge winner in this negotiation. According to the fact sheet, the European Union will pay the United States a tariff rate of 15 percent, including on autos and auto parts, pharmaceuticals, and semiconductors. The US government sectoral tariffs on steel, aluminium, and copper will remain unchanged, the EU will continue to pay 50 percent. The fact sheet also states that the EU will make a massive, that's the word it used, 600 billion investment in the United States over the course of Trump's term. This new investment, it says, is in addition to the over 100 billion EU companies already invest in the US every year. Further, the fact sheet claims that the EU will, quote, "double down" on America as the energy superpower by purchasing 750 billion of US energy exports through 2028. And finally, the fact sheet claims that the European Union agreed to purchase significant, that's the word it used, amounts of US military equipment, but the sheet did not specify an amount. One of the big questions that the White House fact sheet failed to answer was who will make 600 billion of new investments in the US? Will it be European businesses, European governments, or both?! And if European businesses will be counted upon to invest that amount, how can the European Commission oblige or induce them to do so?

In response to the title wave of criticism, the European Commission issued a statement that contradicts key features of the White House announcement. Among other things, the Commission stated that it negotiated the deal for fossil fuel purchases on behalf of 27 member states and it lacks the competence to determine the amount, the type and the origin

of the energy supplies acquired by governments and companies therefore it cannot legally bind the block to go to the goal of spending \$750 billion on American energy. The Commission states this announced number is an indication based on the needs the EU will face in the coming years to phase out the consumption of Russian fossil fuels. As for the 600 billion in purchases, the Commission stated that as with energy purchases, the Commission is unable to design and implement investments on behalf of the private sector. The 600 billion is another indication based on the executive's contacts with industry. And finally, with respect to military equipment purchases from the United States, the Commission said absolutely not. It has resolutely denied making any pledge to ramp up purchases of American-made weaponry.

Now here to help us unpack all of this is Costas Lapavitsas. Costas, a frequent guest on Reason2Resist as a professor of economics at the School of Oriental and African Studies, University of London. He was elected as member of the Hellenic Parliament for the Syriza party in the January, 2015 general election. In that election, Syriza ran on a platform of opposition to austerity. In the summer of 2015 after former Greek PM Alexis Tsipras capitulated to the demands for a new and harsher austerity from Greece's Troika of creditors, Costas defected from Syriza. Thank you so much for joining us again today, Costas.

Costas Lapavitsas (CL): It's my pleasure Dimitri. I look forward to our discussion.

DL: So Costas, before I ask you to evaluate the US-EU deal, I'd like to talk to you briefly about what the deal actually is. As you just heard, there is some conflict between the European Commission's account and the US government's account. Based on what the Trump administration and the European Commission have disclosed thus far, what can we confidently say about the key terms of this deal?

CL: Nothing. We can confidently say nothing. And this is typical Trump deals. This is not a legal document. This is not a proper treaty between states. Trump doesn't do that. Trump cuts deals similar to what I suppose he used to do when he was a real estate agent in New York. So we don't know exactly what's involved and we don't know whether he has a legal status, who will enforce it, and what are the implications. And this is similar to the deals that he struck with Japan and with the United Kingdom. It's not new. This is what Trump does. So we can say nothing with certainty. And that has to be repeated so people get the point. Beyond that, what we also have, however, is a perfect illustration of the kind of political weakness that the West exhibits in droves the last few years, decades, actually. On the one hand, we've got a braggart in the United States who is very aggressive and calls everything the greatest ever, the biggest ever, the most amazing success since successes were invented. And on the other hand, we got this unelected person in the EU who negotiates on behalf of others when she doesn't really have the power to negotiate and she was not elected, as I said before. No one has put her there through popular vote. At least Trump, such as he is, was elected by the American people.

DL: You're referring obviously...

CL: Ursula von der Leyen, wasn't elected at all.

DL: Right, sorry, you were referring obviously to Ursula von der Leyen, the European Commission president, just to clear this.

CL: Yes, so this deal, by and large, is an extraordinary, extraordinary indication of where we're in terms of geopolitics; how the Western world is run. I mean, if someone had mentioned that to me 20 years ago, I would have said they need their heads examined. And yet that's where we are. That's what's happening. That's happening among the two biggest economic blocks in the world. So that much about the status of the deal. If we go beyond it, however, and if we judge it by what has been announced, it's a victory for the United States. It's a big victory for the United States because the European Union, throughout this process, has been making noises about standing up to the braggart and to the aggressive pusher in Washington, and it did nothing of the sort. Nothing of the sort. And in fact, it makes it look even worse for the European Union because when the British, back in May, the European Union denounced them as servants, [inaudible] of the United States. And many people, incidentally, in Britain, who were critics of Brexit, revelled at what the European Union said about Britain because it demonstrated that by getting out of the European Union as a single state, you cannot negotiate a good agreement with the United States. And here we are, the European Union, on the face of it, has negotiated a worse deal than Britain. It has basically laid itself for straits to the United States. But again, I repeat, what will actually turn out to be the case in practice remains to be seen. And we can discuss it. We can get into the details of it.

DL: Let's assume that the fact sheet is accurate. I've summarised the terms of it. First of all, is there anything in that set of terms, again, assuming that this is the deal and that the parties will honour the deal, which is an improvement from the perspective of the Europeans on the status quo as it existed immediately prior to Trump's return to the White House. Did they get any benefits from this deal that they didn't already have before Trump came to the White House? Because I didn't see anything in there, but maybe I missed it.

CL: Not at all. As I said, on the face of it, it's a disaster. It's a complete defeat for the European Union. Those who are trying to present it as some kind of success, they're not comparing it with what existed before Trump came to power. They're comparing it to what might have prevailed had Trump's full threats materialised. So those who want to put a bit of lipstick on this particular pig are coming out and saying tariffs could have been 30 percent. At least now we've got 15 percent. Or temporary tariffs on German automobiles were higher than this. 27.5 percent, if I remember correctly, now it's 15 percent. But no, the European Union got nothing. Nothing that could be called a victory. It basically conceded to various and varying degrees what Trump wanted. But again, I repeat what will come off is a different story.

DL: So let's focus on the 15 percent tariff, which the fact sheet says is going to remain in effect, including on autos and auto parts, pharmaceuticals and semiconductors. Can you give us a sense of what the impact of that tariff is likely to be on the EU economy in the years ahead?

CL: Yes, the impact will be very significant and it will be significant in Germany. The economic heartland of the European Union, the industrial heartland, of the EU, is Germany. In so far as Europe has any kind of industrial complex we're talking about, it exists in Germany and surrounding countries which are basically pivoting on Germany, Poland, Czech Republic and so on, and in Italy, which is the other major concentration of industrial power. There is also significant industry in the United Kingdom, which is not part of the EU, but that industry is not really, as it were, a backbone type industry. It is new technologies and that kind of stuff, which the United Kingdom is ahead of the rest of Europe. So the negotiations that have ended up in this deal imposing tariffs on 70 percent of European exports hit Germany, first and foremost. They will hit the automobile industry. The automobile industry in Germany is in dire straits, as it is, because we're moving away from internal combustion. We're moving towards electrically propelled vehicles. Germany is not good and competitive when it comes to that. It cannot compete with China. In fact, China might blow the entire German electrical cars industry out of the water very soon. So the 15 percent tariff on automobiles, which protects US automobile production, is a disaster for Germany. And already the automobile manufacturers have complained. Now, this will add to the dramatic pressure on the German economy, which has existed anyway. It isn't a matter of the trade deal with the United States. Germany was in dire straits economically, for the reason that I've already alluded to. That its industrial base, which is the industrial base of Europe, is out of date. It's out of date. It's not competitive and it's concentrated in fields which are not cutting edge. Automobiles being one of them. Internal combustion engine automobiles, being one of them, machine tools being another, chemicals being a third. So Germany is already facing needs, strong need to restructure this industry. It cannot compete. It is not doing well. This will make it even worse. The predicament for Germany is not good right now. And we shall see how the German elite deals with it. Their options are not good. But their stance is even worse.

DL: So let's then talk about the second category of tariff, the sectoral tariffs on steel, aluminium and copper, which the fact sheet says are to remain unchanged. That is 50 percent much higher than the tariff on automobiles and pharmaceuticals and semiconductors. What do you anticipate the medium to long term impact of the sectorial tariffs is going to be on the European economy?

CL: That is very interesting, actually, and not so much in terms of what it reveals about Europe, but what it reveals about the United States. Trump has been unrelenting on the tariffs imposed on steel and aluminium. A lot of people in Europe, especially people associated with the financial sector, who don't really understand production, have been downplaying that. And some of them in the pages of the Financial Times and elsewhere are presenting these as tariffs on macho commodities because steel and aluminium are supposed to be macho commodities. I've read this term, by presumably serious journalists in the financial press. It just shows how little they understand, these people associated with finance. These are not macho commodities.

These are key commodities for all industrial production, particularly for military production. It's impossible to have sustained military production in a country, own production without a strong foundation in aluminium and steel. And it appears that Trump understands that. And to my mind, the insistence of Trump on these kinds of tariffs, on these two commodities, across the board for all countries that he's been dealing with is indicative of the direction of the United States elite right now. But it is militarising the economy and it is making certain that it is reacquiring the capacity to produce a lot of these foundational commodities for military production. The United States has a much bigger economy than Russians say. But in steel production, it's not that much bigger. And that's indicative, again, of how the United States capitalism has moved. Trump understands that, it seems. And he insists on it and he insists on redirecting the energies of US capitalism towards steel and aluminium production, not least for purposes of war. For Europe is, of course, a major hit. Europe doesn't seem to have any understanding of it.

DL: So do you believe that the United States is going to have the capacity, the US industry will have the capacity to meet the demand of aluminium and steel?

CL: It will rebuild it. One should not underestimate American capitalism. I will be the first one to mention the weaknesses of it, and I've done it many times before, not least in our discussions, but it will be a grave historical error to underestimate US capitalism. At the moment Trump, with steel and aluminium, seems to be signalling to us, yes, we're moving towards strengthened military and therefore, imperialist positioning with the United States in the world. There are other indications, strong indications, and I'm sure we will talk about them as we move along. But that's one of them.

DL: I want to talk to you also about this claim that somebody from Europe is going to invest 600 billion dollars and more over and above the 100 billion that European companies currently invest in the United States. I don't purport to be an expert in the jurisdiction, the authority of the European Commission, but I have great difficulty understanding how the European Commission could cause European corporations to invest an amount as staggering as 600 billion dollars in the United States. I mean, I suppose they could establish some kind of incentives, some kind of inducement to enhance European corporate investment in Europe. But is this even remotely realistic given the structure of the European Union?

CL: Zero capacity to affect it. That's the truth. It's just hot air, right? They might pull a few levers behind the scenes. They might twist a few arms behind the scene. They might try and drill a hole in various industrialists' ears behind the seams again. They might do that. The capacity from von der Leyen is not that great. She likes to project herself as, you know, a major player on the world scene, but she isn't. So it's just the promise that indicates inability to oppose Trump. The sums incidentally are very similar to the sums that Trump likes to throw about; 500 million here, 500 million there, 600 million down the line. It's similar to the time deadlines he gives. 50 days here, a month there, two weeks here. He just makes it up as he goes along.

So the figure of 600 billion purchases, some of which apparently are going to be arms without being told what it is, it's just a number. It's just a number and an indication of ability to negotiate. Nothing more than that. Von der Leyen has no capacity. Her budget is barely bigger than one trillion and her budget is, for a number of years, and your budget is already committed. I mean, she's got no capacity to do that. Similar considerations hold for the 750 billion announced for energy purchases, fossil fuel, liquified natural gas, primarily. It's too big. I don't think it will come to that. I don't think it's feasible. The sums are much larger than here the two, several times actually, the order of three or four times larger than what we have so far. I doubt very much that the capacity exists to generate that kind of output and shift it to Europe. But it tells you something about the European elite that is committed to fighting basically Russia and cutting Russia off, and it is prepared to contemplate anything when it comes to energy that will cut off Russia, even if that means a very high cost of energy. For Germany in particular, which I've already mentioned. I mean, if this prevails and if the cost of energy remains as high as that for the German industry in the years ahead, I mean the predicament of German capitalism is not good. And if the predicament of German capitalism is not good, then the predicaments of the European Union is not good, because the economic heartland of the EU is Germany.

DL: I'm going to weigh in on a complex question, and it's not one, I think, that can be answered strictly by reference to an economic analysis, but I'm curious as to your thoughts about this: I've marvelled at how over the past 22 months of this horror in West Asia, we've been witnessing European governments, despite all the pressures from the grassroots for them to rein in Israel in some way have in actual fact, been extraordinarily supportive of Israel across the board. And I've often wondered how much of this is to what degree the European government's policies towards Israel and its war making in the region is being motivated by a belief amongst the European elite that they're going to need to secure access to fossil fuels from the region for years ahead and to a greater degree than they have been able to secure in the past. Because of their decision to restrict, if not eliminate altogether, their reliance upon Russian fossil fuels; do you think that this is influencing their attitude towards, their foreign policies towards not just Israel, but Iran, for example, and other countries in the region? Are these related in any way, the cut off of Russian fossil fuels and their policies in the Middle East, or do you think separate considerations are driving their policies there?

CL: I think it definitely is a consideration. Whenever you look at imperialists and their positioning on the world scene and the world economy, you can never cut off the economic interests that are involved. But of course, the stance of an imperialist power is not dictated only by economic interests. In this case, securing supplies of fossil fuels is definitely a consideration. But then there are other more important considerations and priorities before that, the connection with the United States, the ideological attachment to Israel, which is very different among these European powers. It's one thing for Germany. It's quite another for Britain. It's yet another for Italy and so on. So that counts differently among them. And crucially for Europe it is their own pronounced inability to stand independently in a military sense. They've realised their own weakness, you see, and they're dragged behind the United States right now.

And I can be quite specific about this. More than a decade ago, France and Britain, fundamentally, with the United States fully behind them, intervened and overthrew the Gaddafi regime in Libya. No one quite understood why that was the case. Why was it so important? And what followed is a disaster, obviously. It's a disaster because you have destroyed the state of Libya. There is essentially a lack of sovereign power across much of the northern coast of Africa. And as a result, you get floods of immigrants who are coming across the Mediterranean often dying in doing so and suddenly wanting to end up in France and Britain and elsewhere and creating all kinds of social reactions as they do that. Now, you might have thought they did that in order to secure fossil fuels. Not like Gaddafi was not selling them oil. But they haven't. The truth is they haven't. They haven't actually established separate independent control over the fossil fuel capacity production of Libya and so on. It's not as if France and Britain have intervened because they wanted to control the resources of Libya. Yeah, they wouldn't have minded that, but it did not end up that way. They just created a mess. They created a disaster. They did it for reasons of the time. And they backfired. Essentially, it has backfired. It just has created anarchy, as I said, and chaos for France and Britain.

DL: So in the course of your political career, Costas, you've had painful experience in dealing with economic and political bullies. In your case, the bullies were the IMF, the European Central Bank and the European Commission. I'm referring, of course, to your time as an MP in Syriza and the efforts of the Troika to impose their own prescriptions upon Greece and so forth. In light of your experience and your economic expertise, if you were driving the bus in this negotiation, you were in charge, you were the decision maker as to how you would respond to Trump's tariff impositions and threats and so forth and demands about massive amounts of investment, what strategy would you pursue on behalf of Europe to respond to the bully?

CL: We can learn from the disastrous experience of Syriza, particularly if we wanted to have an argument about how you would do it from below, as it were, in the interest of working people, right? Because that's very, very important. But we don't even have to go there. We can work out what the European Union could have done or might have done by looking at China. We've got an example. We've got an example of how to deal with Trump. And China does offer it because China was the main aim of Trump, right? That's what he was aiming for. And it isn't just Trump, Biden was similar. And Trump was the first one to start tariffs against China in his first period as president. So we know that this is a long-standing aim of the US elite to do some damage to the trading position of China. We know that. Trump then, you will recall, threatened China with 150 percent tariffs; I mean, that ridiculous period of outbidding each other. China stood up to him. And actually, in real terms, it's the only country who has done so. It stood up him and replied tit for tat in the real sense as well. Because it immediately took action to constrain the supply of the rare earths that the United States needs and it needs it for its industry and for its world production and so on. And it showed that, if you do us damage, so will we. And he's benefited from it. The truth is, Trump has backed off and a kind of neutral arrangement has been reached. Both parties appear to be able to live

with it. Why was that possible? Because China is not run by a subservient elite, it's very clear, that can draw on popular support and it can draw its own things.

We can argue, is China socialist? Is China communist? Is China capitalist? I don't want to go into that, right? I would say that the Chinese economy is primarily capitalistic and that's what makes it tick, but it's not capitalistic in the same way as the United States economy is. It is actually pivoting on big businesses, huge monopolies which are publicly owned and which are run by the government and the state. That's the Communist Party, which is not a real Communist Party. It's just a mechanism for controlling markets and economies and society which is very clear about national sovereignty. And on this basis, he has strong support by the Chinese people. The Chinese people might want democracy, might complain about the lack of democracy, of course, all that is true. But they acknowledge and they understand that national sovereignty is something which is demanded and defended by the government of China. That's how the Chinese government came out in confronting the United States and it prevailed. It succeeded in pushing the United States back.

The difference with Europe is astonishing, even compared to Britain. Britain negotiated it by itself. It didn't negotiate on the basis of sovereignty. It negotiated on the bases of let's go softly, softly and we will persuade the Americas not to do us very much damage. And when it came to the EU, it just gave way immediately. So the lesson is clear. When you confront Trump, you've got to be able to draw on popular support and you've gotta come out clearly and say, I'm not gonna give in to US imperialist demands. I'm going to defend my popular interests and national interests. Here are my red lines and I will defend them. And China did. And it showed the way. That is the way to go. If you want to do that from a worker's perspective, a popular perspective, which is what I would advocate, then you draw directly on popular support in a real socially radical and innovative way. That's always possible. That's not what's happening in China because of the nature of the regime, but it still is a lesson for us.

DL: So could you elaborate a little bit on that, what you mean by, in a popular and socialist sort of way?

CL: You need to transform your domestic economy. You need to give people a stake, a real stake in the economy, not simply on the basis of national sovereignty, defending your own national dignity and defending your own national interests, but actually changing the social balance in favour of the poor and in favour of the working people. China is a very unequal place. It's one of the most unequal places in the world. The Chinese people understand that they've got to defend their national independence and national sovereignty because they remember very well what happened to China when its sovereignty and independence were negated by Western powers, they became slaves essentially. They understand that very well and don't want it. But at the same time socially, although by and large they're better than before, the inequalities are enormous. So a popular government would combine that with social transformation, organisation of the economy in favour of working people and poorer people. By God, the United States needs that more than anybody else. So that's what I mean.

I can make this more specific for you in terms of Greece, which you mentioned before. Greece engaged in negotiations in 2015 with the Troika that you mentioned. And basically the Troika drove the coach and horses through the Syriza side because the Syriza side basically lost all battles. However, there was a plebiscite, a referendum in the summer of 2015, it's now ten years ago. When the Greek people were asked, would you like another bailout or would you take a different position? A different position with the bank getting out of the euro, of course. And the Greek People said, two thirds majority meaning, different position. That was driven by national interest in my judgement. The reason why people voted no at the time, overwhelmingly no, the reason they did that is because they felt their national pride to be damaged and their national sovereignty to be damaged and they wouldn't let it. They wouldn't let the troika tell them what to do. It wasn't combined with social transformation. Because the Syriza government was incapable of it. And in the end, the Syriza government reneged. But it shows you the ability to stand up to foreign pressure, imperialist pressure. You need to start with national sovereignty, national dignity, and then you need to combine it with social transformation. That is a very powerful mix. It has always been a very powerful mix in history, it remains a very powerful mix. And we need to see who's going to make it in the years ahead.

DL: I'd like to move to another subject, Costas. The Financial Times reported recently that China's holdings of US treasuries fell below those of the United Kingdom for the first time since 2000. The value of treasuries held by Chinese investors fell to \$765 billion at the end of March 2025, down from \$784 billion in the previous month. Whereas those held by UK investors rose almost \$30 billion to \$779 billion. So the UK is slightly ahead now or as of that point in time of China. According to the Financial Times, Beijing has been gradually reducing its official holdings of US treasuries from a peak of more than \$1.3 trillion in 2011, diversifying into other assets, including US agency bonds and gold. Why do you think, Costas, that Chinese holdings of US treasuries have fallen to this level and should the US government be concerned about this?

CL: We come to the crux of the, in a sense, hegemonic contests that characterise the modern world, basically. The reason why China is doing it is gap; that is in some way the simplest argument to have. China is doing it because it has seen what the United States did to Afghanistan, then to Iran, and then obviously to Russia when it came to holding US dollar denominated reserves. All those countries faced sequestration, essentially, or freezing of reserves. In other words, the United States weaponized dollar reserves and weaponized the dollar in order to achieve political aims. And I repeat, it isn't just Russia. Russia is the biggest and most egregious case because of the sums involved, big money involved. But it's the same with Iran. Iran faced a very similar problem, and of course, Afghanistan. So China, run by the Communist Party, which I mentioned before, which takes national independence very seriously, realised that as tensions are rising with the United States, which they are, because the hegemonic contest is becoming hotter and hotter, holding American dollars isn't perhaps the wisest thing that the Chinese government can do, and it is trying systematically to reduce its holdings. So that's clearly what's happening there.

One more point about this, the rankings, before I tell you more about Chinese reserves. The United Kingdom has emerged as the second holder, but that's not because of UK government accumulation. The United Kingdom basically acts as custodial agents. These are US treasuries, privately owned very often, or owned by other agents and enterprises and so on, whose names are not known, but they're held in the United Kingdom. So they count as UK holdings, but they are not actually UK holdings. So it's basically international, and God knows what goes in there. But the fact remains that Japan is number one, is top for holding treasuries, and China's dropped, for the reason that I pointed out. Now, in this context, it has to be said, because people take this and extrapolate, and they say China will reduce it to nothing, or whatever, it will reduce the values; it's not so easy. And it's not very easy for China to reduce its holdings. And it certainly isn't easy for China to cut it down to insignificant amounts, because the dollar is the world's money. The dollar is the world currency, with which Chinese businesses and Chinese economic and other power is projected. The Yuan cannot replace it. Those who think that the Chinese currency can replace the dollar in the short term, don't understand what's involved. So China will continue to de-expose the dollar. But clearly what it is doing is to reduce the extent to which this is the case.

There is also a further important dimension here, which people have got to be aware of. China holds a lot of dollars. Chinese businesses, the large corporations that I mentioned before, need the dollars to operate globally. They've got huge global operations, and they undertake them in dollars. So they need dollar liquidity themselves. China cannot generate dollar liquidity and cannot do it very fast. It can sell the reserves it has and get the dollars, but if it does, the reserves will collapse in value. So the extent to which it can reduce the reserves and the extent to which you can turn them into liquidity, these two extents are limited. People have got to understand that's a constraint to China, and the United States knows it very well. So what we've got here is a readjustment. The readjustments of the Chinese position, a reduction of its exposure. And I can understand it, it's a logical thing for the Chinese government to do, but there are limits to how far it can reduce it.

I can tell you more about that when it comes to other forms of money managing. But before that, I want to talk about the United States a bit. Because for China, it's clear. What's happening in the case of the United States, however, the exposure is more complex and in some ways more important. Treasuries are a very large part of the US government's indebtedness. That's how the US Government borrows. It's the largest asset in the world, the biggest, the deepest, it's the foundation asset for all the major markets in the world. That's why the dollar is the world's money, right? The United States indebtedness at the moment is in the region of \$36 trillion. 110-115 percent of GDP – is huge. This is wartime levels. What does this tell us? A lot of people extrapolate from that and go on and talk about, oh, it is an impending financial crisis, just because debt is rising. There might be, or there might not, right? I don't want to talk about a crisis emerging just because the sums are getting bigger. What we've got to understand, however, is the predicament of the US economy and the forces that have led to this. Because that gives you a sense of what Trump is doing. The indebtedness of the United States escalated, reaching these extraordinary levels, basically

since the great crisis of 2007-2009. That crisis was fundamental. That indicated, in a sense, the end of the period, the financialization of the US economy peaking, globalisation peaking.

What happened since then is that as the forces of profit making, financial profit making, industrial profit making and commercial profit making weakened a state emerged as the supporter of the capitalist economy. The state picked up the tab, basically, right, or boosted the economy of the core countries in ways that were necessary. If it wasn't for the state, I'll tell you what followed the great crisis of 2007-2009 would have been a disaster. That we saw very clearly in the case of the United States. That's when indebtedness began to pick up. That's when the United State government began to increase its debt to boost the economy. And a key way in which it did that was to create money at the same time by the Federal Reserve. So you have, in a sense, a two-pronged action. On the one hand, the state borrows and borrows heavily, on the other, the central bank, the Federal Reserve, creates money and buys the debt, or a large part of the debt. It's an extraordinary combination of forces we've never seen the like in the history of capitalism. And it has lasted now for more than a decade and a half. One direct result of that is, of course, propping up stock markets. The reason why the stock market has come back and goes from strength to strength is precisely this. The state borrows, the central bank creates liquidity backed by state paper, and various financial institutions, not necessarily banks, but pension funds, BlackRock, and so on, have got the liquidity with which to play games. And so the US stock market goes from strength to strength, and it creates the impression of US capitalism going from strength to strength. But if you look at the figures, that's not how it is. US capitalism is not growing strongly. And what keeps it is the state. But of course, the state borrows to do that. It borrows. And there's a limit to how much money it can create. That's what's happening at the moment. That's where you see the tensions emerging.

The 36 trillion dollars of US public debt is a lot of debts. It's a lot of money. 30 percent of that is in the hands of foreigners. The United States needs to sell treasuries to foreigners. And there is a limit to how much paper the Federal Reserve can buy, how much state paper the Federal Reserve can buy, and they just stopped doing it for the last couple of years. Because obviously, it creates inflation at some point. So that's the predicament of the United States economy right now. And you can see the tensions that Trump has created with his big, beautiful, enormous, gigantic, marvellous bill and so on. He will add at least three trillion to this debt. You can see why Musk and people like him are getting very worried because they can see the tensions. Put China in the mix and you can understand what's happening. The United States needs to sell these treasuries. Must sell greater and greater volumes to foreigners because 30 percent goes to foreigners, China is reducing its holdings as a major buyer. It's not a good arrangement. It's not a good state of play. We shall see where it goes. But it's highly unstable. It will not last indefinitely. There is no way.

DL: Finally, on the subject of growing potentially unsustainable debts, I'd like to talk to you about NATO's recent announcement about increases in military spending. I think it was late June at The Hague, of all places, NATO governments assembled and announced that they had committed collectively to increase their defence spending to five percent of GDP by 2035.

And according to their announcement, which they called The Hague Summit Declaration, quote, "Allies agree that this five percent commitment will comprise two essential categories of defence investment. Allies will allocate at least 3.5 percent of GDP annually based upon the agreed definition of NATO defence expenditure by 2035 to resource core defence requirements and to meet NATO capability targets. And Allies will account for up to 1.5 percent of GDP annually to protect our critical infrastructure, defend our networks, ensure our civil preparedness and resilience. Unleash innovation and strengthen our defence industrial base", close quote.

Now, before I ask you about this new spending commitment, Costas, I just wanted to share with you and our audience some data about current levels of defence spending in NATO as published by the Atlantic Council. They have something called a defence spending tracker. And in 2024, according to their data, the military spending of eight NATO members, including Spain and Canada, was below two percent of GDP. 26 NATO countries were below three percent of GDP. Only five were above three percent. And notably, one of them was Greece, which, as you know all too well, has enormous debt relative to its GDP. Finally, only one NATO country, Poland, was above four percent and just barely above four percent. So obviously, Costas, many NATO governments will have to increase their military spending drastically in the next decade to meet their commitment. So my first question to you is for the European members of NATO, and I know the answer is not the same for everybody, obviously – there are different levels of spending capacity and indebtedness and so forth – do you think that this is generally a realistic target for NATO's European members?

CL: Not at all. I mean, that's just yet another number which comes and appears in a Trump deal; seems to have been plucked out of thin air. And it allows Trump to brag that he is the greatest achiever of success for the United States and the greatest president ever and so on. There is no way on Earth that this can be raised to five percent for the whole of NATO. There's no way at all. In fact, very recently I've been looking at the budget for the United Kingdom, which is militarily an important country in Western Europe, which already spends a significant amount of money and it has been jacking it up close to 2.5 percent. The notion of the United Kingdom as things stand at the moment with the economy it has, the budget it has, the pressures it faces on the welfare state, the ability to generate tax income and the indebtedness it already has, could double proportionately the defence expenditure in a forthcoming period is for the birds. There's just no way at all that this is possible. The only country which could significantly increase its expenditure is Germany. And the reason why it might do it is because the German state is not heavily indebted. So it could increase its indebtedness significantly and large parts of that could go to military spending.

Exactly how that will happen depends, and that's the second part of the equation. The first is the five percent being unrealistic. The second part is what will actually count as military expenditure and there the lesson is Italy. If you look at the Italians who have got a very close political alignment with Trump under Meloni, Italy is one of the biggest European supporters of the Trump government and Meloni, the Prime Minister of Italy has got a very good personal relations and doesn't want to come to any kind of opposition with Trump. He's been

keeping quiet about this, about the military expenditure, but there's a strong debate in Italy about what to put in. And the last I've heard is that the bridge that the Italians are discussing to have built between Sicily and the mainland is there is a bridge there that might go across the Straits of Messina. And that's a very old, very old dream of the Italians to connect Sicily to the mainland and so on. I don't know if it makes economic sense, but it exists for a long time. That might be passed as military expenditure. On the same grounds is the bridge connecting the Crimea to the Russian mainland is a kind of military expenditure. So that will tell you how the European elites are thinking about it. So it might well be the case that some of these governments, not Italy necessarily, but Germany, might be able to borrow heavily, and some of that expenditure might go to infrastructure which Germany desperately needs, for instance, its railways, for example, in an appalling state, might be passed as military expenditure on the grounds that it improves the efficiency. You already read that in the communique. That might be a way in which some increase in expenditure can count as military spending.

Other than that, the idea that pure military spending can go up to five percent is entirely without foundation. There is just no way that this can happen, given the current predicament of most European economies. Now, you might ask from a non-militarist, non-imperialist perspective, what would one say? One would say that Europe does need expenditure on infrastructure desperately. Europe does need expenditure on reorganising and rebuilding its industrial base. Europe does need to spend on greater social equality and so on. And going about doing that through the military path, is another sign of the prostrate and subservient nature of Europe. Europe should come out and say collectively we spend much more than Russia does if Russia is the main enemy. Much more than Russia does. If you add up the military spending that already exists in Germany, in France and in the United Kingdom, it's considerably greater than Russia already. Europe doesn't need to increase its spending to five percent. It needs to boost its economy and needs to reorganise its economic standing. And it needs to stand up to the United States, which is pushing the world down a militarist and imperialist path. The end result will not be good for the United States and for the world. It needs to be opposed. But unfortunately the European elites are bankrupt. So you don't expect them to do anything when it comes to that.

DL: Let us hope that Germany doesn't become by far the largest military spender in Europe because the last time that happened it didn't turn out too well for the world.

CL: I mean, I think we'll attach upon that. But...

DL: Please do, please do. As somebody who's Greek, I think what the Greeks experienced during the Second World War, this must be a sensitive topic in the country I would imagine.

CL: And across a number of European countries, the idea that what Europe needs right now is the re-emergence of a German army as the most powerful force on the continent is unbelievable. I mean, you know, after the experience of the last century, the notion that what we need is to recreate a major German army somehow, if that were possible –and there are many, many hurdles to overcome for that, and all criticism of that being poo-pooed, the

whole Germany is very different. Really? This is a country that votes for the AfD as the second most important, most powerful country, party in the nation. Really? How is that? Why is the rise of the AfD unconnected to potential re-emergence of militarism in Germany? Why couldn't we have a military force emerging on a strong nationalistic basis and so on? Why is that impossible? You know, it's just thoughtlessness.

DL: Even the current government, Costas, Merz, the way that the rhetoric towards Russia and the repression of dissent within the country we're seeing now, even Merz is scary. I mean, I'm not necessarily in disagreement when the Russians refer to Merz as a Nazi, I think. You could make a plausible case that Merz is looking more and more like a Nazi.

CL: You can make that case. One wouldn't necessarily agree with it, but you can make that case. Definitely. I mean, of course, the idea that what we need to do is that, and that's good for the German people, is just unbelievable. The first losers will be the German people if that happens. And that has to be said. There's no nationalism in this, right? We know that if Germany goes down that path, the future is completely unpredictable and very dangerous if that happens. And the first, the biggest losers will be the German people in the long term. That's the last thing they need. We don't need German militarism. We don't need the German rearmament. We don't need Germany to reemerge as the most powerful military force in the continent, as will happen. If you allow current trends to unfold fully, that's what's going to happen. It's the biggest economy. They will rediscover the traditions. They will recreate them. And that's what's going to happen. That's not what we need. That's not what Europe needs. And the United States pushing Germany in that direction and other forces in the United Kingdom and elsewhere saying, oh, no, we're not in danger. All right, yeah, you're not in danger, of course, yeah. I mean, the world we live in is a world that Margaret Thatcher created 45 years ago, right? When she basically invented neoliberalism as a political platform. She invented it and then Reagan went with it. If you told Margaret Thatcher this is where we would be today, she'd have a heart attack. She must be spinning in her grave. The idea that 45 years later, what her epigons want to do is to recreate Germany as the major military power of the continent, potentially with its own nuclear weapons even though the prospect is not on the table at the moment, it would have been unconscionable for her. And here we are, discussing it seriously. We'll become stupid. Europe will become stupid, it's clear. It is collective stupidity that has prevailed over the continent. It's not the first time. It's not the first time. Europeans have got a long and proud history of doing the most stupid things to each other and the most violent things to each another. And we know the results.

DL: Well, if stupidity in Europe is cyclical, then it means at some point intelligence will return. Hopefully it will happen in our lifetimes. In any event, it's always a great pleasure to talk to you and I look forward to our next conversation.

CL: Thank you, Dimitri. So do I. I look forward to talking to you again.

DL: And we're coming to you from Greece, both of us, as a matter of fact, on July 30th, 2025.

END

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