

## Flash Economics

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### Is the United States' protectionism a concern? Remember that the price elasticity of US (and other OECD countries') imports in volume terms is zero

The Trump administration has clearly opted for a protectionist strategy (European steel and aluminium, Chinese solar cells, household appliances, potentially cars at a later date). There is considerable concern at this mounting protectionism in the United States and the retaliatory measures that other countries are adopting.

But it is important to remember that the price elasticity of imports in volume terms is zero in the United States (and in the other OECD countries). This means that:

- Tariffs increase the prices of the goods concerned in the United States but do not reduce imports in volume terms;
- If the amount of the tariffs is paid back to US economic agents, their real income is not affected by the increase in the prices of the products taxed.

If the price elasticity of imports in volume terms really is zero, one must therefore keep in mind that the tariffs being imposed in the United States might just have very little impact on the economies.

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## Trump's protectionist strategy

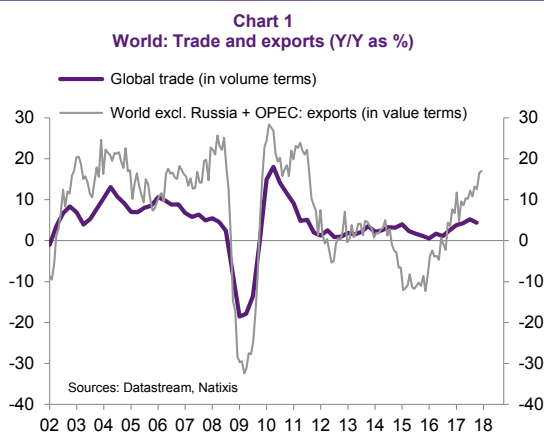
The Trump administration has opted for a **protectionist strategy** (Table 1), and other countries are responding with equivalent measures.

**Table 1: Protectionist measures taken by the Trump administration**

Products	Rate of duty	Conditions	Countries targeted
Steel	25%	From 1 June 2018	European Union, Canada and Mexico
Aluminium	10%		
Washing machines	20%	During the first two years, on the first 1.2 million units imported	South Korea, Mexico
	50%	During the first two years, once the first threshold has been exceeded	
	16% - 40%	From the third year	
Solar panels	30%	The first three years	China, Mexico
	15%	From the fourth year	

Sources: Reuters

This has given rise to fears of a **contraction in global trade** (Chart 1) and a slowdown in global growth.

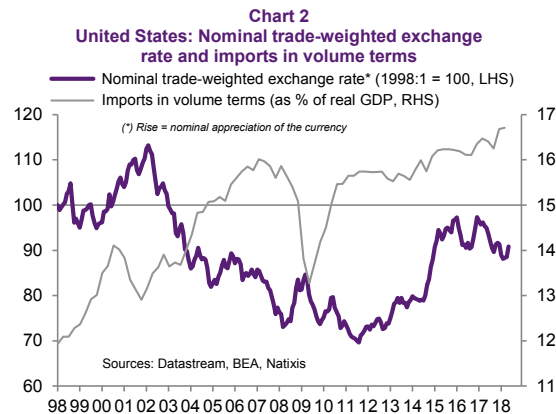


## But it is important to remember that the price elasticity of imports in volume terms is zero in the United States

The **price elasticity of imports** in volume terms, estimated econometrically over the period 2002-2018, is:

- 0 in the United States;
- 0 in the euro zone;
- 0.11 in Canada;
- 0 in the United Kingdom;
- 0 in Japan.

In the **United States**, for example, the depreciation of the dollar from 2002 to 2008 did not stop US imports from rising (Chart 2).



The price elasticity of imports in volume terms may be zero as a result of countries' high degree of productive specialisation: there is no longer any domestic substitute for imported products.

## Conclusion: What effect will the tariffs have if the price elasticity of imports in volume terms is zero?

In a country where the price elasticity of imports in volume terms is low, like in the United States:

- **The introduction of tariffs does not reduce imports in volume terms but does increase import prices;**
- The increase in import prices **caused by the tariffs reduces real income**, which suggests that growth will fall in the country that puts in place tariffs if the price elasticity of its imports in volume terms is zero. **But if the amount of the tariffs is paid back to economic agents in that country, then real incomes will not fall**, as the tariff increase will be offset by this ensuing redistribution of tax revenues;
- **One should therefore keep in mind that in this configuration** (zero price elasticity of imports in volume terms, repayment of the tariffs collected to domestic economic agents), **tariffs have no macroeconomic effect**. There is therefore no reason to be concerned by their effects.

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