MEKETA

The price of protection: a deep dive into tariffs

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Tariffs have been a fundamental tool of US economic policy since the nation's founding. A tariff is essentially a tax on imported goods and services. By raising the cost of foreign products, tariffs can influence where businesses source materials and where consumers buy goods.

In the course of history, tariffs have played a significant role in the formation of nations, industry, and trade. Tariffs were once a primary source of federal revenue for the United States. Over time, their role has shifted – from funding the government in the 19th century to protecting industries or negotiating trade terms in the 21st.

This paper provides an overview of what tariffs are and how they function, then analyzes their economic pros and cons, including effects on growth, inflation, jobs, productivity, and financial markets.

Key takeaways

- Tariffs are taxes on imported goods such as manufactured and agricultural products.
- Tariffs can be used to protect domestic industries by making foreign products more expensive, which provides a competitive advantage to local producers. Additionally, they can serve as a powerful negotiating tool to encourage other countries to lower their trade barriers or address unfair practices.
- The cost of tariffs is usually passed on to American importers, businesses, and consumers in the form of higher prices. Additionally, tariffs may lead to trade wars and escalate international tensions.

What are tariffs and how do they work?

In simplest terms, tariffs are taxes on imports. When a foreign product enters the United States, a tariff (otherwise called a "duty") may be applied at the border, raising the product's price. In theory, the immediate effect is that the tariff makes the imported item more expensive in the US market, which can discourage imports and give a price advantage to competing goods produced domestically. US Customs and Border Protection (CBP) is responsible for collecting this import tax on incoming goods, which then goes to the US Treasury.[1]

[1] Note that the duty on a tariffed good is paid by the importer, not the exporter.

Although tariffs are levied on foreign products, studies have shown the cost is usually passed on to American importers, businesses, and consumers in the form of higher prices.[2] In other words, US purchasers typically end up paying more for the item.

Functionally, tariffs serve multiple purposes. Historically, they were crucial for raising government revenue (see Figure 1). Between 1798 and 1913, tariffs generated roughly 50% to 90% of federal income in the United States.[3]

In the era before income taxes, the young American government relied heavily on import duties to fund its operations. Today, however, tariffs account for only a small fraction of federal revenue – on the order of 1-3% in recent years (see Figure 2).[4] This is because modern governments mostly fund themselves through income, payroll, and sales taxes instead, and – until very recently – many imports faced no tariff at all. As of December 2022, over half of all industrial imports entering the US were duty-free.[5]

[2] Source: NBER Working Paper, Amiti, et al., 2025, "Trade Protection, Stock-Market Returns, and Welfare".

[3] Source: US Global Investors, "History of Tariffs and Their Role in US Economic Policy".

[4] Ibid.

[5] Source: US Trade Representative as of 2022. Over ninety-four percent of US imports by value are classified as industrial (non-agricultural) goods.

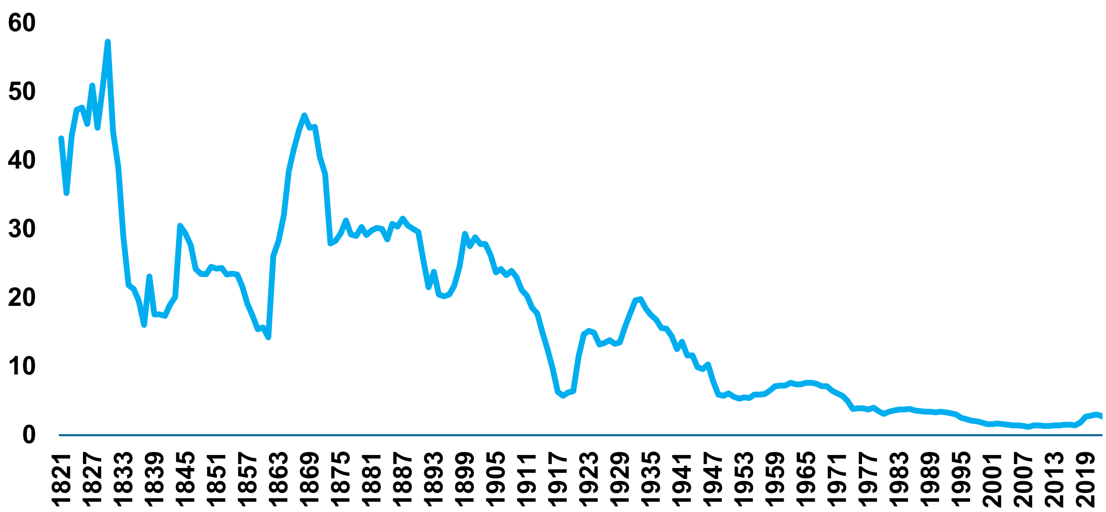

FIGURE 1

Average Import Tariff 1821-2024 (%)

Source: Tax Foundation data as of April 14, 2025. Average tariff is a weighted average based on the value and size of import goods.

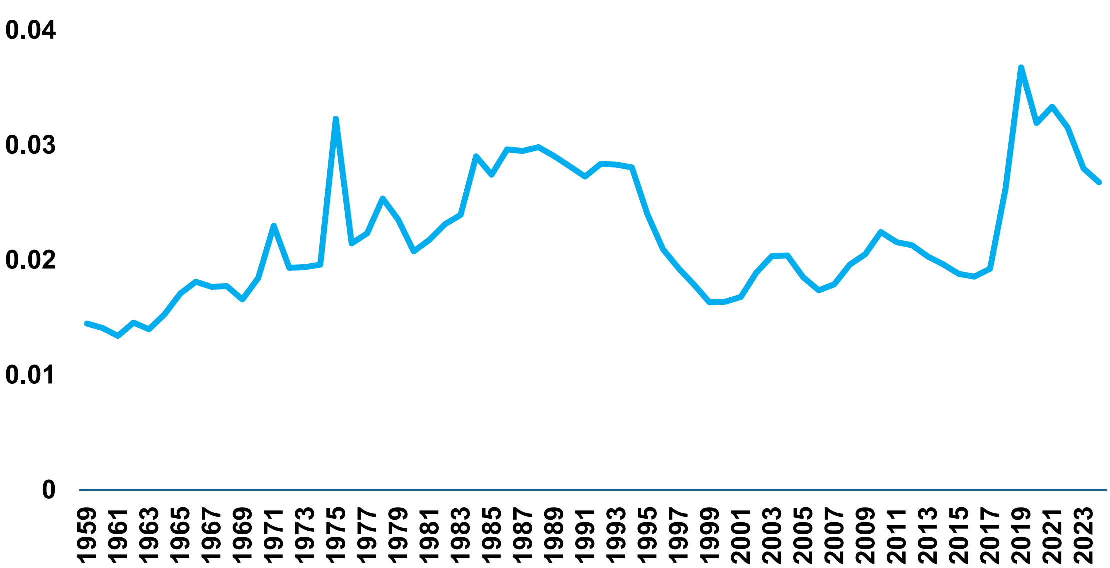

FIGURE 2

US Import Tariff Revenue as Percentage of Total Revenue

Source: FRED as of March 2025.

If not mainly for revenue, why impose tariffs today? Primarily, tariffs are used as a policy lever to protect certain domestic industries and to influence trade negotiations. By making imports from competitors more expensive, a tariff can help shield domestic producers from foreign competition in the home market. For instance, a tariff on imported steel makes US-made steel comparatively cheaper for American buyers, thereby providing a competitive advantage to the domestic steel industry. Japan, South Korea, Taiwan and China have relied heavily on trade protectionism with heavy tariffs to foster domestic industrial production since WWII. These countries have been so successful in protecting their industrial base they now produce far more goods than they can consume and export their surplus to other countries.

Tariffs can also serve as a bargaining chip in negotiations – a point of leverage to encourage other countries to lower their trade barriers or address unfair practices. Tariffs can be a powerful negotiating tool for a large economy like the US, which many countries rely on as an export market. In trade talks, the threat of tariffs (or their removal) may be used to extract concessions or forge new agreements.[6]

Of note, the US Constitution grants Congress the power to impose tariffs, but Congress has long delegated much of this authority to the President. Early on, Congress set specific tariff rates on goods through legislation. However, since the Reciprocal Trade Agreements Act of 1934, lawmakers empowered the executive branch to adjust tariffs, within limits, often for the purpose of trade negotiations. This delegation was meant to allow faster, more flexible trade policy and to insulate tariff-setting from narrow special interests. As a result, today a President can proclaim tariffs under certain laws – for example, invoking national security or unfair trade provisions – sometimes without additional congressional approval.[7]

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The United States is a member of the World Trade Organization (WTO) and signatory to numerous trade agreements, which means it has agreed to abide by certain limits on tariffs. Under the WTO's rules-based trading system, each country commits to "bound" tariff ceilings for different products and must apply tariffs without discrimination among trading partners (with some exceptions for free-trade agreements and developing nations). WTO rules also permit "safety valves" that allow members to impose tariffs in special cases – for instance, to counter unfair trade practices (like dumping or subsidies) or to protect a domestic industry from a sudden import surge.[8] In effect, these rules aim to prevent tariff escalations and trade wars by providing a legal framework for when and how tariffs can be used.

6 Historical examples of this include the maritime empires of England and Portugal as well as the Soviet Union.

7 Source: Congressional Research Service, "US Tariff Policy: Overview". Note that the extent of presidential authority to impose tariffs without congressional approval is being challenged at the time of this writing.

8 Source: Ibid.

Economic effects of tariffs: pros and cons

Tariffs are often described as a double-edged sword: while they may provide certain benefits to the domestic economy, they also carry broader costs. The impact of tariffs can be analyzed through various lenses – including economic growth, consumer prices (i.e., inflation), employment, productivity, and even financial markets. This section outlines the main advantages and disadvantages of tariffs from an economic standpoint.

Potential benefits of tariffs

Protecting domestic industries and jobs

The most common argument in favor of tariffs is that they protect domestic producers from foreign competition. By raising import prices, tariffs can help US factories and farms sell more within the US market by making foreign substitutes less attractive. In theory, this safeguards jobs in those industries and can prevent layoffs or business closures during times of import competition. Historically, the US used high tariffs to nurture its young industries. For example, during the 19th century when American manufacturing was still developing, tariff protections were credited with helping the US industrialize. Between 1871 and 1913, US tariffs on imports never fell below ~38%, yet the economy grew rapidly (over 4% annually), outpacing free-trade Britain.[9] Some economic historians, such as Ha-Joon Chang and Alfred Eckes Jr., have pointed to this period as evidence that protectionist policies contributed to America's emergence as an industrial powerhouse.[10]

9 Source: Wikipedia – History of tariffs in the United States (for historical tariff rates and contexts).

10 Source: Ibid.

More recently, advocates of tariffs claim they can save jobs in specific sectors that might otherwise be undercut by cheaper imports. For example, tariffs on steel and aluminum imposed in 2018 were intended to revive the US metals industry. The White House pointed to rising employment in US steel mills as a sign that the tariffs were leading to job gains and higher wages in that sector.[11] Indeed, domestic steel production and employment saw a modest uptick after the tariffs, as some idled mills restarted.

11 Source: Whitehouse.Gov.

Since the 1970s, the US manufacturing base has declined as a share of GDP along with the number of manufacturing jobs (see Figure 3). Some policy makers believe the trade regime of the last fifty years is a major cause of this and that tariffs can stem or even reverse this trend in the US.

National security and supply chain resilience

Tariffs can be used to protect industries deemed vital for national security or critical supply chains. US law explicitly allows tariffs for national security reasons (Section 232 of the Trade Expansion Act).[12] This was the justification for the 2018 steel and aluminum tariffs – the idea that a domestic capacity to produce metals is essential for defense and infrastructure, and it should not be lost to foreign imports.

12 Source: CSIS, W. Reisch, "Are President Trump's Trade Actions Exempt from the Administrative Procedure Act?", March 31, 2025. Both President Biden and President Trump used section 232.

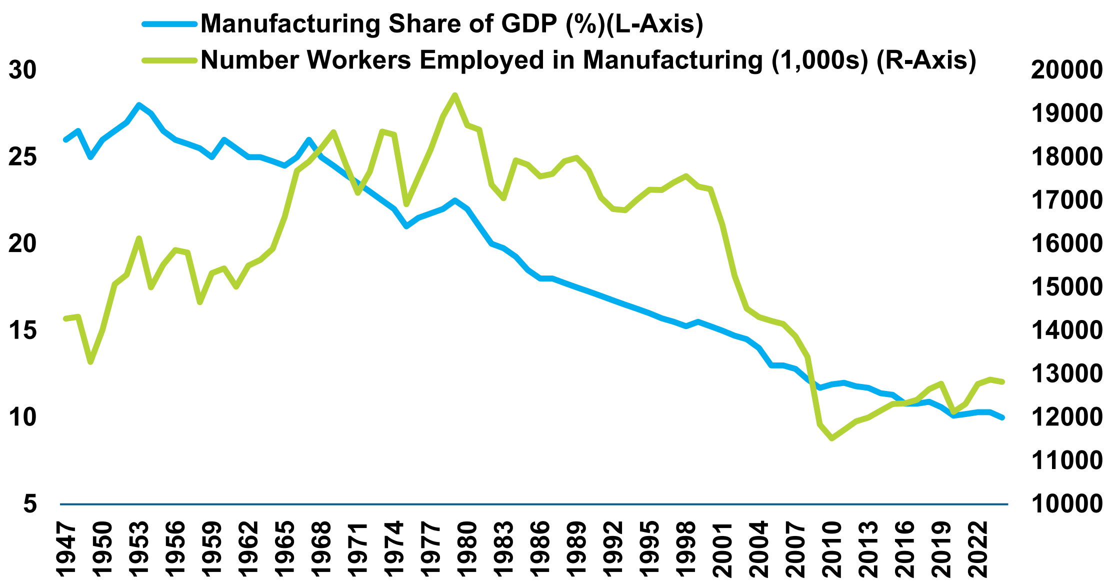

FIGURE 3
US Manufacturing as Share of GDP and Number of Workers Employed in Manufacturing (1947-2024)

Source: FRED as of April 2025. Between 1947 and 2005, data for manufacturing as a share of GDP from FRED, P. Morris et al., "Is US Manufacturing Really Declining?" April 11, 2017.

Similarly, tariffs or tariff-rate quotas have been considered for products like semiconductors, medical supplies, or electric-vehicle batteries, to reduce dependence on foreign suppliers. The COVID-19 pandemic and other geopolitical events raised awareness that relying heavily on imports (for example, personal protective equipment or microchips) can be a vulnerability. Protective tariffs, in these cases, are viewed as a tool to encourage domestic production of critical goods, even if that production is less cost-efficient than imports. By the same token, tariffs can be part of a broader strategy of "onshoring" or "friend-shoring" supply chains – incentivizing companies to produce in the US or in allied countries rather than in rival economies. Since the global pandemic, the US government has invoked the phrase 'friendshoring' where US corporations would favor supply chains that relied more heavily on US allies.[13] In 2022, Treasury Secretary Janet Yellen called for the "favoring the friend-shoring of supply chains to a large number of trusted countries, so we can continue to securely extend market access, lower the risks to our economy as well as to our trusted trade partners."[14]

[13] Source: US Treasury, Janet Yellen's speech at the 60th anniversary of the Atlantic Council April 13, 2022.

[14] Source: Ibid.

Government revenue

Although tariffs are no longer a dominant revenue source for the US, they still contribute tens of billions of dollars annually to the Treasury. This revenue can be seen as a benefit that offsets, to a small degree, other taxes. Notably, when the first Trump administration dramatically increased tariffs (starting in 2018), tariff revenues roughly doubled within a few years – from about $37 billion in 2015 to $74 billion in 2020.[15] By 2024, annual tariff collections reached $77 billion.

[15] Source: Congressional Research Service, "US Tariff Policy: Overview".

More recently, the second Trump administration proposed that tariffs could account for a significantly larger portion of federal revenues. While the details of the President's trade strategy are evolving, Treasury Secretary Bessent has stated that import tarriffs could reach as much as $800 billion dollars.[16] However, much depends on the willingness of US consumers to pay higher import prices as well as on-going bi-lateral trade negotiations.[17] Should the US economy fall into recession, US consumers and businesses will likely balk at paying higher prices.[18]

Bargaining tool in trade negotiations

Tariffs (or the threat of them) can be used to push other countries towards trade concessions. The US market accounted for 26.3% ($27.7T) of global GDP ($106.2T) as of December 2024, making it the single largest market.[19] Because the US market is so valuable to exporters worldwide, the US can sometimes leverage tariffs to extract better terms. For example, US negotiators have used the prospect of tariffs to pressure partners into free trade agreements or to reform practices. One illustration was the renegotiation of NAFTA. The first Trump administration's tariff threats on Mexican and Canadian exports helped bring those countries to the table to rewrite NAFTA as the USMCA agreement in 2020. Similarly, broad tariffs on Chinese goods were intended to compel China to address issues like intellectual property theft and forced technology transfer.[20]

While the ultimate success of these tactics is debatable, the negotiating leverage of tariffs is real, though it can vary by trading partner. Tariffs can force trading partners into more favorable deals for the US, given that America's economy is the largest in the world and many countries depend on access to it. In a sense, the threat of tariffs can be a "stick" used to accompany the "carrot" of access to the US market.

Leveling the playing field

Some policymakers consider tariffs a tool to balance trade between the US and its partners. They cite the trade deficit as evidence that the US has not universally been treated fairly in trade. By making imports more expensive and presumably decreasing their volume, a tariff can, in theory, shrink the gap between what a country imports and what it exports. President Trump has often cited the persistent US trade deficit as a rationale for tariffs (see Figure 4).

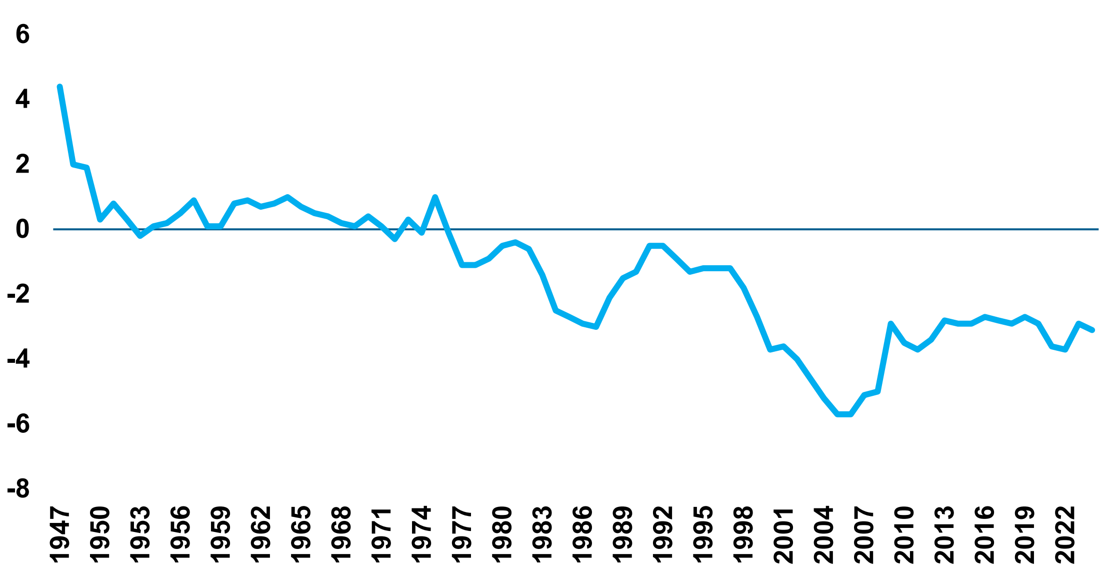

FIGURE 4

Net Export of Goods and Services 1947 - 2024 (% GDP)

Source: FRED as of April 2025. When net exports of goods and services are negative, the US accrues a trade deficit where US is importing more goods and services that it produces.

[16] Source: Wall Street Journal, R. Rubin, "Bessent Says Tariff Revenue Could Reach $800B," April 4, 2025.

[17] Source: TS Lombard, F Bremish, "Little Bear, Big Bear," April 4, 2025.

[18] Source: S. Blitz, "Markets Spooked by More Than Revenue Risk," April 4, 2025.

[19] Source: World Bank, as of December 2023. Preliminary estimates for 2024 hold that the US was on track to account for over 25% of global nominal GDP.

[20] At the time of this paper's writing, the second Trump administration has engaged in using tariffs as a bargaining tool, the full outcome of which is to be determined.

In theory, free trade between equals will result in a win-win for both countries. However, the reality is that trade barriers and protectionism are common, often resulting in one country benefitting from trade more than the other. While the US has largely pursued an open-trade policy since WWII,[21] not all countries have followed suit.[22] Taiwan, South Korea, and China have pursued mercantilist trade policies that used protectionist tariffs, weak currencies, and national finance of industry to rebuild and modernize their economies.[23] Even as European countries formed the European Union, individual countries continued to level tariffs on US imports. Unsurprisingly, the US has generally accrued trade deficits with countries who have more protectionist trade policies.[24]

Economic drawbacks of tariffs

Higher prices for consumers and inflationary pressure

By design, tariffs raise the price of imported goods – and domestic producers often raise their prices too, once price competition is lessened. The result is that consumers and businesses pay more. From the consumer's perspective, import tariffs are effectively a consumption tax: the cost of a tariff shows up as a higher sticker price on everything from electronics and appliances to food and clothing. For example, during the 2018–2019 US–China trade war, studies estimated that Americans were paying essentially the full cost of US tariffs on imported Chinese goods in the form of higher prices.[25] One analysis found virtually 100% passthrough of those tariffs into US domestic prices – meaning Chinese exporters did not cut prices or their margin, so the end customer bore the full added cost.

Certain products offered stark examples: after the US imposed a tariff on imported washing machines, the price of laundry appliances in the US jumped sharply (one estimate was an increase of $86 per washer, including domestic models, as domestic firms took advantage of the tariff on foreign rivals). Tariffs may especially hurt lower-income households that spend a larger share of their income on consumer goods.

The cumulative price increases from tariffs can thus contribute to inflation, depending on the consumer's willingness to pay the higher price. The impact on inflation will depend on the size and scope of the tariffs. On their own, the tariffs should result in only a one-time price increase. However, it could have knock-on effects that cause a longer-term increase in inflation. For example, if workers respond to higher prices by demanding higher wages, tariffs can flow through to cause inflation in the broader economy. Note that the ability of businesses to pass on costs to consumers may be limited in times of economic dislocation. For example, during the pandemic, a shortage of semiconductors due to significant supply chain disruption pushed new car prices higher for both consumers and dealers, though dealers appear to have partially absorbed some of the price increase (see figure 5).

21 Source: NBER, J. Brad Delong and Barry Eichengreen, "The Marshall Plan: History's Most Successful Structural Adjustment Program," 1991.

22 Source: Financial Times, N. Dyer, "What Economists Get Wrong About Tariff Wars," March 5, 2025.

23 Source: NBER, R. Morck et al, "East Asia Financial Crisis," 2001. Another form of trade protectionism called Import Substitution Industrialization (ISI) has been attempted by developing countries with less success largely due to their inward focus producing goods solely for domestic consumption. The Asian Tiger model instead is outward looking where factory capacity is focused on cheap exports to other countries. Asian tiger economies also engage in wage suppression to discourage domestic consumption and maintain competitiveness.

24 Economists generally caution that a lower trade deficit is not automatically a "pro" if it comes at the cost of higher prices or reduced efficiency. Moreover, measures of trade deficits tend to focus on "goods" rather than "services." This is an important distinction for the US, where our domestic economy is largely driven by services rather than manufacturing of goods. The US had a trade surplus in services of $295 billion in 2024, up from $77 billion in 2000. Source: Wall Street Journal, "Trump's Trade Math Ignores a Major Export: American Services", April 10, 2025.

25 Source: NBER Working Paper, Amiti, et al., 2025, "Trade Protection, Stock-Market Returns, and Welfare".

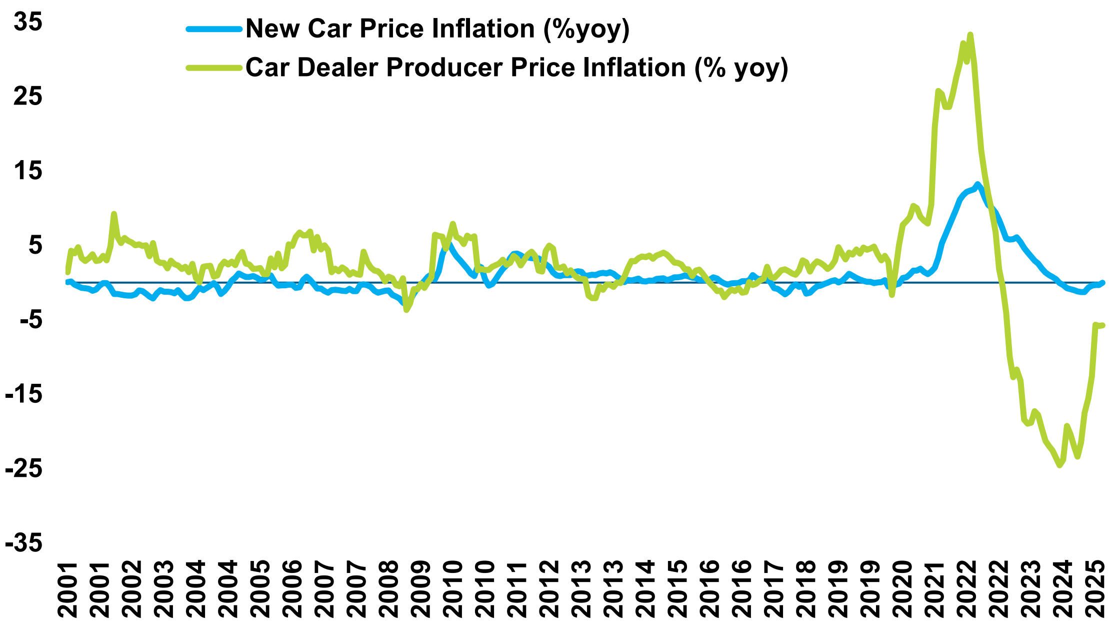

FIGURE 5

New Car Price Inflation for Dealers and Consumers

Source: FRED as of March 2025. Automakers have many tools to incentivize and finance new car sales deflecting some price increases to ensure sales. See 2020 through 2025 where dealer prices rose higher and fell more quickly than retail car prices in the same period.

Higher input costs for businesses (hurting downstream industries)

Tariffs not only affect final consumer goods but also raw materials and intermediate goods that US companies use. When tariffs increase costs for key inputs – such as steel, aluminum, computer chips, or chemicals – the downstream American industries that rely on those inputs will either need to raise their prices or accept lower profits. For example, while steel mills benefited from the 25% steel tariff in 2018, US manufacturers who consume steel (e.g., auto makers, machinery producers, construction firms, canned food companies) faced significantly higher costs. A study by economists at the Federal Reserve found that the tariffs on steel, aluminum, and parts from China raised input costs by about 1% of manufacturing value-added, which contributed to layoffs in those downstream sectors.[26] In fact, Fed researchers quantified that any employment gains in protected industries (+0.3%) were more than offset by job losses (-1.1%) in industries facing higher input costs and by losses from foreign retaliation (-0.7%).[27]

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While figures vary, the broad point is that tariffs can act as a tax on supply chains, making US-made products more expensive and less competitive both at home and

[26] Source: Econofact, "Fact Check: Did the Trump tariffs increase US manufacturing jobs?".

[27] Ibid.

abroad. This can suppress production and employment in sectors that far outweigh the benefits to the protected industry. Moreover, when input costs rise, companies often pass some of that on as higher prices to consumers, further feeding the price increases.

Retaliation and export losses

Perhaps the biggest risk of tariffs in an interconnected global economy is that other countries may retaliate with their own tariffs or with other actions. When the US imposes tariffs on another country's exports, that country often targets US exports in return – especially iconic or politically sensitive products. The result can be a tit-for-tat trade war that depresses exports and hurts producers on both sides.

History provides a stark lesson: after Congress passed the Smoot-Hawley Tariff Act of 1930, which hiked US tariffs to record levels, America's trading partners retaliated aggressively. Over 25 countries, including Canada and European nations, raised tariffs on US goods. Research quantifying that episode found that US exports to countries that retaliated fell by about 28–33% during the early 1930s.[28] In other words, American farmers and manufacturers lost about a third of their sales in those markets because foreign governments answered US tariffs with their own tariffs. While the Great Depression had many causes, the beggar-thy-neighbor trade war instigated by the Smoot-Hawley tariffs is widely cited by economists as a major policy mistake – a cautionary tale of how protectionism can backfire.

[28] Source: NBER Working Paper, Mitchener, et al., 2021, "The Smoot-Hawley Trade War".

> When the US slapped tariffs on steel and aluminum in 2018, the European Union responded in kind, imposing 25% tariffs on about $3 billion of US exports including bourbon whiskey, peanut butter, orange juice, blue jeans, and Harley-Davidson motorcycles.[29]

There are ample examples of more recent retaliation for tariffs. When the US slapped tariffs on steel and aluminum in 2018, the European Union responded in kind, imposing 25% tariffs on about $3 billion of US exports including bourbon whiskey, peanut butter, orange juice, blue jeans, and Harley-Davidson motorcycles.[29] Canada and Mexico likewise imposed tariffs on US agriculture and manufactured goods in retaliation for the steel measures. Perhaps most dramatically, China retaliated against US tariffs by placing heavy tariffs on US agricultural exports (like soybeans, pork, and corn) and certain manufactured goods. US farm exports to China fell sharply – for instance, American soybean shipments to China dropped by over 50% in 2018 after China

[29] Ibid.

imposed a 25% tariff on US soybeans. The impact was so severe that the US government authorized around $28 billion in emergency aid to farmers over 2018–2019 to offset their losses from the trade war. This underscores that retaliatory tariffs can inflict real pain on exporters, potentially more than offsetting any benefits the original tariff had for protected industries. In a globalized economy, few industries operate in isolation – many domestic industries are also exporters, and when they face foreign tariffs, their competitiveness suffers. As we write this note, both the US and China have announced tariffs on all imports from each other, including retaliatory tariffs (see figure 6).

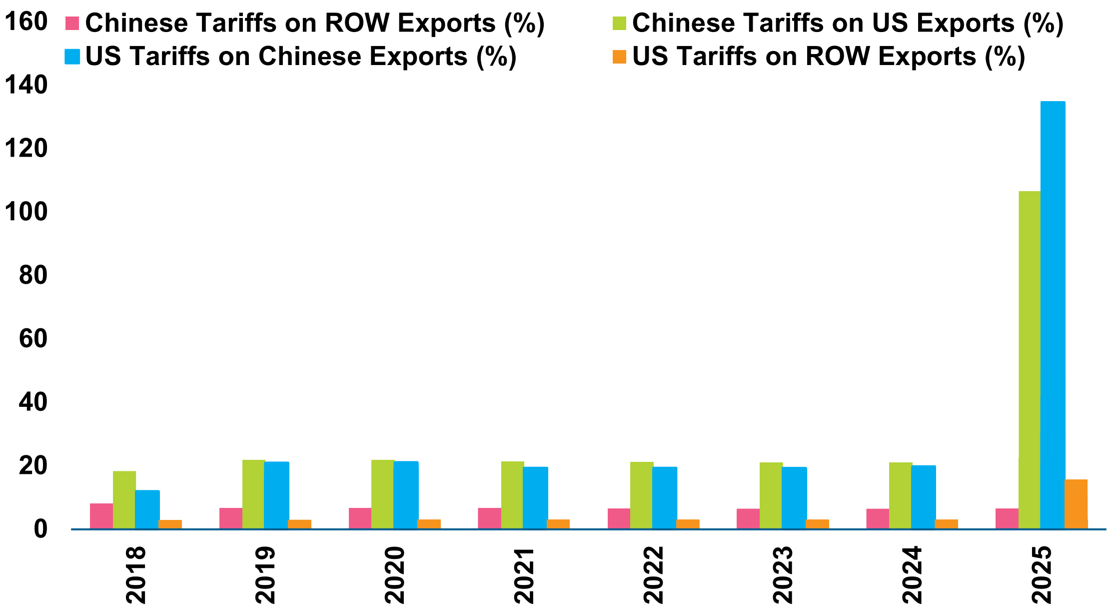

FIGURE 6

US and China Import Tariffs on Each Other and the Rest of the World (%)

Source: PIIE, C. Brown, "US-China Tariffs: An Up To Date Chart," April 21, 2025. The Biden administration not only kept Trump tariffs on some Chinese imports, it also significantly expanded the export rules on semi-conductor exports as well as expanded the blacklist of companies with Chinese military links.

Reduced economic growth and efficiency

Tariffs tend to distort the economy's allocation of resources, steering them toward less efficient domestic industries and away from areas of comparative advantage. By protecting less-efficient producers, resources (i.e., labor and capital) might be directed to sectors where those companies do not have an edge, instead of letting those resources flow to more productive uses. The result is a loss of overall economic efficiency or productivity. Economists refer to this as a "deadweight loss" – gains from trade that are foregone.

At a macro level, widespread tariffs can slow economic growth by reducing trade, raising costs, and creating uncertainty. The International Monetary Fund (IMF) and other forecasters warned in 2019 that the US-China tariff escalation could shave several tenths of a percent off global GDP growth. In 2021, it is estimated that the trade war cost the US economy 0.5% of GDP (about $100 billion in lost output) and 245,000 fewer jobs than otherwise would have existed.[30] Real incomes were reduced by an estimated $650–$800 per household on average as a result.[31]

[30] Source: Oxford Economics.

[31] Ibid.

Another aspect is productivity growth – by insulating domestic firms from competition, tariffs can remove incentives to innovate or improve efficiency. Over time, this can lead to lower productivity gains and a less efficient economy over the long haul.

Impact on investment and financial markets

Tariff policy can roil financial markets and deter business investment due to increased uncertainty and anticipated cost impacts. Tariffs can pinch corporate profit margins (through higher costs) and reduce sales (through retaliation and higher prices for consumers), which is why equity prices generally react negatively to protectionism. The US-China trade war coincided with periods of stock market volatility – markets often dipped on days when new tariff actions were announced or when rhetoric escalated. A detailed analysis published by the National Bureau of Economic Research found that tariff announcements during 2018–2019 "systematically decreased stock prices" in the US.[32] Companies with heavy exposure to China (either as a market or a supply source) saw the biggest declines.

[32] Source: NBER Working Paper, Amiti, et al., 2025 ,"Trade Protection, Stock-Market Returns, and Welfare".

"During the 2018-19 trade war, US Treasury bond prices often rose (and yields fell) on news of tariffs, suggesting that investors fled to safe-haven assets whenever trade tensions worsened."[33]

In the bond market, the effect of tariffs can be one of two outcomes. Initially, the fear of inflation from tariffs can push up interest rates; however, the stronger effect tends to be the growth concern, which pushes rates down. For example, during the 2018-19 trade war, US Treasury bond prices often rose (and yields fell) on news of tariffs, suggesting that investors fled to safe-haven assets whenever trade tensions worsened.[33] Higher bond prices mean lower yields, indicating expectations of slower growth and lower inflation – consistent with a view that tariffs would cool the economy.

[33] Ibid.

Another piece of research estimated that the trade war reduced US business investment growth by about 1.9 percentage points by 2020.[34] The logic is straightforward: when policy is unpredictable and global supply chains are in question, many firms postpone or cancel capital expenditures. Why build a new factory or expand, if suddenly your input costs might spike or your export market might shrink due to tariffs? The data from that period showed a significant drop in investment in sectors most hit by the tariffs.

[34] Ibid.

Broader economic and political risks

On a broader level, extensive use of tariffs can strain relations with allies and potentially invite legal challenges in forums like the WTO.[35] If US tariffs are found to violate trade agreements, it can authorize trading partners to impose retaliatory

[35] From the initial filing of a complaint to resolution (including appeals), a typical challenge at the WTO can take one to two years.

tariffs legally. Depending on the extent to which a country fears retaliatory tariffs, the effectiveness of a challenge is limited.

Trade barriers can also provoke shifts in global alliances – countries excluded by high tariffs may seek new partnerships (for example, after the US imposed tariffs, some countries forged closer trade ties with each other, bypassing the US). In addition, tariffs can provoke ill will toward the US that leads to a decline in foreign tourism. Foreign tourists accounted for ~$240 billion of spending in the US in 2023.[36]

Domestically, tariffs create winners and losers, which can be politically divisive: industries benefiting from protection will lobby to keep tariffs, while industries hurt by higher costs will lobby to remove them. This "rent-seeking" behavior can distort policy. Furthermore, once tariffs are in place, companies invest capital to adapt (e.g., relocating supply chains), meaning even if tariffs are later removed, those sunk costs represent wasted resources. In short, tariffs can become entrenched and hard to unwind, locking in some of the inefficiencies they create.

Balancing it out

In weighing the pros and cons, economists often conclude that while tariffs can help specific groups (i.e., certain industries or workers), they tend to impose larger net costs on the overall economy. The costs appear in the form of higher prices, inefficiencies, and retaliation.

However, the debate is not entirely one-sided: proponents argue that non-monetary benefits (like national security or the preservation of vital industries) justify the price, and that short-term costs may yield long-term gains if tariffs succeed in correcting unfair trade practices. The ultimate judgment on tariffs can depend on one's priorities – consumer versus producer interests, short-term versus long-term perspective, and how much weight to give strategic considerations beyond economics.

Conclusion

Tariffs, as simple as they sound – just taxes on imports – have profound and complex effects on the economy and on international relations. For the United States, tariffs have been instrumental at various stages: they helped finance the government in its infancy, they protected and arguably fostered young industries in the 19th century, and they became a focal point of global economic cooperation (and discord) in the 20th and 21st centuries.

The economic impact of tariffs is a balancing act between benefits like protected jobs or industries, and costs like higher prices and retaliatory damage to exports. Mainstream economic analysis tends to find that broad-based tariffs hurt overall growth and efficiency. That is, the costs to consumers and unprotected sectors outweigh the gains to protected sectors. Tariffs can also introduce inflationary

[36] Source: Statista.com.

pressure and unsettle financial markets by injecting uncertainty.

These factors make tariffs a blunt instrument that can backfire if overused. However, tariffs remain a powerful policy tool for certain objectives. For instance, if the goal is to revive a specific industry or to punish a specific trade practice, tariffs can indeed apply direct pressure. Tariffs can also serve legitimate goals like safeguarding national security in critical sectors or giving breathing room to industries facing a sudden import surge (i.e., tariffs used temporarily, as "safeguards," can be a pressure-release valve). Politically, tariffs often appeal because they are visible and can be framed as standing up for domestic workers against foreign competition.

In conclusion, tariffs are neither all-good nor all-bad; they are tools with specific uses and significant side effects. In the US context, they have been used to build industry, to signal disapproval or force policy changes abroad, and occasionally as populist policy to address trade grievances. Their pros include protecting jobs in targeted sectors, giving leverage in negotiations, and generating revenue. Their cons include higher prices for consumers, retaliatory pain for exporters, efficiency losses, and friction with trading partners.

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