A tariff is a tax placed by a government on goods that are imported from another country. An import is a product that is produced in one country and brought into another country to be sold. When a government places a tariff on imports, it requires companies that bring those goods into the country to pay an additional tax before the goods can enter the domestic market.

Tariffs are one of the oldest economic tools used by governments. They are part of what economists call trade policy, which refers to the laws and regulations that govern how countries buy and sell goods with one another. International trade allows countries to exchange products they produce efficiently for products produced elsewhere. Tariffs interfere with this exchange by making imported goods more expensive.

To understand tariffs clearly, it is important to see how they work in practice. Suppose a company imports steel from another country. If the government places a 25% tariff on imported steel, the importer must pay that additional tax when the steel enters the country. The importer then has two choices: absorb the cost themselves or raise the price when selling the steel domestically.

Most of the time the cost is passed along to the next buyer. The company that imports the steel raises its selling price to cover the tax. The next business that buys the steel then pays more for its materials. If that business manufactures cars, appliances, or construction materials, its production costs increase. In order to maintain profits, that business usually raises its prices as well.

Because of this chain reaction, the cost of tariffs often moves through the entire economy until it reaches the consumer, which is the final person buying the finished product. This is why economists often describe tariffs as indirect taxes on consumers, even though the tax is technically charged to the importing company.

Governments often justify tariffs using several arguments. One argument is protecting domestic industries. A domestic industry refers to businesses that operate within a country’s borders. If imported goods are cheaper than domestically produced goods, local companies may struggle to compete. By placing tariffs on foreign products, the government increases the price of imports so that domestic producers become more competitive.

For example, if foreign steel is significantly cheaper than domestic steel, local steel producers may lose business. A tariff raises the price of imported steel, making domestic steel relatively more attractive to buyers. This protection can help domestic industries survive or grow.

Another reason governments use tariffs is to generate government revenue. Because tariffs are taxes, they produce income for the government. Historically, before modern income taxes existed, tariffs were a major source of government funding.

Tariffs are also sometimes used as tools in trade negotiations. Governments may impose tariffs on another country's goods in response to trade disputes or political conflicts. This type of economic pressure is intended to influence the policies or actions of another country.

However, tariffs also produce economic consequences that extend beyond the targeted industries. When tariffs raise the price of imported goods, they often raise prices throughout the economy. Higher input costs can affect industries that depend on imported materials. For example, tariffs on steel affect not only steel producers but also construction companies, car manufacturers, and machinery producers.

In economics, this effect is called cost pass-through, which means that increased costs at one stage of production move through the supply chain until they reach the final buyer.

Tariffs can also lead to retaliation, which occurs when other countries respond by placing tariffs on exports from the country that started the trade barrier. An export is a product produced domestically and sold to foreign markets. If foreign governments impose tariffs on these exports, domestic industries that rely on international sales may lose customers.

For example, if one country places tariffs on imported agricultural equipment, another country may respond by placing tariffs on agricultural products such as wheat, soybeans, or corn. In this case, farmers who export crops may suffer economic losses because their products become more expensive in foreign markets.

This process can escalate into what economists call a trade war, which is a situation where countries repeatedly impose tariffs on each other's goods. Trade wars can reduce global trade, slow economic growth, and increase prices for consumers.

Tariffs also influence market efficiency, which refers to how well resources are allocated in an economy. In a free market, goods are typically produced where they can be made most efficiently. Tariffs interfere with this process by artificially changing prices. As a result, resources may shift toward industries that would otherwise struggle to compete without government protection.

Another group affected by tariffs is small businesses that rely on imported materials or components. Many businesses operate within global supply chains, meaning they rely on parts or materials produced in multiple countries. When tariffs increase costs for these inputs, smaller companies may struggle to absorb the added expenses.

Consumers are often the largest group affected by tariffs because they ultimately pay higher prices for goods. Products such as electronics, clothing, vehicles, and household appliances may become more expensive if tariffs increase the cost of imported materials or finished goods.

At the same time, some domestic industries may benefit from tariffs if they face less competition from foreign producers. Workers employed in those industries may see increased demand for their products, which can support jobs and wages in those sectors.

Because tariffs create both winners and losers, economists study them carefully when evaluating trade policy. Some industries gain protection and market share, while other industries face higher costs and reduced exports.

So, a tariff is a tax on goods entering a country. While the tax is paid at the border by importers, the economic impact spreads throughout the economy. Businesses that rely on imported materials face higher costs, other countries may respond with tariffs of their own, and consumers often pay higher prices for everyday goods.

Understanding tariffs therefore requires recognizing how global trade works as an interconnected system. When governments place taxes on imports, those taxes influence producers, workers, businesses, international relationships, and ultimately the prices that consumers pay in the marketplace.