

# What is a tariff? An economist explains

By Amitrajeet A. Batabyal, The Conversation, adapted by Newsela staff on 04.06.18

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Image 1. The Lica Maersk, a container ship that carries goods for the country of Denmark, 2017. Container ships are huge vessels that can transport containers as big as trucks. The ships are used for world trade. They carry goods from country to country. Photo from the public domain

In March, President Donald Trump set tariffs on two imported goods. He set a tariff on imported steel and on imported aluminum. Imports are goods that are bought from another country. Exports are goods that are sold to another country.

Many people are wondering if the tariffs will be good or bad for the U.S. As an economist, I am wondering the same thing, but let's try to understand what a tariff actually is.

## What Is A Tariff?



A tariff is a tax on an imported good. That means that if someone in the U.S. buys that good from another country, they have to pay extra money. That money, or tax, goes to the U.S. government.

Some tariffs are fixed. Others depend on the price of imported goods. One example is a tariff that is a 20 percent tax on the price of all imported cars. Trump's tariffs are this kind.

These days, governments use tariffs to try to help their country's businesses. Tariffs are also a way for governments to make more money.

### **The Effects Of Tariffs**

A tariff can have different effects. These effects depend on the country that sets the tariff. Some countries have much more power than others over trade. The trade of a good is the selling and buying of that good.

Let's look at an example. Cocoa beans are used to make chocolate. Ghana is a country in Africa, and it is one of the world's top exporters of cocoa beans. The Netherlands, a country in Europe, is one of the biggest importers of cocoa beans. The people who live there are known as the Dutch. Dutch factories turn those beans into chocolate. They also make them into cocoa powder and cocoa butter, which they sell to chocolate makers in other countries.

Now, imagine if the Netherlands had its own cocoa bean growers. If it put a tariff on cocoa bean imports from Ghana, three things would happen.

First, the tariff would make cocoa beans from Ghana cost more. Chocolate makers in the Netherlands would have to pay more to import Ghana's beans. Dutch chocolate makers might make less money. They would also charge more for the chocolate they make from those beans. It would also be bad news for Dutch people, who eat a lot of chocolate.

The tariff would be good for Dutch cocoa farmers, though. Their beans would be cheaper compared to Ghana's. So, Dutch chocolate makers would buy more Dutch beans instead.



Second, the tariff would have a bad effect on Ghana. The farmers in Ghana would have to lower their prices. Otherwise, people would stop buying beans from them. That means cocoa bean farmers in Ghana would make less money than before.

Finally, there would be less trade of cocoa between Ghana and the Netherlands.

Now, let's imagine for a second that the Netherlands is not a big buyer of cocoa beans. Then, there would only be two effects. Because of the tariff, Dutch chocolate makers would still have to pay more to buy cocoa beans from Ghana. Dutch cocoa growers would still sell more beans. And there would still be less trade with Ghana.

But the tariff wouldn't hurt Ghana much, since the Netherlands isn't a big cocoa bean buyer and chocolate maker in this example. Ghana could keep selling its cocoa beans to other countries at the same prices. It wouldn't have to charge less money for its cocoa beans.

## **The Risk Of A Trade War**

Tariffs can have good and bad effects. In our example, Dutch farmers would earn money and sell more of their own beans. The Dutch government would make money from the tariff. Ghana would also be forced to make its beans cheaper because the Netherlands is an important buyer. But the Dutch people and Dutch chocolate makers would still probably have to pay more for beans and chocolate.

In some cases, countries can be better off with a tariff, but there is another problem. We saw that a Dutch tariff on cocoa would hurt Ghana. So, Ghana would probably want to do something about it. It could set up its own tariffs on goods from the Netherlands.

There is always the risk of countries setting more and more tariffs against each other. This is called a trade war. It is why trade experts are often against tariffs.

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**Quiz**

1 Read the section "What Is A Tariff?"

Which selection from the section BEST shows why countries sometimes use tariffs?

- (A) A tariff is a tax on an imported good. That means that if someone in the U.S. buys that good from another country, they have to pay extra money.
- (B) That money, or tax, goes to the U.S. government. Some tariffs are fixed. Others depend on the price of imported goods.
- (C) One example is a tariff that is a 20 percent tax on the price of all imported cars. Trump's tariffs are this kind.
- (D) These days, governments use tariffs to try to help their country's businesses. Tariffs are also a way for governments to make more money.

2 Which sentence from the article BEST explains why many experts do not like tariffs?

- (A) These days, governments use tariffs to try to help their country's businesses.
- (B) Finally, there would be less trade of cocoa between Ghana and the Netherlands.
- (C) In some cases, countries can be better off with a tariff, but there is another problem.
- (D) There is always the risk of countries setting more and more tariffs against each other.

3 Read the sentence from the section "The Risk Of A Trade War."

*This is called a trade war.*

Which sentence uses "war" in the MOST SIMILAR way as the sentence above?

- (A) When my sister and I argue, it becomes a war of words.
- (B) The dog chewed-up a bunch of small war figurines.
- (C) There is a violent war going on in Syria.
- (D) The Civil War was fought over one hundred years ago.

4 The word "tariff" is essential to understanding the article.

Which sentence from the article BEST helps the reader understand the word "tariff"?

- (A) In March, President Donald Trump set tariffs on two imported goods.
- (B) As an economist, I am wondering the same thing, but let's try to understand what a tariff actually is.
- (C) That means that if someone in the U.S. buys that good from another country, they have to pay extra money.
- (D) These days, governments use tariffs to try to help their country's businesses.