Pros and Cons of Tariffs: What Finance Professionals Need to Know

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The U.S. imported roughly $4.3 trillion worth of goods and services in 2025, according to the Bureau of Economic Analysis. That scale of trade underscores how closely the U.S. economy is tied to suppliers and markets beyond its borders.

Tariffs change the terms of trade by adding a tax to certain imports. Governments may use them to raise revenue or protect specific domestic producers, but the effects of tariffs extend to all businesses that rely on the imported goods affected, as well as to consumers who often end up paying higher prices.

Understanding the pros and cons of tariffs is particularly important for finance professionals, who may have to evaluate how tariffs could affect an organization's financial position. Pursuing an advanced degree in finance can help professionals develop the analytical skills and economic expertise needed to interpret changes in trade policy and support sound business strategy.

What Is a Tariff?

A tariff is a tax imposed by one country on goods imported from another. It is generally collected when the product enters the importing country and is often calculated as a percentage of the product's value.

Although tariffs are directed at foreign goods, the importer is typically responsible for paying the charge. That added cost can then move through the supply chain. A manufacturer that imports engines, for example, would face higher production costs if those engines were subject to a tariff and may pass some of that increase on to its consumers.

Tariffs can serve several purposes. A government may use them to minimize competition from foreign products or exert pressure during a trade negotiation. Governments also may impose tariffs to generate revenue.

Pros and Cons of Tariffs

Tariffs can have certain advantages for some parts of the economy, while creating challenges for others. Their effects depend in part on which goods are taxed, along with how businesses and consumers respond.

The potential pros of tariffs include:

- **Increased government revenue:** Tariffs generate income for the importing country. That country's government may use that revenue to fund infrastructure or public services, and in some cases even to reduce the government's reliance on other taxes.
- **Support for domestic industries:** By making imported goods more expensive, tariffs can improve the position of the domestic producers of those goods. This may help certain industries retain their market share or increase their production.
- **Reduced reliance on imports:** Tariffs may encourage both businesses and consumers to choose domestic alternatives to imported goods. Governments sometimes use tariffs in an effort to reduce trade imbalances.

The same policies that benefit the government of the importing country and certain domestic industries can place pressure on companies that rely on international trade and cost consumers as well.

The potential cons of tariffs include:

- **Higher costs for domestic producers:** Many U.S. companies rely on imported materials or components to manufacture the products they sell. Tariffs on these goods can increase the companies' production costs and hurt their profit margins.
- **Higher prices for consumers:** Businesses may pass part of the added expense of a tariff on to their customers. Research from the Federal Reserve Bank of San Francisco suggests that tariffs may initially coincide with lower inflation if demand slows, but inflation may rise later as tariff-related costs begin to affect prices.
- **Retaliatory measures:** The trading partners of the importing country may respond by imposing tariffs of their own. That can weaken demand for the country's exports and create further disruptions for its companies that depend on international trade.

Finance professionals need to assess the full range of advantages and disadvantages of tariffs to provide informed guidance to their organization or clients.

What Finance Professionals Should Know About Tariffs

Because modern supply chains often cross national borders, a country's tariff changes can affect businesses throughout its economy, even if they do not import goods directly. Finance professionals can help determine where those effects may be felt and evaluate their potential impact on both the financial and operational performance of their organization or clients.

Understand the Potential Impact on the Business and Its Customers

Finance professionals should begin by tracing the origins of important materials used by the business and understanding how tariffs could affect the costs of those materials. Using approaches such as forecasting, stress testing, and scenario planning, they can estimate the possible effects on the profit margins and cash flow of the business.

This analysis should account for the business's suppliers and customers. Vendors may pass along the higher costs they face due to tariffs, and price increases could weaken demand for the business's products or lead buyers to seek alternatives.

Put Plans in Place to Mitigate Impacts

Once the risks are clearer, finance professionals can help craft a response. Strategies that may help limit the adverse effects of tariffs include:

- **Review pricing and costs:** Businesses can determine whether their prices need to change by considering how their customers may respond, especially if they plan to raise prices. Reducing costs in other areas could help offset some of the financial impact of the tariffs.
- **Examine contracts and shipment timing:** Companies' existing terms may provide room for renegotiation. In certain situations, adjusting shipment schedules could mitigate the impact of tariffs.
- **Consider other materials or suppliers:** Companies may be able to purchase certain materials from different sources in countries not affected by tariffs to lower their production costs.
- **Explore available relief:** In some cases, government programs may be able to provide short-term relief to businesses affected by tariffs.

Consider the Financial Reporting Implications

The effects of tariffs may extend beyond higher costs. Depending on the type of business, they may influence how a company accounts for inventory, recognizes revenue, estimates taxes, and projects its ability to meet its financial obligations.

Finance professionals may need to assess how higher costs or weaker demand could change the assumptions they used in their financial reporting. Because tariff policies can shift as a result of negotiations or new government actions, making reliable estimates can be more difficult.

Help Clients Navigate Investment Uncertainty

Financial advisors may need to explain to investors how tariffs could affect overall economic growth, company earnings, and market performance. The effects can vary considerably among businesses, even within the same industry.

Advisors can help their clients maintain a long-term perspective, rather than reacting to short-term changes in trade policy or market conditions, and review whether their portfolios remain aligned with their goals and risk tolerance.

Build Expertise for a Changing Global Economy

Understanding the pros and cons of tariffs can help finance professionals assess how trade policy may affect businesses, consumers, and investors. That insight can enable them to make more informed decisions when costs or market conditions change.

If you are looking to enhance your financial expertise, explore the Master of Finance program at Tulane University's Freeman School of Business. The program's applied curriculum emphasizes hands-on learning and career-relevant skills, helping you build the analytical capabilities needed to evaluate complex financial challenges and devise informed business strategies.

Learn how Tulane can help you advance in your career.

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