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Give Shoe Taxes the Boot

Edward Gresser and Bryan Riley

Liberals and conservatives have plenty to disagree about. But faced with continuing high levels of unemployment and slow economic growth, they should agree on a few things—and one is that Congress should find ways to help Americans at the bottom rung of the economic ladder. The Affordable Footwear Act (AFA) is one such effort. Introduced by Joe Crowley (D–NY) and Lynn Jenkins (R–KS) in the House of Representatives and Roy Blunt (R–MO) and Maria Cantwell (D–WA) in the Senate, it would repeal many of the disproportionately high tariffs on shoe imports and save American families as much as $3 billion a year.

The AFA was first introduced in 2009, but three years later, Americans continue to pay more than they should for footwear. Now is the time for Congress to reduce tariffs on shoes and help all Americans save a few dollars on their next pair of work boots, pumps, or sneakers.

The Shoe Tax. The big but little-known shoe tax has its roots in the early history of American trade policy. A hundred years ago, tariffs raised half of the government's money. Tariff rates peaked in 1930 with the Hoover-era Smoot–Hawley Act. But after seven decades of trade liberalization, the tariff system is now a tax backwater. Most U.S. tariffs are now quite low, and there are no tariffs at all on a vast swath of goods—toys, furniture, natural gas, semiconductor chips, coffee, aluminum, airplanes, computers, birdseed, or cell phones. Today's tariff system raises only a penny of each dollar of federal money.

Still, a few goods remain subject to tariff rates almost as high as those of the 1920s. Shoes are the extreme case. Shoe tariffs, a remnant of the Smoot–Hawley Act, are 10 times higher than the average U.S. tariff rate.[1] In 2011, shoes accounted for just 1 percent of merchandise imports, but they provided 7.9 percent of U.S. tariff revenue.[2]

Americans bought about 2.3 billion pairs of shoes in 2010—many designed here, but virtually all stitched and glued overseas.[3] The value of these shoes at the border was $22.6 billion, and the U.S. government collected footwear duties amounting to $2.3 billion—and a closer look finds that the government is charging poor families the most. Tariffs are 8.5 percent for leather dress shoes, rising to 20 percent for running shoes and peaking at more than 60 percent for some grades of cheap sneakers—the highest tariffs imposed on any manufactured good. For a pair of canvas sneakers with rubber soles that costs $10 to import, the government charges an additional $2.90 in import taxes.

Free trade agreements (FTAs) and trade preference programs for developing countries provide little relief. This is because almost all of America's inexpensive shoes come from countries that are not FTA partners, in particular China. In addition, most footwear products are excluded from the U.S. Generalized System of Preferences (GSP) program, which reduces tariffs on many goods from developing countries.

The High Cost of Footwear Tariffs. The consequences for families, especially those with low incomes, are dramatic. Tariffs inflate the cost of the cheapest shoes by about one-third. As the sneakers travel through the supply chain on the way to the retailer's shelf, the

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

tariffs may be magnified by retail markups and state sales taxes. The $10 pair at the border is a $30 pair in the store, with the tariff now accounting for as much as $8.70, even though the original tariff provided the federal government just $2.90 in tariff revenue. In larger terms, these markups mean the tariff that raises $2.3 billion may cost shoppers billions of dollars more.

Footwear tariffs are a hidden, regressive tax on a household necessity. They reduce the amount of income families have to spend on other goods and services. This expense is most onerous for low-income families with children, who spend the largest share of their income on shoes and other necessities of life.

No Negative Impact on Jobs. Such a tax is a problem to which the Affordable Footwear Act provides one solution. By eliminating tariffs on many low-price sneakers and children's shoes, it would have an immediate and meaningful impact on household budgets. As the cheapest shoes face the highest tariffs, the effective tax cut would be highest for the poorest families.

Many supporters of tariffs view them as necessary to protect American industries and jobs from international competition. But the shoe tariffs that would be eliminated by the Affordable Footwear Act support no domestic shoemaking jobs, because America's footwear manufacturers largely produce specialty and high-value footwear, not the kinds of inexpensive shoes that make up the bulk of imports. The United States has fewer than 12,000 shoe manufacturing jobs.[4] These are mostly in design, research, marketing, or specialized production of sophisticated gear for workers in hazardous jobs, rather than mass-market shoe production. The inexpensive shoes and sneakers with the highest tariffs have not been made in the United States since the 1970s.

Regressive Taxes Hurt the Poor. Why, then, keep the tariff in place? High protectionist tariffs on inexpensive footwear have been untouched since the 1950s. The industries that lobbied to put them in place are long gone. Today, they serve only to needlessly raise the price of shoes. As we reduce tariffs in imported shoes, every dollar consumers save on shoes can be spent on food, clothing, or other products, creating jobs in retail and other industries.

Conservatives and progressives should argue out their differences. But they can all agree that the federal government should not maintain regressive taxes that, by definition, hit poor Americans the hardest. Working in this spirit, the Affordable Footwear Act would make the next pair of shoes more affordable for everyone, especially low-income families.

*—**Edward Gresser** is director of the ProgressiveEconomy Project at the GlobalWorks Foundation. **Bryan Riley** is Jay Van Andel Senior Analyst in Trade Policy in the Center for International Trade and Economics at The Heritage Foundation.*

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