RECOMMENDATION FOR THE OFFICE OF THE PRESIDENT-ELECT FROM THE AFFORDABLE FOOTWEAR COALITION[1]

ECONOMIC RECOVERY PROGRAM LEGISLATION

December 19, 2008

Americans are worried about their jobs and their families' economic well-being. As a result, the retail industry is experiencing a devastating holiday season, and in November, had its worst sales month in over three decades.

Consumer spending is vital to the health of the U.S. economy. As you develop your economic recovery program, we hope you will consider including the *Affordable Footwear Act* (AFA), a measure that can provide immediate and direct relief to hard-working American families while increasing consumer spending power. This legislation removes regressive import duties on a range of essential shoe types, including children's, lower-priced working shoes, and some very high duty items. The legislation will not reduce duties on higher-priced leather fashion footwear, but is focused on the footwear most purchased by lower- to middle-income families.

The *Affordable Footwear Act* also provides support to an important segment of the retail community, which faces these sobering realities:

- The economy lost 533,000 jobs in November, including 91,000 in the retail sector. After the holidays, the drop in retail employment will likely accelerate as many retailers are merely holding on through the holiday season before they make more job cuts and close stores.

- Retail sales in November were down another 2% and represented a drop of 8.5% from November 2007. Moreover, the damaging trend has continued into December. Retailers are seeing substantially fewer customers walk through the doors than at this time last year and those people are buying less.

To understand the potential of the *Affordable Footwear Act*, and its noteworthy role in an economic recovery program, consider:

- With duty rates as high as 67.5 percent, the U.S. import duties on footwear are some of the highest in the entire tariff system. U.S. footwear importers paid ***$1.9 billion*** in duties to the U.S. Government in 2007, more than the duties paid on imports of virtually any other single type of product.

- Since duties are subject to the same mark-ups as any cost, the $1.9 billion in import duties translates into a $4 to $5 billion tax each year on hard working families when they buy their shoes. A multi-billion dollar tax that is unavoidable because footwear is a basic necessity. Something that everyone must buy, and that needs to be bought several times a year for growing children.

- The *Affordable Footwear Act* would eliminate about $800 million in duties on children's and low-priced shoes, leaving more in the average family budget for other essentials.

- The duties targeted by the *Affordable Footwear Act* are truly regressive. Under the existing tariff code, the highest tariffs are charged on the lowest cost footwear (canvas uppers and rubber bottoms) while higher priced leather footwear has a much lower tariff.

The AFA targets the former, which is the high tariff – low cost shoes most needed by America's hardworking families trying to stretch a dollar.

- The cumulative effect of these enormous tariffs can represent up to one-third the cost of a pair of value-priced shoes. Meaning a $15 pair of children's sneakers could be carrying duty costs of almost $5 at retail.

- This regressive tax does not protect any U.S. footwear manufacturing jobs. Ninety-nine percent of footwear sold in the United States is now imported. Indeed, the entire U.S. footwear industry, including the remaining U.S. footwear producers who are fully protected under the AFA, support this legislation. No U.S. industry opposes the AFA. *The only question to be answered is whether hardworking families will be considered worthy of this tax relief.*

- The savings will be passed along to the consumer almost instantly as the duty costs are taken out of the price of footwear at the retail level. The hard-nosed competition that exists in the U.S. footwear market – recognized by the U.S. International Trade Commission – ensures that the duty-savings will be passed on to American families.

- In the 110th Congress, the *Affordable Footwear Act* was co-sponsored by over one-third of the U.S. House of Representatives and 15 Senators, including 21 Members of the Ways and Means Committee and 6 Members of the Finance Committee. As a clear demonstration of the bipartisan nature of the legislation, both the Progressive Policy Institute and the Heritage Foundation have spoken out in favor of the legislation and have co-authored a policy paper in support of it. (Attached)

- These tariffs go back to the *Smoot-Hawley Tariff Act* passed in 1930 and have not been changed in the three-quarters of a century since – even though decades have passed since the types of footwear protected by these high duties were last manufactured in the United States. The only consequences of the remaining footwear tariffs are a diminished ability for hard-working Americans to purchase shoes, and the diminished capacity of retailers to sell them.

- Last year, Senate Finance Committee Chairman Max Baucus singled out the need to address these "sneaker" tariffs in a speech before the New Democrat Network. He said, "…the tariff schedule remains inherently regressive. It taxes necessities like baby clothes, T-shirts, and ***sneakers*** at far higher rates than luxury goods. That's not in line with our values, and it's not right. We should fix it."

Now is the time to do so. Please include the *Affordable Footwear Act* as an important component of an integrated and effective stimulus package that will provide relief for America's hardworking families, the struggling retail sector and its employees.

THE AFFORDABLE FOOTWEAR COALITION

October 23, 2008

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives

The Honorable Harry Reid
Majority Leader
U.S. Senate

The Honorable John A. Boehner
Republican Leader
U.S. House of Representatives

The Honorable Mitch McConnell
Republican Leader
U.S. Senate

Dear Speaker Pelosi, Leaders Reid, McConnell and Boehner:

Recently, in the midst of economic turmoil, Congress worked together to pass legislation that would unfreeze credit and reintroduce liquidity to the market. As leaders in the retail industry, we applaud Congress's efforts to quickly address a growing financial crisis. Amid the concerns of major financial institutions failing, it is important to remember the millions of hard working families across the country that have been hit hardest by a souring economy and merit direct relief. Toward that end, we urge our leaders in Congress to pass the Affordable Footwear Act (H.R. 3934/S. 2372), which would offer timely relief to consumers on the cost of a basic necessity – all children's footwear and other moderately priced shoes.

Fortunately, this bipartisan legislation, sponsored by over one-third of the House of Representatives and fourteen Senators, is something that Congress can move on quickly when it returns to Washington, DC after the elections.

The Affordable Footwear Act would eliminate the highest and most regressive tariffs on footwear no longer manufactured in the United States. The legislation is supported by retailers and domestic footwear manufacturers alike. Most importantly, the Affordable Footwear Act would eliminate duties that no longer serve any purpose except to raise the cost of shoes to hard working consumers. These tariffs go back to the Smoot-Hawley laws passed in the 1930s and have not been changed since – even though the footwear in the bill has not been manufactured in the United States for decades.

Understandably, amid the urgency to pass the recovery bill, popular and important legislation like the Affordable Footwear Act was put aside. However, Congress can still act this year, as it now seems likely it will return this session to consider another stimulus measure to help jumpstart the economy. The Affordable Footwear Act is the perfect opportunity to provide a tangible tax cut that would immediately stimulate the economy and provide a benefit to Main Street Americans. We urge the inclusion of Affordable Footwear Act in appropriate legislation that passes during the lame duck session to assist struggling Americans.

Thank you for your consideration.

Sincerely,

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September 25, 2008

The Honorable Nancy Pelosi
U.S. Speaker of the House of Representatives

The Honorable Harry Reid
U.S. Senate Majority Leader

The Honorable John Boehner
U.S. House Minority Leader

The Honorable Mitch McConnell
U.S. Senate Minority Leader

Dear Speaker Pelosi, Leaders Reid, McConnell and Boehner:

On behalf of the National Retail Federation (NRF), the American Apparel and Footwear Association (AAFA), the Outdoor Industry Association (OIA), the Footwear Distributers and Retailers of America (FDRA), and the Rubber and Plastic Footwear Manufacturers Association (RPFMA) and the companies we represent, we strongly urge you to pass H.R.3934/S.2372, the Affordable Footwear Act (AFA) before adjourning.

As leaders in Congress, you are keenly aware that the collapse of the financial markets coupled with higher fuel prices and a depreciating dollar has pushed consumer confidence lower than it has been in decades. Consumers are scared and they need help. AFA would be an immediate stimulus to the economy and a much needed break for consumers. At the same time, this legislation would not have any adverse affect on remaining U.S. manufacturers of rubber or plastic footwear or U.S. employment in the footwear industry. None of the items that would be subject to the duty reductions are manufactured in the United States. Indeed, AFA was written in conjunction with the remaining U.S. producers of footwear who strongly support its enactment.

The legislation is sponsored by over one-third of the House of Representatives and more than twenty Members of the Ways and Means Committee as well as 14 Senators and 6 Members of the Finance Committee. AFA has supporters spanning the political spectrum. It has support from Members of the Congressional Black Caucus, the Republican Study Committee, the Blue Dogs, and the Minority Whip. In addition, the Progressive Policy Institute (PPI) and the Heritage Foundation – two think tanks with very different philosophies teamed up and wrote a joint paper endorsing AFA because it is the right thing to do.

The tariffs on the footwear included in AFA are nothing more than a hidden regressive tax. Because of the perverse nature of the tariff code, the highest tariffs (up to 67.5%) are charged on the lowest cost footwear (canvas uppers and rubber bottoms) while higher priced leather footwear has a much lower tariff (around 8% to 10%). The only consequences of these taxes are higher prices at the cash registers for those least able to afford them.

We appreciate the work you are doing to rescue the economy and restore consumer confidence. AFA is a perfect bi-partisan measure to help do just that.

Thank you for your consideration.

Sincerely,

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American Apparel & Footwear Association (AAFA) – http://www.apparelandfootwear.org
The American Apparel & Footwear Association (AAFA) is the national trade association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market. AAFA's mission is to promote and enhance its members' competitiveness, productivity and profitability in the global market by minimizing regulatory, commercial, political, and trade restraints.

National Retail Federation (NRF) – http://www.nrf.com
The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail companies, more than 25 million employees - about one in five American workers - and 2007 sales of $4.5 trillion. As the industry umbrella group, NRF also represents over 100 state, national and international retail associations.

Footwear and Distributers and Retailers of America - http://www.fdra.org
FDRA is an association of leading American footwear companies, whose members market over 80 percent of all footwear sold in the United States. Members include the nation's leading shoe retailers, brands, agents and distributors.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA)
The Rubber and Plastic Footwear Manufacturers Association is the trade association representing domestic producers of fabric-upper footwear with rubber or plastic soles, protective footwear, and slippers, as well as suppliers to those manufacturers.

The Outdoor Industry Association (OIA) - http://www.outdoorfoundation.org.
Founded in 1989, Outdoor Industry Association (OIA) is the premier trade association for companies in the active outdoor recreation business. OIA provides trade services for over 4000 manufacturers, distributors, suppliers, sales representatives and retailers in the outdoor industry. Outdoor Industry Association seeks to ensure a healthy and diverse specialty retail and supply chain based on quality, innovation and service. To this end, OIA works diligently to raise the standards of the industry; increase participation in outdoor recreation to strengthen business markets; provide support services to improve member profitability; represent member interests in the legislative/regulatory process; promote professional training and education; support innovation; and offer cost-saving member benefits.

PPI | Front & Center | December 21, 2007

Cut Shoe Tariffs To Help Low-Income Families

By Edward Gresser and Daniella Markheim

In this age of political strife, it is very good to see a bipartisan effort to make life easier for the poor. The Affordable Footwear Act (AFA) is such an effort. Introduced last month by Representatives Joe Crowley (D-NY), Kevin Brady (R-TX), and Nancy Boyda (D-KS), the AFA would repeal the disproportionate tariffs on shoe imports. High protectionist tariffs on inexpensive footwear hit the poor hardest, raising the price of a basic necessity. Congress should repeal the tariffs and help all Americans save a few dollars on their next pair of work boots, pumps, or sneakers.

The Shoe Tax

The little-known shoe tax has its roots in the early history of American trade policy. A hundred years ago, tariffs raised most of the government's revenues. But after six decades of trade liberalization, the tariff system is now a small backwater in tax policy, and most U.S. tariffs are quite low. There are no tariffs on toys, furniture, semiconductor chips, personal computers, or telephones. Even tariffs on cars amount to only 2.5 percent. A few household goods, however, are still subject to tariff rates almost as high as those of the 19th century.

Shoes are the extreme case, with tariffs 10 times the average rate, and cheap sneakers face the highest tariffs the U.S. imposes on any manufactured good. These tariffs, magnified by retail markups and sales taxes, are included in the price families pay for shoes.

Footwear tariffs are simply a hidden, regressive tax on a household necessity. Their sole effect is to reduce the amount of income families have to spend on all other goods and services. This expense is most onerous for low-income families with children, who spend the largest share of their income on the necessities of life. The Affordable Footwear Act, which would eliminate cheap-shoe tariffs, is a straightforward way to help these families stretch their household budgets further.

The High Cost of Footwear Tariffs

Americans bought about 2.4 billion pairs of shoes last year.[1] China, Italy, Vietnam, Brazil, and Indonesia are the top suppliers.[2] The value of these shoes at the border was $19 billion, and the U.S. government collected footwear duties amounting to almost $1.9 billion on the shoes. While the average weighted U.S. tariff rate across all traded goods is 1.6 percent, tariffs on shoes begin at 8.5 percent for leather dress shoes, rise to 20 percent for running shoes, and peak at more than 60 percent for some grades of cheap sneakers.[3]

U.S. free trade agreements (FTAs) and trade preference programs for developing countries provide little relief from high footwear tariffs. The bulk of America's imports of inexpensive shoes come from countries that are not FTA partners and are ineligible for preferential rates, such as China and Vietnam.

The consequences for families -- especially those with low incomes -- are dramatic. Tariffs inflate the cost of the cheapest shoes by about a third. A $2.28 pair of sneakers arriving at the border is assessed a 48 percent excise tax, adding $1.09 to the price, which is passed along to shoppers. To put the tax in perspective, the $1.09 border tax is roughly three times the 39-cent federal tax on a $2.28 pack of cigarettes, four times the national gas tax, and twice the $13.50-per-gallon tax on whiskey, vodka, and other spirits.[4] And as the sneakers travel through the supply chain on the way to the retailer's shelf, the tariffs are magnified by retail markups and state sales taxes.

Overall, tariffs raise shoe costs by about a tenth. Shoes account for just one percent of total imports but raise almost $1.9 billion out of $25 billion in annual U.S. tariff tax revenue, about 8 percent of the total. After markups and sales taxes, shoe tariffs made up $4 billion to $5 billion of the $55 billion Americans spent on shoes last year.[5]

By eliminating tariffs on footwear produced abroad, the Affordable Footwear Act would have an immediate and meaningful impact on household budgets. The International Trade Commission has estimated that completely eliminating all domestic barriers to footwear imports would lower the average price of shoes by about 4.3 percent.[6] As the cheapest shoes face the highest tariffs, the effective tax cut would be highest for the poorest families. The AFA presents a solid first step toward realizing these gains from freer trade.

No Impact on Jobs

Many tariffs are in place to protect American industries and jobs from international competition. But the shoe tariffs support virtually no domestic shoemaking and protect no U.S. manufacturing jobs, because America's footwear manufacturers today produce specialty and high value footwear, not the kinds of inexpensive shoes that make up the bulk of imports. The inexpensive shoes and sneakers with the highest tariffs have not been made in the United States since the 1970s.

America's 16,000 shoe industry jobs are almost all in design, research, marketing, or specialized production of sophisticated gear for workers in hazardous jobs, rather than mass-market shoe production.[7] Yet, high and protectionist tariffs on inexpensive footwear have been untouched since the 1950s. The industries that lobbied to put them in place are long gone. Today, these tariffs serve only to needlessly raise the price of shoes, without fulfilling the usual rationale for protectionism -- saving U.S. manufacturing jobs.

Conclusion

If you wish to understand a person's life, the familiar proverb goes, walk a mile in his shoes. The Affordable Footwear Act would make the next pair more affordable for low-income families. Congress should give America's households a little extra help by repealing the archaic, unnecessary, and regressive tariffs on shoe imports.

Notes:

1. American Footwear and Apparel Association, "Shoe Stats 2007," June, 2007.

2. See U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," October 2007, at **http://dataweb.usitc.gov**, and U.S. International Trade Administration, "TradeStats Express," Third Quarter 2007, at **http://tse.export.gov/**.

3. U.S. weighted average tariff rates for 2005 are from The World Bank, 2007 World Bank Development Indicators, April 15, 2007, Table 6.7, at **http://go.worldbank.org/3JU2HA60D0**. Tariff rates for footwear are from U.S. International Trade Commission, "Harmonized Tariff Schedule of the United States (2007)," February 3, 2007, at **http://hotdocs.usitc.gov/docs/tata/hts/bychapter/0700htsa.pdf**

4. U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau, Tax and fee rates at **www.ttb.gov/tax_audit/atftaxes.shtml**.

5. Value of duties collected from U.S. International Trade Commission Dataweb at **http://dataweb.usitc.gov**; and U.S. Department of Commerce, Bureau of Economic Analysis, "Personal Consumption Expenditures by Major Type of Product" table at **www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=65&FirstYear=2005&LastYear=2007&Freq=Qtr**.

6. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints: Fifth Update," Publication No. 3906, February 2007, at **www.usitc.gov/publications/abstract_3906.htm**.

7. U.S. Department of Labor, Bureau of Labor Statistics, "Employment, Hours and Earnings Survey" for job totals at **www.bls.gov/ces/home.htm**; conversations with shoe industry people on production.

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