

RECOMMENDATION FOR THE OFFICE OF THE PRESIDENT-ELECT FROM THE AFFORDABLE FOOTWEAR COALITION¹

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.