THE REBIRTH OF PRO-SHOPPER POPULISM:

And the Case for Tariff Reform

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The tariff system is America's oldest tax – and also America's least-studied tax. Few recent Treasury Department reports, Congressional hearings, or academic papers have explained the products it taxes most heavily, nor identified the Americans it affects most. But from the 19th and early 20th centuries, a tradition of pro-shopper populism made tariffs a frequent spark for debate. Figures from Albert Gallatin (founder of the Ways and Means Committee and Thomas Jefferson's Treasury Secretary) through Louis Brandeis criticized the 19th-century tariff sytesm for taxing clothes, shoes, foods and other products especially important to middle-class and lower-income families.

This policy tradition faded after the launch of international trade negotiations in the 1930s. But two bills, the Affordable Footwear Act and the U.S. OUTDOOR Act, are reviving pro-shopper populism by waiving tariffs on products not made in the United States. ProgressiveEconomy's paper, *The Rebirth of Pro-Shopper Populism*, explains the system with five points for background:

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1. Scale: Comparable to Gas and Estate Taxes – At $26 billion a year, the tariff system is much smaller than income, payroll, or corporate taxes, but comparable to the $35 billion national gasoline tax, the $12 billion estate and gift tax, the $17 billion tobacco tax and $7 billion liquor tax.

2. Regressivity: Tariff System as Taxation of Home Goods – Overall U.S. tariff rates are low, averaging 1.3 percent. But tariffs on home goods average about 13 percent and rise to peaks of 32 percent for polyester shirts, and 48 percent for cheap sneakers. Such products accounted for about 5 percent of imports, but about $14 billion of $26 billion in tariff money last year.

TARIFFS BY PRODUCT, 2010

Product	**Imports**	**Tariff Revenue**	**Tariff Rate**
All Goods	$1.898 trillion	$26.0 billion	1.3%
(Under FTA/preference)	$380 billion	$0.1 billion	0.0%
Under Normal Tariffs	$1.510 trillion	$25.9 billion	1.7%
Clothes	$65 billion	$9.5 billion	14.7%
Shoes	$20 billion	$2.0 billion	10.0%
Luggage/Purses/Leather	$8 billion	$1.0 billion	13.1%
Home Linens	$10 billion	$0.8 billion	7.5%
All Other	$1,400 billion	$11.7 billion	0.8%

Taxing home goods is generally regressive, as shoes, clothes, linens and similar goods are larger fractions of spending for middle-class and lower-income families; especially those with children. Further, as a second table shows, the U.S. tariff system usually taxes luxury goods at low rates, while cheaper goods bought by lower-income shoppers are typically taxed extremely heavily. By way of context, polyester shirts, low-priced sneakers, cheap handbags, and low priced drinking glasses are all taxed at rates well above the roughly 20 percent federal tax on tobacco. No other large economy (with India a partial exception) has a tariff system skewed in this way.

TARIFF RATES ON LUXURY, MEDIUM AND MASS-MARKET GOODS

Product	**Luxury**	**Medium**	**Low-End**
Shoes	8.5% *(leather dress)*	20% *(trail running shoe)*	48.0% *(sneakers under $3/pair)*
Sweater	4.0% *(cashmere)*	17.0% *(wool)*	32.0% *(acrylic)*
Man's shirt	0.9% *(silk)*	19.7% *(cotton)*	32.0% *(polyester)*
Drinking glass	3.0% *(over $5 apiece)*	22.5% *($0.30-$3 apiece)*	28.5% *(under $0.30 apiece)*
Brassiere	2.7% *(silk)*	--- none ---	16.9% *(polyester)*
Handbag	5.3% *(snakeskin)*	10.0% *(leather)*	16.0% *(canvas)*
Pillow case	4.5% *(silk)*	11.9% *(cotton)*	14.9% *(polyester)*
Spoon	3.3% *(sterling silver)*	4.2% *(silver-plated)*	14.0% (*stainless steel)*
Necklace	5.0% *(gold)*	6.3% *(silver)*	11.0% *(silver- or gold-plated)*
Blanket	0.0% *(wool/cashmere)*	8.4% *(cotton)*	8.5% *(polyester)*

Source: U.S. Harmonized Tariff Schedule, available from ITC at http://hts.usitc.gov/

3. Inefficiency – Revenue for Government vs. Cost to Families: Tariffs cost the public more than they raise for government. Applied at the border, they are included in the "landed cost" from which retailers mark up products. State and local sales taxes then apply to this marked-up cost. Overall, prices of home goods roughly triple from shore to cashier. (Clothes and shoes, for example, cost about $115 billion at the border; shoppers spent $338 billion buying them in stores.) Thus home-goods tariff costs are amplified twice, bringing the government $14 billion but likely costing families about $40 billion.

4. Employment – Many Tariff-Peak Goods Not Made in U.S.: Home-goods tariffs date to the 1920s, and at that time were meant to protect a large domestic workforce. This section of our tariff system, however, lost most of its link to employment and production in the last generation. In 1970, home-goods industries employed 1.8 million out of 59 million private-sector workers. Tariff rates have remained stable since then, and FTAs account for only a small fraction of imports. But home-goods manufacturing now employs 0.24 million out of 108 million private-sector workers, often in highly specialized or luxury products.

The Revival of Pro-Shopper Populism and Tariff Reform: The Affordable Footwear Act and the U.S. OUTDOOR Act represent the first real effort since Woodrow Wilson's 1913 tax reform bills to catalogue tariffs and begin scrapping those which are both (a) especially high, and (b) apply to products not made in the United States. The U.S. OUTDOOR Act, which creates new tariff categories for technical apparel and hiking clothes and sets them at zero, is introduced by Senators Ron Wyden (D-OR) and Representatives David Reichert (R-WA) and Earl Blumenauer (D-OR). The Affordable Footwear Act eliminates tariffs for most low-cost shoes and sneakers, and has been introduced by Senators Maria Cantwell (D-WA) and Roy Blunt (R-MO) along with Representatives Joe Crowley (D-NY) and Lynn Jenkins (R-KS).