



PROGRESSIVE ECONOMY TRADE FACT OF THE WEEK | June 15, 2011

Tariffs are America's most regressive tax.

THE NUMBERS: Sample U.S. tariff rates -

Worldwide average, all goods:	1.7 percent
Cashmere sweater:	4.0 percent
Wool sweater:	17.0 percent
Acrylic sweater:	32.0 percent

WHAT THEY MEAN:

Among its peers in the world of American taxation – the \$35 billion gasoline tax, the \$17 billion tobacco tax, the \$12 billion estate and gift tax – the \$26 billion tariff system is the least-studied and least understood. No Congressional committee has held a hearing on the tariff system since the early 1970s. No Treasury Department report at least since the 1960 has explained how much it costs to administer and what sort of people it affects. Neither the Office of Management and Budget nor the Congressional Budget Office provides the public more than a single annual number summarizing total tariff revenue. ProgressiveEconomy's first research paper, released yesterday, de-mystifies the tariff system. The paper -*The Rebirth of Pro-Shopper Populism: Affordable Footwear, Outdoor Apparel and the Case for Tariff Reform*, by Director Ed Gresser – gives you the basics:

- (1) *What is taxed?* The U.S. tariff system is mainly a way of taxing home goods. Clothes, shoes, home linens, leather products like luggage and purses, and miscellaneous necessities like silverware and drinking glasses account for about 5 percent of imports, but have tariff rates roughly twenty times the average on other goods. These products raise \$14 billion of the \$26 billion: \$9.5 billion from clothes, \$2 billion from shoes, \$1 billion from home linens, \$1 billion from luggage and leather, and about \$0.5 billion more on silverware, drinking glasses and plates.

At a more precise level, the tariff system is mainly a way of taxing cheap home goods. The different tax rates for luxury cashmere sweaters, mass-market wool sweaters, and working-class acrylic sweaters are typical: To note some other examples, silk brassieres get a 2.9 percent tax and polyesters one of 16.9 percent; sterling silver spoons 3.2 percent and stainless steel spoons 14 percent; dress leather shoes 8.5 percent and cheap sneakers 48 percent.

- (2) *Who pays?* Any tax on home goods is regressive, as lower-income families spend more of their income on home necessities than wealthy families. The tariff system is especially regressive, first because its highest tax rates are on mass-market goods low-income families are most likely to buy, and second because it costs the public more money than it raises for government. Single-parent families spend the largest share of income on clothes, shoes and other home goods; they accordingly feel the effects most.
- (3) *Tariffs and Employment:* Home-goods tariffs have lost most of their relevance to production and employment since the 1970s. Many of the most heavily taxed home goods are not made in the United States. The cheap sneakers, not made in the United States since the 1970s, are an example. Overall, since 1970 home-goods production employment has dropped from 1.4 million out of 58 million private-sector jobs, to 0.24 million out of 108 million.

Looking back in time for policy solutions, the paper finds a model in the pro-shopper populism of Swiss-American financial wizard Albert Gallatin (Treasury Secretary for Jefferson and Madison, creator of the House Ways and Means Committee, financier of the Louisiana Purchase and the Lewis & Clark expedition):

"If the duties on wines, silks, tea and coffee [i.e. luxuries] were repealed or reduced below the common average, whilst those ... on salt, sugar, and coarse clothing were preserved ... respect to the poorer classes, the tax levied on each individual would increase in proportion to his want of means."

Not since 1913 has Congress looked hard at the tariff system and tried to find ways to make it easier on shoppers and families. But the paper opens and concludes with some heartening news for shoppers. Two bills in this Congress revive Gallatin's populist spirit by proposing to scrap very high tariffs rates on a series of products not made in the United States. One, the Affordable Footwear Act, by Sens. Maria Cantwell and Roy Blunt along with Reps. Joe Crowley and Lynn Jenkins, would abolish most shoe tariffs. The other, the U.S. OUTDOOR Act, authored by Sens. Ron Wyden and Mike Crapo, joined by Reps. Earl Blumenauer and Dave Reichert, would do the same for hiking and outdoor clothes and shoes.

FURTHER READING:

Tariffs as taxation -

From ProgressiveEconomy Director Ed Gresser, "The Rebirth of Pro-Shopper Populism: Affordable Footwear, Outdoor Apparel and the Case for Tariff Reform":

<http://www.globalworksfoundation.org/Documents/tariffs.taxation.final.pdf>

And a short summary with the main figures and points:

<http://www.globalworksfoundation.org/Documents/tariffs.taxation.small.pdf>

Elaine Maag of the Tax Policy Center (a DC-based collaboration between the Brookings Institution and the Urban Institute), joined Gresser, Senator Ron Wyden (D-OR), Mike McBreen of Michigan shoe-manufacturer Wolverine, and former U.S. Trade Representative Charlene Barshefsky for the paper release event. Maag's post at the *Voxtax* blog examines the disjuncture between income tax-based help for the working poor, and tariff-based taxation of the working poor. "[T]ariffs can claw back a substantial amount of a single parent's EITC, effectively undermining the EITC's goal of supplementing wage income... Poverty policy wonks haven't thought much about tariffs in recent decades, but these burdens on low-income families ought to be in the mix when tax reform finally percolates to the top of the agenda.":

<http://taxvox.taxpolicycenter.org/2011/06/14/how-tariff-policy-undermines-other-tax-policy-goals/>

The Congressional revival of pro-shopper populism –

The *Portland Oregonian* speaks with Sen. Ron Wyden and Rep. Earl Blumenauer on outdoor clothing and tariffs:

http://www.oregonlive.com/business/index.ssf/2011/06/rep_earl_blumenauer_sen_ron_wy.html

McClatchy News with Senators Cantwell, Murray, Blunt and Roberts on shoe tariffs:

<http://www.mcclatchydc.com/2011/06/08/v-print/115479/senators-want-to-stamp-out-shoe.html>

And all the backup data -

The White House's Office of Management and Budget has tax data. See Tables 2.4 and 2.5 to compare the tariff system (in total dollars, but not by product) with excise, estate, and similar small taxes: <http://www.whitehouse.gov/omb/budget/Historicals>

The International Trade Commission publishes the actual tariff rates, including clothing tariffs in chapters 61 and 62, shoes in 64, home linens in 63, and luggage/leather/handbags etc. in 42: <http://www.usitc.gov/tata/hts/bychapter/index.htm>

ITC's Dataweb, for those familiar with SITCs and HTS codes, can give you tariff collection by product. (E-mail ProgressiveEconomy (progressiveeconomy@globalworksfoundation.org) if you'd like a lesson.) The Dataweb: <http://dataweb.usitc.gov>

The Commerce Department's Bureau of Economic Analysis explains national spending habits:

<http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=65&Freq=Qtr&FirstYear=2008&LastYear=2010>

The Bureau of Labor Statistics has expenses by family type and income level:

<http://www.bls.gov/cex/>