

Outdated Tariff Systems Means the Poor Pay More

Dispute With China Obscures Big Role Tariffs Play in Consumer Prices

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By [Martha C. White](#) 6/2/10 6:00 AM



The Commerce Department tweaked China recently when it [slapped a 99 percent tariff](#) on Chinese-made oil field pipes entering the U.S. The move was but the latest volley in a long-running skirmish over a wide variety of imports. To the extent that most people think of tariffs at all, it's usually in a context like this. Tariffs are perceived as little more than an obscure negotiating tactic for trade disputes. But thanks to the large number of imported goods Americans consume on a regular basis, tariffs actually play much more of a role in average Americans' lives — and household budgets — than they may realize.



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Most people take for granted that they know how much an item will cost them when they look at the price tag and figure in the amount of their local sales tax. But low-income Americans end up paying extra for necessities like clothes and shoes — victims of an outdated, inefficient tariff system that inadvertently penalizes the poor. Even proponents

of reform, though, acknowledge that the byzantine nature of the tariff code and the low priority it's generally assigned by lawmakers makes the prospect of changing this entrenched system unlikely.

Luxury goods have very low tariffs, while cheap clothes, underwear, shoes and household products have much higher rates, said Edward Gresser, senior fellow and director of trade policy at the Progressive Policy Institute. "The people who are paying for the tariff system don't know they're paying for it," he said.

"It's the dirty secret of the U.S. tariff code," said Daniel Griswold, trade policy expert at the Cato Institute. "It's our most regressive tax that the federal government imposes."

The country's trade policy is a quilt of special interests, trade group bargaining chips and concessions, some pieces of which date back to an era when the manufacture of household goods was a booming part of the domestic economy.

"[It's] usually for no good reason other than the political influence of a domestic group or for retribution against some other country that placed a high tariff on one of our exports," said Barry Bosworth, an economist at the Brookings Institution.

The disparities are staggering. In his research, Gresser found that the tariff rate on a cashmere sweater is 4 percent; the rate for one made of much cheaper acrylic is 32 percent. A silk brassiere has a tariff rate of less than 3 percent, but the rate on a polyester one is slightly less than 17 percent. The tariff rate on a snakeskin handbag is just over 5 percent but climbs to 16 percent for one made of canvas. Similar variations occur when it comes to household goods. Drinking glasses that cost more than \$5 each have a tariff of 3 percent, while those that cost less than 30 cents each have a rate of 28.5 percent. A silk pillowcase has a rate of 4.5 percent; this goes up to nearly 15 percent for one made of polyester.

Overall, clothes and shoes contributed nearly \$10 billion in tariff revenue in 2009, while higher-cost items including audiovisual equipment, computers and even cars added less than \$2 billion. Gresser contends that the \$10 billion is disproportionately borne by people who can't afford to buy luxury goods. What's more, when customers pay sales tax on these products, that amount is also higher than it would otherwise be thanks to the tariff that drives up the retail price.

In spite of this evidence, Gresser has had an uphill battle gaining support for his cause. Trade groups and politicians don't want to lower a bar to foreign importers without getting some kind of concession in return. From their perspective, dropping a tariff that adds 32 percent to the price of a cheap men's shirt amounts to giving away a valuable bargaining chip. Other groups — including, it should be noted, some prominent left-leaning think tanks — say dropping tariffs will cost jobs we can ill afford to lose in this economy.

While apparel and footwear manufacturing has largely moved offshore, there are still a few hundred thousand U.S. workers in those industries, according to Robert Scott, an economist with the Economic Policy Institute, who says removing tariffs on cheap clothes and shoes would put these (generally low-income) Americans out of work. He also contends that even the high tariffs aren't as onerous as they appear.

"If you look at expenditures as a share of total consumer spending for the bottom quintile of Americans, it still ends up being a fairly small number," only a small fraction of a percentage point more than the average for all Americans, he said. Scott added that the globalization of trade, along with the resulting downward pressure on prices, has hurt low-income Americans more than it has helped them.

Griswold of the Cato Institute says this worry is overblown, sometimes deliberately for political gain. “Less than one-third of one percent of workers make clothing of any kind in the U.S.,” he said. “The self-interest of these producers and trade organizations gets wrapped up in rhetoric about saving jobs, which appeals to public perceptions. It’s much harder to visualize the benefits to families able to buy more affordable shoes.”

For William Marshall, president of the Progressive Policy Institute, the argument that lowering or abolishing tariffs on low-cost products will cost jobs speaks more to the need to invest in training programs for low-skilled American workers. “It’s a challenge to protectionists. It does redistribute the pattern of job creation,” he acknowledged. But the genie is already out of the bottle when it comes to globalization, he said, and companies have already moved the bulk of their labor-intensive production offshore. Leaving high tariffs on cheap imported goods isn’t going to stop them from appearing on discount and dollar-store shelves, it’s just going to penalize the consumers who buy them.

“It’s easy to overlook, easy to ignore because people without political voice or power are the most affected,” he said.

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Liam Foley 2 hours ago

This is a full of crap as the "free market" economic theory...all rubbish...why not employ some reporters who understand economics and politics.

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