

Calendar No. 1316

75TH CONGRESS }
1st Session }

SENATE

{ REPORT
{ No. 1262

IMPORTED CEMENTED SHOES

AUGUST 16 (calendar day, AUG. 18), 1937.—Ordered to be printed

Mr. WALSH, from the Committee on Finance, submitted the following

REPORT

[To accompany S. Res. 144]

The Committee on Finance, to whom was referred the resolution (S. Res. 144) directing the United States Tariff Commission to investigate the differences in the cost of production of domestic and foreign cemented shoes, made wholly or in part by the process of cementing the sole to the upper, having considered the same, report favorably thereon with an amendment and recommend that the resolution as amended do pass.

The resolution, as amended, limits the scope of the investigation to the principal type of shoes now being imported into this country in competition with domestic shoes, namely, women's and misses' shoes made by the cement process and dutiable at 20 percent ad valorem under paragraph 1530 (e) of the Tariff Act of 1930. Thus limiting the investigation, according to the recommendation of the Tariff Commission, will result in a material saving in time and expense, and consequently your committee urge the adoption of the amendment.

STATEMENT OF FACTS

The resolution, as reported, provides for an investigation by the Tariff Commission of the costs of production of women's and misses' cemented shoes—shoes in which the soles are cemented to the uppers. Such shoes were first manufactured in this country in 1929, and by 1931 (according to figures contained in the Tariff Commission's tables, hereto attached and made a part of this report) the United States' production of cemented shoes was 9,657,652 pairs. With a phenomenal growth during the next few years, such shoes reached a production of over 47,000,000 pairs in 1935, which was equivalent to one-third of the total United States' production of women's footwear in that year.

During the past 3 years the domestic market has been called upon to absorb, in ever-increasing volume, imports of cemented shoes manufactured abroad, chiefly in Czechoslovakia. Exact statistics on imports of cemented shoes, up to date, are not available. However,

the statistics of imports as compiled by the Tariff Commission do indicate the tremendous increase in the imports of these shoes. From less than 180,000 pairs imported in 1935, the number of cemented shoes imported in 1936 had increased to 1,053,287 pairs—an increase of over 500 percent. And in the first 4 months of 1937 there were imported 1,063,293, or, proportionately, an increase of 300 percent over 1936. If the same ratio of importations continues for the balance of the year 1937, imports will total over 3,000,000 pairs, or practically 3½ percent of the United States production.

These imported shoes—in direct competition with and replacing the McKay sewed shoes—are sold in this country at prices which our manufacturers, paying the American scale of wages based on union rates, and faced with larger overhead costs, cannot possibly meet. Every shoe imported means a corresponding loss to an American worker. Already some manufacturers in New England are threatened with the shut-down of their factories, because their foreign competitors are rapidly capturing the American market, and their former customers are now buying the imported shoes. This matter is of vital importance to the American shoe industry, and especially to New England shoe manufacturers, because they produce most of the women's shoes (of compo and McKay construction) that retail for \$2 in the United States, and with which the foreign imports, selling at an even lower price, compete.

The shoe industry is a specialized one, and very few manufacturers make a variety of shoes. Rather, they confine their production to particular types, such as the cemented shoe, and serious foreign competition to them will mean the destruction of their particular industries, the wage earners in those industries, and the communities where cemented shoe industries are located. Continued unchecked importations of these shoes will result in closed factories, and workers facing the prospect of having to go on the relief rolls this winter in order to secure support for themselves and their families.

Women's and misses' shoes, wholly or in chief value of leather, imported into the United States, were subjected to a 20 percent ad valorem duty by paragraph 1530 (e) of the Tariff Act of 1930. Certain changes, however, have been made in the rate on shoes since that time. It is pertinent to recall that, in 1929 and 1930, the imports of the McKay type of shoe were so damaging to the American shoe industry that a Senate resolution (S. Res. 295) was passed in 1930, instructing the Tariff Commission to investigate these imports. The results of that investigation showed that the foreign manufacturing costs were much lower than those of American manufacturers, and the Commission recommended to President Hoover—and he so proclaimed January 1, 1932—that the duty on these imported shoes be raised the maximum amount the President was allowed to make under the Tariff Act of 1930, namely, from 20 to 30 percent ad valorem. This action, increasing the rate of duty, has proved effective in limiting the imports of McKay sewed shoes, but the duty on leather shoes, other than McKay and turn or turned shoes, remained unchanged at 20 percent ad valorem.

In recent years, and especially since 1935, in place of the McKay shoes foreign manufacturers have been exporting to this country the cemented shoes on which the duty under the tariff act is only 20 percent ad valorem. The President's proclamation in 1932 with respect to an increase in duties on McKay sewed shoes had referred

particularly to that type of shoe, and, therefore, the increase in duty could not be applied to those shoes made by some other process, such as the Compo or cemented process used in the manufacture of the type of shoe referred to in the reported resolution. The reported resolution is directed at the recent importations of cemented shoes, because such importations can only be prohibited by investigation of the Tariff Commission and its recommendation to the President that the duty on such imported shoes be increased to the maximum rate allowed under law, namely, to 30 percent ad valorem duty.

The letter of the Tariff Commission is attached hereto, and made a part of this report. Also, the report of the State Department to the Finance Committee is similarly made a part of the report.

JUNE 26, 1937.

Hon. PAT HARRISON,
Committee on Finance, United States Senate,
Washington, D. C.

MY DEAR SENATOR HARRISON: In compliance with the request contained in your letter of June 15, I am enclosing a memorandum with reference to S. 144 directing the Tariff Commission to investigate for purposes of section 336 the differences in costs of production of imported and domestic cemented sole shoes.

As indicated in the memorandum, the Commission now has before it a request for an investigation of shoes from the New England Shoe and Leather Association. The scope of the Senate resolution is, however, much broader than the request made by the association which refers only to women's and misses' shoes made by the cement process and dutiable at 20 percent ad valorem under paragraph 1530 (e). This is the principal type of shoe being imported, and if an investigation were limited to this type there would be a material saving in time and expense.

There is also a question of policy involved which the committee may want to consider. There is now pending a trade agreement between the United States and Czechoslovakia, the country from which most of our imports of shoes are received. The committee may want to discuss with the Department of State the possible effect of S. 144 on the trade negotiations.

Very truly yours,

EDGAR B. BROSSARD,
Acting Chairman.

UNITED STATES TARIFF COMMISSION,
Washington, June 26, 1937.

Memorandum regarding Senate Resolution 144, Seventy-fifth Congress, first session.

Senate Resolution 144, now pending before the Finance Committee, directs the Tariff Commission to investigate, under section 336 of the Tariff Act of 1930, "the differences in costs of production of the following domestic articles and of any like or similar foreign articles: Cemented shoes, made wholly or in part by the process of cementing the sole to the upper."

On June 8, 1937, the Commission received an application, from the New England Shoe and Leather Association, for an investigation under section 336 of the Tariff Act of 1930 looking toward an increase in the rate of duty on women's and misses' cemented or compo-type shoes wholly or in chief value of leather. The Commission is now making a preliminary study with reference to this application to determine whether a formal investigation should be instituted.

Senate Resolution 144 as now worded is much broader in scope than the application filed by the New England Shoe & Leather Association. The resolution covers all types of shoes wholly or in chief value of leather (dutiable under par. 1530 (e) at 20 percent ad valorem) and also shoes with leather soles and uppers wholly or in chief value of material other than leather (dutiable under par. 1530 (e) at 35 percent ad valorem), if such shoes are made wholly or in part by cementing the sole to the upper. It is also probable that the resolution covers rubber-soled fabric upper footwear (tennis shoes, etc.), dutiable under paragraph 1530 (c) at 35 percent based on American selling price, and waterproof rubber footwear (overshoes, galoshes, etc.), dutiable under paragraph 1537 (b) at 25 percent based on American selling price, since certain types of such footwear are made "in part by the process of cementing the sole to the upper." The duties on rubber-soled, fabric upper footwear, and on waterproof rubber footwear were

increased, effective March 3, 1933, the maximum allowed by law following an investigation under section 336 of the Tariff Act of 1930. The only change in the duties on these two classes of footwear possible through a section 336 investigation would be a reduction, since a further increase is not permissible under that section.

The only type of leather footwear made by a cement process which, at the present time, is imported in significant quantities is women's and misses' shoes dutiable at 20 percent ad valorem under paragraph 1530 (e) of the Tariff Act of 1930. This is the type of shoe for which the New England Shoe & Leather Association has applied for an investigation under section 336.

RATES OF DUTY

Boots, shoes, and other footwear, wholly or in chief value of leather, were provided for in paragraph 1530 (e) of the Tariff Act of 1930 at 20 percent ad valorem. Certain changes have been made in the rate on leather shoes since that time. The rate on McKay sewed shoes was increased, effective January 1, 1932, by a Presidential proclamation, following an investigation by the Tariff Commission under section 336 of the Tariff Act of 1930, from 20 percent to 30 percent ad valorem. At the same time the duty on turn or turned shoes was reduced from 20 percent to 10 percent ad valorem. The duty on leather shoes, other than McKay and turn or turned, remained unchanged at 20 percent ad valorem. The rate of duty (10 percent ad valorem) on turn or turned shoes was bound, effective February 15, 1936, in the trade agreement with Switzerland. Under the Tariff Acts of 1922 and 1913 leather boots and shoes were accorded free entry into the United States.

DESCRIPTION

The development of pyroxylin cements has resulted in a rapid increase, since 1931, in the domestic production of cemented shoes, in which cement is used to secure the outsole to the shoe. The cement process has several variations, which may be grouped as follows: (1) Innersole type, (2) single-sole type, and (3) cemented-welt type. Footwear with cemented soles consists chiefly of low-priced women's shoes. However, there is a substantial domestic production of the better grades of women's shoes with cemented soles. In general, the innersole type is in the lower price range while the single-sole and cemented-welt types are better quality and higher-priced shoes.

COMPARISON OF IMPORTS, DOMESTIC PRODUCTION, AND EXPORTS—LEATHER FOOTWEAR OF ALL TYPES

Domestic production of leather boots, shoes, and slippers of all kinds, except footwear with leather soles and uppers wholly or in chief value of material other than leather, amounted to over 349,000,000 pairs in 1935, which exceeded by a substantial margin the production (around 330,000,000 pairs) in 1929, the previous peak year. Domestic production in 1936 amounted to about 373,000,000 pairs. Available information indicates that domestic production in 1937 will surpass even the record output of 1936, since the production in the first 4 months of 1937 is substantially greater than in the corresponding period of 1936. (See table 1.)

Imports of leather footwear of all kinds amounted to about 1,700,000 pairs in 1935, representing a substantial decline from 1929, the peak year, when they amounted to about 7,000,000 pairs. Imports amounted to about 2,200,000 pairs in 1936 and to approximately 1,200,000 pairs in the first 4 months of 1937. The increase in imports from 1935 to 1936 was half a million pairs; the increase in domestic production was 24,000,000 pairs. Compared with 1929, domestic production in 1936 was greater by about 43,000,000 pairs and imports were less by about 4,800,000 pairs. Imports of leather footwear of all kinds supply a negligible part of the total domestic consumption. (See table 1.)

Domestic exports of leather footwear amounted to about 1,000,000 pairs in 1935 and to about 1,600,000 pairs in 1936. (See table 1.)

COMPARISON OF IMPORTS AND DOMESTIC PRODUCTION—CEMENTED AND RELATED TYPES OF FOOTWEAR

The foregoing relates to leather footwear of all kinds and is presented to give a general picture of the relationship between total domestic production, imports and exports. Senate Resolution 144 applies to but one of several types of leather shoes, all of which are competitive in the lower price ranges. These are the

¹ All tables referred to are not printed in this report.

cemented, McKay sewed, and stitchdown types. Domestic production in 1935 of cemented, McKay sewed, and stitchdown shoes and imports in 1935 and 1936, consisting almost entirely of shoes of these types, were as follows:

	Production, 1935	Imports	
		1935	1936
Men's and boys'.....	16,600,000	59,000	99,000
Women's and misses'.....	113,100,000	1,353,000	1,766,000
Children's.....	35,000,000	76,000	65,000
Total.....	164,700,000	1,488,000	1,920,000

From these statistics it is obvious that imports of cemented and related types of shoes are extremely small when compared with domestic production of similar types—the ratios of imports to domestic production ranging from two-tenths of 1 percent on children's shoes, to four-tenths of 1 percent on men's and boys' shoes, and to a little over 1 percent on women's and misses' shoes. (See table 2.)

The imports (shown above) of women's and misses' shoes consisted very largely of McKay sewed shoes in 1935, cemented shoes being relatively unimportant. In 1936, however, the bulk of the imports of women's and misses' shoes consisted of cemented shoes. This shift has continued in 1937. In the first 4 months of this year, imports of women's and misses' cemented shoes are estimated to have amounted to between 700,000 and 800,000 pairs, while imports of McKay sewed shoes in the same period declined to 7,000 pairs. The combined imports of women's and misses' McKay sewed and cemented shoes in the first 4 months of 1937 were probably not much in excess of the imports of these shoes in the corresponding period of 1936. Although data of production by method of manufacture are not available, statistics of production of all women's and misses' leather shoes indicate a substantial increase for the first 4 months of 1937 as compared with the same period of 1936.

DOMESTIC PRODUCTION BY THE CEMENT PROCESS

Since 1929 the production of shoes by the cement process has grown rapidly. The total production of cemented shoes of all kinds (women's, misses', men's, etc.) amounted to 9,700,000 pairs in 1931, to 36,000,000 pairs in 1933, and to about 50,000,000 pairs in 1935. At the same time the production of shoes by the McKay process has declined both absolutely and relatively. The total production of McKay sewed shoes of all kinds declined from about 96,000,000 pairs in 1931, to 86,500,000 pairs in 1933, and to 77,000,000 pairs in 1935. (See table 3.)

KINDS OF SHOES MADE BY THE CEMENT PROCESS

The great bulk of the shoes made by the cement process are for women's wear, only small quantities are for misses', and children's and infants' wear. The production of men's and boys' shoes by the cement process is negligible. In 1935 over 96 percent of the total production of cemented shoes were women's, about 2 percent were misses' and children's, and all other kinds accounted for the remaining 2 percent. (See table 4.)

UNITED STATES IMPORTS

Imports of cemented shoes are included in official statistics, along with certain other types, in the classification "Shoes other than turn or turned, McKay sewed, and welt." Imports of women's and misses' shoes other than turn or turned, McKay sewed, and welt amounted to 737,000 pairs in 1933, to 178,000 pairs in 1935, to 1,053,000 pairs in 1936, and to 1,063,000 pairs in the first 4 months of 1937. (See table 5.) For a number of years Czechoslovakia has been the outstanding source of imports of such footwear, supplying 85 percent of the imports in 1936 and 92 percent in the first 4 months of 1937. Before 1936 imports from Czechoslovakia of women's and misses' shoes other than turn or turned, McKay sewed, and welt, consisted chiefly of women's shoes with molded soles but women's stitchdown shoes accounted for a fairly substantial part of the total. In 1936 and the first 4 months of 1937 imports under this classification from that source consisted principally of women's shoes with cemented soles.

Imports of men's and boys' shoes other than turn or turned, McKay sewed, and welt are very small, amounting to 53,000 pairs in 1935, to 91,000 pairs in

1936, and to 23,000 pairs in the first 4 months of 1937. (See table 6.) Before 1936 Mexico and the United Kingdom were the principal sources of these shoes, but Czechoslovakia was the principal source in 1936 and the first 4 months of 1937. Probably few, if any, of the shoes imported under this classification have been of the cemented type.

Imports of children's and infants' shoes other than turn or turned, McKay sewed, and welt are negligible. (See table 7.)

Leather-soled footwear with uppers wholly or in chief value of material other than leather (dutiable under par. 1530 (e) at 35 percent ad valorem whether made by the cement or any other process) were first reported separately in import statistics in 1936. Imports of this footwear in that year amounted to 419,000 pairs and, in the first 4 months of 1937, to 113,000 pairs, which compares with 192,000 pairs in the corresponding period of 1936. Although definite information is not available, it is probable that comparatively few of these shoes are made by the cement process. Imports of leather-soled footwear with uppers wholly or in chief value of material other than leather are equivalent to less than 1 percent of domestic production of such shoes.

UNITED STATES EXPORTS

United States exports of leather footwear of all kinds have declined substantially in recent years. In 1927 exports amounted to about 6,000,000 pairs but declined in practically every year until 1933, when they amounted to 800,000 pairs. Since 1933 exports have increased in each year and amounted to 1,600,000 pairs in 1936. (See table 8.) Exports of leather footwear of all kinds amounted to 413,000 pairs in the first 3 months of 1937, of which 52,000 pairs were women's shoes with cemented soles. Prior to 1937 exports of cemented shoes were not reported separately.

JULY 23, 1937.

HON. PAT HARRISON,

Chairman, Committee on Finance, United States Senate.

MY DEAR SENATOR HARRISON: I refer to your communication of June 30, 1937, requesting on behalf of the Senate Finance Committee a report from my Department on Senate Resolution 144, which would direct the Tariff Commission to make an investigation, under section 336 of the Tariff Act of 1930, of the differences in costs of production of domestic and foreign cemented shoes, made wholly or in part by the process of cementing the sole to the upper.

Your request has been the subject of careful consideration in the Department, and I have had the benefit also of its consideration by two interdepartmental committees, the Executive Committee on Commercial Policy and the Trade Agreements Committee. As a result of this consideration, I am glad to offer the following comment upon the subject.

May I say first of all that in my opinion the fullest possible investigation into all pertinent facts and the most thorough consideration of these facts from the point of view of all American interests concerned is essential to any tariff action. The report of the Tariff Commission in this field, filed with your committee on June 26, does not, in my judgment, indicate the existence of an emergency requiring immediate action under section 336. It does indicate the desirability of watching the situation carefully, and in this connection I am informed that the Tariff Commission is continuing further inquiry into the facts. Moreover, it is important to recognize, with specific reference to the subject of your communication, that the type of investigation called for under Section 336 of the Tariff Act of 1930 is one limited in basis and scope of action. On the other hand, the powers conferred by the Trade Agreements Act rest upon a far broader basis than that set forth in section 336 of the Tariff Act, and thus permit a wider scope for reaching conclusions of benefit to the various interests concerned.

The institution at this time of the investigation envisaged in the proposed resolution would in my opinion have an unfavorable effect upon our foreign-trade relations. On May 6, 1937, there was issued a public announcement to the effect that the negotiation of a trade agreement with Czechoslovakia is contemplated. That country is our leading foreign supplier of the product referred to in the proposed resolution, and the product is important in that country's trade with us. No decision relative to our tariff rates on shoes or on any other commodity has been taken in connection with these negotiations; it is evident, however, that an investigation under section 336 of a product important in the trade between the two countries might seriously impede the negotiations.

I realize fully that the announcement of contemplated trade negotiations with Czechoslovakia has disturbed certain sections of our domestic shoe industry which fear the possibility of a disruptive increase in competition from foreign sources. Attention should be called to the extreme care and deliberation exercised in the administration of the Trade Agreements Acts. Prior to the making of any decision on any commodity, the whole field is carefully studied and full opportunity is given to all interested persons in this country to present their views, orally and in writing, and complete assurance is given that their presentations will be fully and carefully considered.

By the method of reciprocal negotiation which the authority to conclude trade agreements has made possible, there is larger opportunity to devise solutions which duly safeguard domestic producers against injury or disruptive increase in foreign competition but at the same time permit the other American interests concerned, including the interests of our agricultural and industrial export producers and of our consumers, to be taken adequately into account.

After most careful consideration I am convinced that concurrent action under section 336 would unnecessarily complicate the negotiation of a trade agreement with Czechoslovakia, and therefore I am in agreement with the view of the Executive Committee on Commercial Policy and of the Trade Agreements Committee that the passage at this time of Senate Resolution 144 is inadvisable.

Sincerely yours,

CORDELL HULL.

TARIFF COMMISSION'S INVESTIGATIONS UNDER THE FLEXIBLE TARIFF PROVISION

Your committee are of the opinion that the Tariff Commission should proceed forthwith in instituting the investigation called for, irrespective of the fact that the State Department is now negotiating a trade agreement with Czechoslovakia, from which country most of our imports of shoes are now received.

The fullest possible investigation, the State Department concede, into all pertinent facts and the most thorough consideration of those facts from the point of view of all American interests concerned is essential to any tariff action. Such investigation, your committee believe, can best be, and properly should be, conducted by the Tariff Commission.

The Congress some years ago recognized its own inability to ascertain with exactness all the essential facts relating to the numerous and diverse items subjected to tariff legislation, or to fix effective protective tariff rates to meet constantly changing conditions. Consequently, the Congress enacted the so-called flexible tariff provision, whereby it empowered the President, after investigations by the Tariff Commission, to adjust and readjust the rates fixed by law so as to equalize foreign and domestic costs of production.

The clear intent of the Congress in enacting this legislation was well stated by Chief Justice Taft in his opinion in the case of *Hampton & Co. v. United States* (276 U. S. 394, 404), sustaining the constitutionality of section 315 of the Tariff Act of 1922, when he stated that the purpose was—

* * * to secure by law the imposition of customs duties on articles of imported merchandise which should equal the difference between the cost of producing in a foreign country the articles in question and laying them down for sale in the United States, and the cost of producing and selling like or similar articles in the United States, so that the duties not only secure revenue but at the same time enable domestic producers to compete on terms of equality with foreign producers in the markets of the United States.

It is the equalization of competitive conditions of foreign and domestic markets which is sought to be gained through such investigations. The Tariff Commission, by reason of its experience and practice

in conducting such investigations, is competent to make an exhaustive study of the costs of production here and abroad, including the price of goods or materials, labor costs, etc.; the usual general expenses, including charges for depreciation or depletion; costs of transportation; export duties or taxes imposed by the country of exportation; and other relevant factors that constitute an advantage or disadvantage in competition.

Acting under the provisions of section 336 of the Tariff Act of 1930 the Tariff Commission have made innumerable investigations into differences in the cost of production of similar domestic and foreign articles, and have made recommendations to the President pursuant to such authority. It has been the long-established practice of both the Senate and the House, upon complaint being made by American producers or manufacturers, to enact resolutions directing the Commission to conduct such investigations, and your committee are of the opinion that, in protection of the interests affected by the foreign importations described in this report, the investigation called for by Senate Resolution 144 should be undertaken by the Commission. When domestic industries are threatened with serious economic losses, with conditions which might result in substantial increase in unemployment, with foreign competition and importations that will result in closed domestic factories, when such are the facts, the Congress and the public, the producer and the consumer alike, are entitled to full information respecting conditions within such industries, which only can be gained through investigations such as are conducted by the Tariff Commission.

The flexible tariff provision was designed by the Congress so that the Tariff Commission might assist the Congress in bringing about an equalization of foreign and domestic competition in the markets of the United States, and your committee have no intention of abandoning the legislative policy and practice of directing the Commission to supply that factual information necessary to arrive at a proper fixation of tariff rates.

Annexed hereto is a list of resolutions passed by the Senate in recent years requesting the United States Tariff Commission to investigate production costs of various commodities.

Senate resolutions requesting U. S. Tariff Commission to investigate production costs of various commodities 1924-36 (68th Cong.-74th Cong.)

Congress	Session	Date	Number of resolution	Commodities included
Sixty-eighth	First	May 19, 1924	S. Res. 226	Butter.
Sixty-ninth	do.	Feb. 17, 1926	S. Res. 146	Milk and cream.
Do.	do.	May 26, 1926	S. Res. 230	Peanuts, soybeans, and cottonseed.
Seventieth	do.	Apr. 17, 1928	S. Res. 200	White potatoes.
Seventy-first	Second	June 18, 1930	S. Res. 295	Varied, including shoes, cement, furniture, spades, sickles, etc.
Seventy-second	First	May 24, 1932	S. Res. 122	Crab meat.
Do.	do.	June 1, 1932	S. Res. 219	Meat or food choppers; optical and drawing instruments.
Do.	do.	June 20, 1932	S. Res. 241	Leather gloves.
Do.	do.	do.	S. Res. 242	Plate glass.
Do.	do.	do.	S. Res. 243	Linseed oil.
Do.	do.	do.	S. Res. 244	Cast-iron pipe and fittings.
Do.	do.	do.	S. Res. 245	Cocoa, chocolate, and cocoa butter.
Do.	do.	do.	S. Res. 246	Available costs of articles in para. 354-358, Tariff Act of 1930.
Seventy-fourth	do.	May 20, 1935	S. Res. 104	Cotton manufactures.
Do.	Second	Apr. 24, 1936	S. Res. 260	Pelts.