Exit and entry in the shoe manufacturing industry are relatively easy. Buildings and machinery may be leased and production undertaken with a relatively small amount of capital as compared with the investment required to enter manufactruing industry generally. This severe competition produces a very fluid situation in the industry structure. Over the last decade well over five hundred companies ceased shoe manufacturing, while a somewhat lesser number began manufacturing operations.

Profits on sales for a representative sample of well over a hundred of these medium and small manufacturing companies over the last twelve years have ranged from 2 per cent to 3 per cent on sales, or about half that for manufacturing industry generally. From 25 to 30 per cent of the footwear manufacturers, according to the Internal Revenue Service, report no profits. Profit ratios in 1968, because of the excellent retail business in the latter half of 1967 and early 1968, may even show a small improvement. What they will not show is that total profits for stockholders and for new investment in plant and equipment would have been greater if the bulk of imported footwear had been produced in the United States.

THERE ARE FEW OPPORTUNITIES FOR INCREASING EXPORTS OF FOOTWEAR

Because American footwear is higher priced than foreign footwear only a few U.S. specialties find a market abroad. Even if prices were competitive, American manufacturers could not export to any important extent. Most shoe-producing countries of the world have higher tariffs or protect their domestic footwear industries through border taxes, exchange restrictions, or licensing. At the same time, some of these countries encourage footwear exports to the United States through export subsidies, credits on domestic taxes paid on footwear exports, and concessions on freight.

Assuming a continuation of the trend of the first four months of 1968, the value of imports will amount to $300 million this year and exports approximately $8 million, for a deficit of $292 million for 1968. The cumulative deficit of imports over exports since 1960 amounts to $812.6 million. At the end of 1969, it will amount to over $1 billion.

U.S. TARIFFS ON FOOTWEAR ARE AMONG THE LOWEST IN THE WORLD

U.S. tariffs on footwear average about 12 per cent on all shoes imported prior to the Kennedy Round reductions. When the Kennedy Round reductions are completed in 1972, they will be between 8 per cent and 8.5 per cent. To add "insult to injury," there is a remission of taxes in most Western European countries of up to 7 per cent on the value of exported products which, in effect, amounts to a direct subsidy.

FOOTWEAR MANUFACTURERS ARE BEING FORCED TO BECOME IMPORTERS

Footwear manufacturers have three avenues in which to meet foreign competition. They may export footwear. If this avenue is closed, they may invest abroad in plants and import the product as well as sell it abroad. Or, if there are economic reasons against investment abroad, they may export lasts, dies, and patterns and have the product tailored to their needs at lower costs than if produced in the United States. This latter course is the path chosen by an increasing number of footwear manufacturers who are finding it necessary to import footwear. Of the 129 million pairs imported in 1967, possibly half of these were imported by American manufacturers.

Hardly a day passes that some manufacturer is not told by his retail customer that if he cannot supply a line of imported footwear to retail at a certain price the customer will go elsewhere to get it. The following letters from two medium-sized footwear manufacturers illustrate what is taking place:

Letter #1

As you know, this season we contracted with a factory in Italy, one in England and one in Spain to make shoes to be sold by us. . . .

In the case of Italy we furnished the styling information and the lasts; these shoes are made to our specifications. The main thing we seemed to be buying was the labor job. In both England and Spain we gave a great deal of assistance in the styling and manufacturing of the shoes.