

products such as hardwood plywood, in the face of certain decrease in domestic supply relative to demand, is simply not in the public interest.

Glass

Imports of flat glass have been under attack. These complaints have come from an industry that is an exceptionally healthy profit position, that engages in very favorable international operations, and that already enjoys special protection from certain imports.

Libbey-Owens-Ford Glass Company, as one of the principal companies in the industry, has consistently maintained one of the highest ratios of net profit to sales of any major U.S. corporation. The annual "Fortune 500" shows this profit ratio has ranged between 23 and 30 percent in the last several years for L.O.F., and around 10 percent for the Pittsburgh Plate Glass Company.

Public statements by industry executives confirm that the relative decline in 1966 from these exceptionally high levels is attributable to declines in automobile production and residential and building construction, on which the industry depends so heavily.

This industry is reported to have substantial investments in productive facilities in Europe. Its technological superiority is the basis for world-wide licensing arrangements and is also the best guarantee against loss of markets to imports.

The sheet glass segment of the industry has been under the special protection of escape clause restrictions since 1962. The alleged difficulties of this segment have been the subject of extensive annual review by the Tariff Commission. Sheet glass was exempt from any duty reductions in the Kennedy Round. And now President Johnson has extended the escape clause restrictions on certain sheet glass imports until 1970.

In short, this is a healthy industry that does not need any additional protection. Furthermore, a decade surely should be adequate time for an industry with such favorable capital and technological resources to adjust to competition without the crutch of escape clause restrictions.

BALANCE OF PAYMENTS CONSIDERATIONS

It is occasionally suggested, usually by industries seeking protection, that various import limitations should be adopted to assist the U.S. international payments position. For the reasons pointed out above, the quantitative limitations suggested would in fact be disastrous for the U.S. international accounts, by limiting total trade.

Also at times suggested—but at this writing rejected by the Administration—is the idea of a special levy or surcharge on imports. There are precedents for such temporary action, i.e., the United Kingdom and Canada in recent years. In the case of the United Kingdom, the import surcharge did not prevent devaluation of the pound sterling, and it is doubtful that it had any significant short run economic effect on the balance of payments.

The effectiveness of a U.S. import surcharge is also doubtful. A surcharge would operate in four ways: (a) to some extent, it would be absorbed by the foreign supplier, resulting in fewer dollars earned; (b) to some extent, it would lead to a decline in sales (orders cancelled or just not placed); (c) to some extent, it would be absorbed by the importer (but this would be very small, because of the margins on which importers work); (d) and to some extent, it would be passed on to the U.S. consumer in the form of higher prices. Only the first two would assist the U.S. balance of payments, and the last would make matters worse, by reason of the inflationary effect of higher prices. Inflation, of course, would impair U.S. ability to export.

The longer a surcharge remained in effect, the more serious its effect would be on U.S. prices. The natural tendency would be to pass on the price increase as soon as markets permitted. For instance, a five percent increase in the landed duty paid cost of dutiable imports would mean a commensurate increase, over time, in the price level of competitive domestic products. One of the great values of imports is that they tend to keep down domestic prices. Their anti-inflationary impact far transcends the actual volume imported.

There are not adequate tools to predict with confidence the effect of such a surcharge upon billions of dollars of varied imports. Some knowledge of a number of important commodities leads us to believe that if the rate of the surcharge were low, then after a painful period of trade disruption, trade would pick up again with the increase predominantly passed on in higher prices, thus working against rather than for the objectives of the surcharge.