

of some direct action to affect our trade balance. But under close examination and after exploring a number of courses with our trading partners, we came to the conclusion that all of them involved serious longer term risks and none of them carried enough assurance of even a temporary net gain to justify the risks—at least on the basis of the present outlook for our trade balance. One difficulty is that because of the dominant position of the United States in world trade, most countries would feel compelled to follow our lead. In fact, many of them, such as Canada, the United Kingdom, and Japan, have balance-of-payments problems of their own.

But there are ways in which other countries—especially those that are presently in a surplus position, can assist the adjustment process by their own policies. We have held intensive discussions with these countries. Germany has already begun to adopt expansionist policies, and we may receive further assistance as a result of the proposal of most European countries and Canada and Japan to accelerate their Kennedy round cuts. On balance, it appears that at present we have more to lose than to gain from any unilateral action of our own on the trade account.

I have been talking about action that could be justified under the GATT. We would have much less chance of even temporary gains if our action were contrary to our international obligations. The adverse effects of restrictive action could be with us permanently or at least for much longer than I would care to contemplate. The damage to our domestic economy could be lasting. And if we tear down the world structure we have erected with so much difficulty over the past 20 years, the world might not be as ready a second time to follow our leadership back in the direction of international trade disarmament.

This brings me to the subject of the protective quota bills that are presently before this committee. At this time I won't try to speak about them in detail. But I do want to raise some fundamental considerations that seem to me vitally important to the future direction both of our international relations and our domestic economy.

The use of protective import quotas would have, we believe, serious consequences for our balance of payments. The imposition of protectionist quotas or increased tariffs in breach of our commitments would be met by heavy retaliation against our exports. In 1962 when the United States, by escape clause action, imposed higher tariffs on carpets and glass, the European Common Market immediately withdrew concessions of value to us. They didn't negotiate—they acted. And they acted on items designed to hurt our trade—as they had a legal right to do under the GATT.

Later, when the Common Market in 1963 denied access to our chickens we acted in the same way—with a sharp increase in our tariffs against Volkswagen trucks, starches, and French cognac. If any of the more important quota bills before you should pass, there isn't the slightest doubt that the retaliation that will follow will, of a necessity, be massive.

Many times as much trade would be involved and many times as many countries would be affected as in all the escape clause actions we have taken in the history of the trade agreements program. But, most important of all, our action in this case would not be a legal one—for which the compensation is limited—but an illegal one in