

Senator PERCY. But at any rate, unless we are able to cut programs like public works, defense, possibly space, and other items that Senator Proxmire mentioned earlier, there is not much of a chance to increase expenditures in the humanitarian programs, such as social programs affecting the cities, rural poverty, hunger, and others.

Mr. McCracken. The elbowroom there is very limited. We have already a projected rather small surplus.

Senator PERCY. I understand while I was out of the room that you had commented there was increasing protectionist sentiment in 1969 as against last year. We can all feel it here, I think, in the Congress.

How important, in your judgment, would it be for us to resist opening a Pandora's box by having a little quota protection for one industry that might have a particularly articulate group of advocates in the Congress and in the country, and simply say that we can't afford to open this avenue now for greater protection on imports if we are to maintain a position of a great exporting country without retaliatory measures instantly being taken abroad against American products that we need to export abroad.

Mr. McCracken. I think we need to keep in mind our basic objective here, which is to work toward a freeing up of our international trading and financial system, rather than moving toward a system of growing controls. We all recognize that in this process there are specific problems that come up from time to time. We can't be unmindful of those problems. But I would hope in general that the basic thrust of our policies in the years ahead can be in the direction of opening up further opportunities for trade, and minimizing the impediments to trade that we have.

Senator PERCY. Do you, in your judgment, feel the textile industry has any unusual overriding factors involved in its situation that would cause it to be singled out as a specialized case to be treated separately from shoes, steel, fish nets, clothespins, and a multitude of other products, all of whose interests would like greater protection if they can get it?

Mr. McCracken. I really don't know. I haven't got, I haven't explored that that carefully. It is quite possible that there is a specific problem here. There probably is more exposure to displacements in this industry than in others and this is something that would have to be looked at very carefully. Employment here may well be concentrated in areas where alternating job opportunities are not readily available.

Senator PERCY. Dr. Houthakker, last week at the OECD meetings in Paris, I believe Dr. McCracken said that the only reason the U.S. balance of payments was as good as it was in 1968 was due to the foreign investments capital flow into the United States and the drop-off in capital flow out of the United States. What do you think will be the capital movement picture in 1969.

Mr. Houthakker. Well, Senator, I think that in 1968 there were three factors which helped to keep the capital account very favorable even though the trade account deteriorated.

One was our high interest rates relative to those abroad, in particular the fact that our interest rates structure had at last caught up with the European structure and this is still the case at the moment.