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I am pleased to have this opportunity to discuss with you the Multilateral Trade Negotiations now underway in Geneva and the possible effects that an agreement in Geneva could have on the U.S. economy. The Congressional Budget Office has recently completed a study entitled U.S. Trade Policy and the Tokyo Round of Multilateral Trade Negotiations, which was requested by the Senate Finance Committee. In my remarks today, I will present a brief summary of that study and of the prospects for the U.S. economy in the event of a significant liberalization of world trade.

The Tokyo Round of Multilateral Trade Negotiations has been underway in Geneva since early 1975 and appears now to be nearing its conclusion. On January 4th of this year, the President, in accordance with the terms of the Trade Act of 1974, notified the Congress of his intention to enter into a multilateral trade agreement. Ninety days after this notification, the President may conclude a trade agreement and submit the text of the proposed agreement, along with implementing legislation, to the Congress for approval. This 90-day waiting period concludes today. Several issues still remain to be settled in Geneva, but the President is now free to conclude an agreement as soon as those issues can be resolved.

The two principal goals of the Tokyo Round negotiations are to adjust the workings of the international trading system so that trade flows will be more directly influenced by market forces and

to restrict, to some degree, the adoption of "unfair" trade practices that enhance the trade prospects of one country at the expense of other countries. These goals are to be achieved through reductions in tariffs, through reduction and harmonization of a variety of nontariff barriers to trade, and through general reform of the rules by which international trade is carried on. Of these three primary areas of concern, most attention centers on efforts to reduce nontariff barriers to trade. One reason for this emphasis is that nontariff barriers are perceived as having become increasingly troublesome in recent years. Another reason is that, in the past, trade negotiations have focused almost exclusively on tariff reductions. Thus, the gains to be achieved through further tariff reductions are less than they have been in the past; the gains from reduced nontariff barriers remain to be achieved.

The Benefits of Liberalized Trade

The measures now being discussed in Geneva--particularly those relating to tariff and nontariff barriers--could bring significant benefits to the United States. Multilateral reductions in tariffs would allow U.S. products to compete more effectively in foreign markets and would reduce the prices that U.S. consumers must pay for foreign products imported into the United States. Further, the potential for foreign competition can put pressure on domestic producers to moderate price increases.

Similarly, measures to ease, simplify, and make more uniform a wide variety of nontariff restrictions on international trade can be expected to expand U.S. access to foreign markets and allow an increased volume of foreign-produced goods to reach U.S. industries and consumers.

It is impossible to calculate the magnitude of these gains precisely. The annual direct gains to the United States due to tariff reductions may be in the neighborhood of one tenth of one percent of U.S. gross national product (or about $2 billion at current rates). No reliable estimates of the effects of the nontariff measures being discussed are available, but it is generally expected that these measures will result in larger gains than will the tariff reductions.

In the longer term, the dynamic effects of a freer trading environment could yield further gains. Increased international specialization could allow larger-scale and more efficient production in some important industries. Increased competition could encourage more rapid technological progress. Increased availability of lower-priced foreign goods could reduce inflationary pressures and allow governments to pursue more expansionary economic policies. Careful estimation of the size of these gains is beyond the state of the economic art, but most observers believe that they are likely to be even larger than the gains due to increased exports and cheaper imports.

It may well be, however, that the most important benefits of the successful conclusion of the Geneva talks will lie not in what they accomplish, but in what they prevent. Events of the past few years have placed great strains on the international economic system, and in many countries this has led to increased pressure for the adoption of restrictive trade policies. The trade talks provide an opportunity for adapting the rules that govern international trade to the conditions that prevail in today's international economy. Without agreement in Geneva, each nation will be forced to deal with these conditions individually, and many see a successful conclusion of the trade talks as necessary if a widespread return to protectionism is to be avoided.

In addition, agreement in Geneva could bring some important political benefits. These talks represent a highly visible, cooperative effort on the part of the world's market-oriented economies to devise solutions to problems of joint concern. The success or failure of these talks could well influence the willingness of these nations to pursue cooperative solutions to other common problems.

Gainers and Losers as a Result of Trade Liberalization

The United States as a whole may be expected to gain as a result of liberalized trade. What is beneficial to the economy as a whole, however, is not necessarily beneficial to all individuals within that economy. For trade liberalization to be

effective, it must result in some structural changes in the U.S. economy. For some U.S. industries, a general reduction in trade barriers will mean increased access to foreign markets, increased sales, and increased demand for workers in these industries. Inevitably, however, other industries in the United States will suffer; increased foreign competition will reduce their sales, and some of their workers will be displaced.

Exactly which industries and which workers will gain and which will lose will be highly dependent on the details of the tariff reduction formulas and on the nontariff barrier reductions that finally emerge from the Geneva negotiations. As yet, all of these details have not been worked out. A number of specific products--particularly those for which trade liberalization could bring about severe injury to U.S. industries--will be accorded special treatment or will be excluded entirely from tariff reductions. CBO is now engaged in a cooperative effort with the Office of the Special Trade Representative and the Senate Finance Committee to evaluate the effects of the actual package of tariff and nontariff barrier reduction that appears most likely to be agreed on.

It is possible now, however, to identify those industries that potentially stand to gain the most as a result of trade liberalization and those that are most vulnerable to increased import competition. The industries that could be expected to gain

are those involved in the production and processing of agricultural commodities and those that employ highly sophisticated or recently developed technologies. Some examples of these industries are those producing tobacco products, semiconductors, computing machines, office machines, mechanized measuring devices, electronic components, aircraft, and aircraft equipment. The industries most vulnerable to increased import competition are the relatively labor-intensive industries that make use of simple, well-known technologies. Examples of such industries are those producing footwear, other leather products, pottery and food utensils, steel products, radios and television sets, jewelry, and textiles. (Special treatment has already been accorded textiles, non-rubber footwear, and television sets.)

Although increased competition from imports may bring about labor force reductions in some industries, the numbers of workers displaced is likely to be very small. For most adversely affected industries, the reductions in employment caused by trade liberalization will be less than one percent of the total labor force in those industries. Moreover, the tariff reductions agreed to in Geneva will be phased in over a period of eight to ten years. Thus, the small declines in employment that may result from trade liberalization may be expected to come about only gradually.

The nature of the industries likely to benefit because of trade liberalization suggests that the kind of jobs created

will be filled primarily by farm workers and highly skilled research and production workers. The workers displaced by increased import competition are likely to be semiskilled workers --machine operators, assembly line workers, and nonfarm laborers.

Gains and losses attributable to trade liberalization will be scattered throughout the United States, and in every state there are industries and workers likely to suffer from increased import competition. Similarly, trade liberalization can be expected to create new employment opportunities and new opportunities for foreign sales in every state. Nonetheless, all regions of the country would not benefit equally from freer trade. The sorts of industries that may suffer because of trade liberalization tend to be concentrated in the traditional manufacturing areas of the Northeast. One would expect, then, that this area would suffer a disproportionate share of the reduced employment resulting from trade liberalization. The industries that will most likely gain as a result of trade liberalization are most heavily concentrated in the South, Midwest, and West, and these areas might be expected to experience some net gains in employment.

Let me stress again that these comments about the distribution of gains and losses resulting from trade liberalization reflect potential gains and losses from across-the-board trade liberalizations. To the extent that special treatment is accorded

to one industry or another, these patterns can change, and such special treatment has already been accorded to a number of industries that are particularly sensitive to increased import competition. A final analysis of exactly which states and which industries will experience net gains or losses in employment will have to wait until the final terms of the Geneva agreements are known.

Adjusting to a Liberalized Trading Environment

The fact that the employment reductions due to trade liberalization will be small does not mean that there will be no cases for major plant closings or that it will always be easy for displaced workers to find new jobs. Indeed, there will be occasions on which government programs to relocate or retrain displaced workers will be called for. Trade liberalization, however, will not cause massive disruptions, industry-wide layoffs, or dramatic increases in unemployment.

To a large extent, trade liberalization can be seen as only slightly accelerating the inevitable. The industries that are vulnerable to increased import competition are in many cases characterized by declining profits, slowly growing productivity, and relatively slow rates of technological innovation. These are industries that are already on the decline in the United States. Trade liberalization may force federal and local authorities to face the problems of relocating the workers in these industries

a little sooner than would be necessary in the absence of trade liberalization. But the rejection of the Geneva trade agreements would be unlikely to eliminate the need for such relocations. Sooner or later it is a problem that must be faced.

Changes in trade policy are not the only cause of worker dislocation. Dislocations caused by increased imports are the subject of much attention at present, but in recent years workers have been laid off because of new environmental regulations, because of the cancellation of major federal contracts, because of the closing of military bases, or simply because of a general slowdown in economic activity. Trade liberalization may lead to some small increase in worker layoffs--particularly in the manufacturing areas of the Northeast--but so have a wide variety of other federal actions. Many of these actions--like trade liberalization--have been regarded as beneficial to the nation as a whole.

The Congress now faces the challenge of devising a set of programs to cope with the temporary and localized disruptions that can accompany many kinds of federal action. Without such programs, the costs that these actions impose on particular groups or regions may be sufficiently high--or may be perceived as sufficiently high--to prevent the government's taking actions that would bring important benefits to the nation as a whole.