

This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: International Trade in Services and Intangibles in the Era of Globalization

Volume Author/Editor: Marshall Reinsdorf and Matthew J. Slaughter, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-70959-8; 0-226-70959-0

Volume URL: <http://www.nber.org/books/rein09-1>

Conference Date: April 28-29, 2006

Publication Date: May 2009

Chapter Title: Comment on "Outsourcing and Imported Services in BEA's Industry Accounts"

Chapter Author: J. Bradford Jensen

Chapter URL: <http://www.nber.org/chapters/c12472>

Chapter pages in book: (284 - 287)

Comment J. Bradford Jensen

As context for my remarks, I should note that I am not all that familiar with BEA's estimation methodologies, but instead do microdata research that would potentially use the detailed estimates described in this paper.

The paper is motivated by the increasing interest in services imports (a.k.a. offshoring or outsourcing), particularly an interest in industry-level detail for imports of business, professional, and technical (BPT) services. The overarching goal of the paper is to address the lack of detailed data on these imported services.

To address this gap, the paper proceeds in several steps. First, it seeks to explain the treatment of purchased service imports in BEA's International Transaction Accounts (ITAs), National Income and Product Accounts (NIPAs), and the Annual Industry Accounts (AIAs). The paper specifically highlights changes in the AIA methodology that provide more detailed estimates of purchased service imports.

Then, the authors turn to the bulk of the effort in the paper—to use existing data to produce new, more detailed estimates of purchased services by industry, BPT services by industry, imported purchased services by industry, and imported BPT services by industry. The authors also evaluate their estimates using unpublished data. Importantly, along the way the authors identify and illuminate the pitfalls of both the approach taken in this paper and the official AIA estimates for some purposes and identify a number of specific caveats.

The paper is interesting and useful. I would like to draw readers' attention to three issues regarding the methodology for producing the estimates in the paper and BEA's AIA estimates. The first issue is not directly taken up in the paper, but is important context to understanding the limitations of the estimates developed in the AIAs and in the paper. The issue is the level of detail that is collected in the ITA survey programs. The principal data collection programs for the imports of services estimates are BEA's surveys of U.S. and foreign multinational companies (MNCs) and BEA's surveys of U.S. international transactions between unaffiliated parties. Please see figure 8C.1, which shows a portion of the BE-10B(LF) from the MNCs survey program, and figure 8C.2, which shows a portion of the BE-20 form, which is from the unaffiliated trade-in-services program.

There are two important things to note on the survey forms. First, the categories included on the form are not as detailed as the categories provided in the AIAs. For example, the MNC form collects only eight categories of BPT service imports. The other thing to note is that the level of

By type — See <i>Additional Instructions</i> , pages 21 and 22, at the back of this form for an explanation of how to report each type of service		1	2	3	4
a. Accounting, auditing, and bookkeeping services	3171				
b. Computer and information services	3172				
c. Financial services	3173				
d. Insurance services — To avoid duplication with other BEA surveys, report only the following: In column (1) report receipts by the U.S. reporter from a foreign insurance affiliate for losses covered by insurance reported in column (3). In column (3) report payments by the U.S. Reporter of premiums for the purchase of primary insurance from the foreign affiliate.	3174				
e. Management, consulting, and public relations services — Include in column (1), expenses allocated by the U.S. Reporter to the foreign affiliate for management, consulting, and public relations services performed by the U.S. Reporter or someone other than the U.S. Reporter and charged to the U.S. Reporter. Exclude the following types of services from this category: Computer consulting services – (include in b.) Management of health care facilities – (include in h.) Consulting engineering services related to actual or proposed construction projects – (include in h.) Public relations services that are an integral part of an advertising campaign (include in h.)	3175				
f. Research, development, and testing services	3176				
g. Transportation	3177				
h. Other services — <i>Specify primary type(s) of service(s) performed.</i>	3178				

Fig. 8C.1 BEA form BE-10B(LF) (partial) for affiliated trade

detail in the categories does not match across the survey forms. The un-affiliated form has more, and more detailed, categories. Further, neither of the forms has a one-to-one match to the level of industry detailed in the AIAs. One issue the paper does not discuss, but that is important to understanding the limitations of the estimates produced in both the AIA program and this paper, is how BEA maps information from these two forms to the detailed industry categories for which estimates are produced in the AIA program. Recognizing the nature of the information that is actually collected is very important for understanding the limitations of the estimates produced in the AIAs and in this paper.

The second issue I would like to highlight is one that is directly addressed in the paper, the issue of noncomparables. Imported services are allocated across commodities and across industries. Certain types of imports are, for the purposes of the AIAs, classified as noncomparables and aggregated into a “noncomparables” line in the AIAs. For example, royalties and li-

1. Agricultural services			Schedule A		Schedule B
2. Research, development, and testing services			Schedule A		Schedule B
3. Management, consulting, and public relations services			Schedule A		Schedule B
4. Management of health care facilities			Schedule A		Schedule B
5. Accounting, auditing, and bookkeeping services			Schedule A		Schedule B
6. Legal services			Schedule A		Schedule B
7. Educational and training services			Schedule A		Schedule B
8. Mailing, reproduction, and commercial art			Schedule A		Schedule B
9. Employment agencies and temporary help supply services			Schedule A		Schedule B
10. Industrial engineering services			Schedule A		Schedule B
11. Industrial-type maintenance, installation, alteration, and training services			Schedule A		Schedule B
12. Performing arts, sports, and other live performances, presentations, and events			Schedule A		Schedule B
13. Sale or purchase of rights to natural resources, and lease bonus payments			Schedule A		Schedule B
14. Use or lease of rights to natural resources, excluding lease bonus payments			Schedule A		Schedule B
15. Disbursements to fund news-gathering costs of broadcasters			Schedule A		Schedule B
16. Disbursements to fund news-gathering costs of print media			Schedule A		Schedule B
17. Disbursements to fund production costs of motion pictures			Schedule A		Schedule B
18. Disbursements to fund production costs of broadcast program material other than news			Schedule A		Schedule B
19. Disbursements to maintain government tourism and business promotion offices			Schedule A		Schedule B
20. Disbursements for sales promotion and representation			Schedule A		Schedule B
21. Disbursements to participate in foreign trade shows			Not reportable		Schedule B
22. Premiums paid on purchases of primary insurance			Not reportable		Schedule B
23. Losses recovered on purchases of primary insurance			Not reportable		Schedule B
24. Construction, engineering, architectural, and mining services			Not reportable		Schedule B
25. Merchanting services			Schedule A		Not reportable
26. Financial services			Not reportable		Schedule C
27. Advertising services			Schedule D		Schedule B
28. Computer and data processing services			Schedule E		Schedule B
29. Data base and other information services			Schedule F		Schedule B
30. Telecommunications services			Schedule G, Part I		Schedule G, Part II
31. Operational leasing services			Schedule H		Schedule B
32. Other private services*			Schedule A		Schedule B

*Other private services (i.e., service number 32) consist of language translation services, security services, collection services, actuarial services, salvage services, satellite photography services, and toxic waste cleanup services.

Fig. 8C.2 BEA form BE-20 (partial) for unaffiliated trade

cense fees are classified as noncomparable. Affiliate trade for unspecified financial, communication, business, professional, and technical services are also classified as noncomparables, while unaffiliated trade in BPT categories are included in comparable trade. As it turns out, the authors report that a significant portion of imported services are assigned to the “noncomparables” line in the AIAs. For example, 80 percent of business, professional, and technical services are classified as noncomparables in 2004. The large share of imported services, particularly BPT services, that are classified as noncomparables is a potentially important caveat on the estimates produced in the paper.

The third methodological issue I would like to highlight is discussed in some detail in the paper. The issue is how BEA allocates purchased services and imported purchased services across “using” industries. The Bureau of Economic Analysis uses purchased input shares from the AIA input-output tables to allocate overall purchased services across “using” industries. They use the economy-wide share of imports/domestic consumption

to allocate comparable imports of services across industries. Note that this results in no variation in comparables' import intensity across industries—they all have the economy-wide ratio of imports to domestic purchases for comparable services. For noncomparables, BEA uses unpublished information on a firm's industry from the BE-10 forms to allocate noncomparables across industries.

Beyond the issue of allocation of comparables and noncomparables across industries, the authors identify another issue with the AIA methodology that could potentially impact the usefulness of the estimates for examining trends in imported services. The BEA uses information from the most recent benchmark Input-Output tables, in this case the 1997 Benchmark I-O tables, as the source for the I-O relationship to allocate purchased services across "using" industries. To the extent that purchased service practices have evolved over time across industries, the AIAs will not capture this variation. If firms in an industry have changed their practices for both domestic outsourcing for service inputs and offshored some of their intermediate services provision since 1997, these changes will not be recognized by the estimation methodology. Because of the seemingly rapid changes in these practices, this potential shortcoming could reduce the utility of the estimates for some purposes.

In conclusion, this is a useful paper. It highlights improvements in BEA's AIA program. The paper identifies caveats to using the AIA estimates to investigate changes in purchased service imports and provides new, more detailed estimates of imported BPT services by industry. The authors and BEA should be commended for undertaking the project, and encouraged to pursue it further.