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Comment J. David Richardson

Headlines are not Bob Lipsey's strength. But I know of no better contemporary reporter of quantitative trends in globalization. Deep, definitive, discerning discourses are his hallmarks. And Bob is well into his third generation of "contemporary" professional reporting!

Headlines—memorable take-away points—are the first focus of my comments. As a two-generation devotee of Bob's underappreciated work, I am privileged to try to highlight and contextualize it. Someone needs to, because many of Bob's modestly and chronically understated findings fly in the face of widespread impression and intuition.

For example:

Nothing to the Hype

- It is *not true*, as sometimes alleged, that services are the growing frontier of global trade. There is little trend in any of the various measures of services trade relative to goods trade—the ratios of one to the other oscillate between 20 and 30 percent over the past thirty-five (or more) years.

Something to the High Tech

- It is *no longer true* that global services trade is dominantly travel and transportation. In 2003, their share was barely half, compared to two-thirds in 1983.
- "High-technology" services shares *soared* in the decade between 1983 and 2003, from 7 percent of total services trade (exports plus imports) to 18 percent. (I am identifying high technology services with finance and insurance, communications, and intellectual property [royalties and fees]).
- Other business services, contrary to breathless commentary about out-of-control offshoring, have seen a slight *decline* in their global share (roughly one quarter).

Anglo-Americans at it Again

- *It is principally* the United Kingdom and the United States (and only possibly France) that seem to possess strong and secularly increasing mea-

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asures of revealed comparative advantage in services trade, unlike almost every one of the other twenty-plus countries in this chapter's data sample.

Phantoms of the Corporate Operations

- “*Phantom*” transactions—economically meaningless attributions—increasingly *pollute* services-trade data, as services from intangible capital and intellectual property become more important inputs to all sorts of corporate operations worldwide. Where companies locate such inputs geographically is purely discretionary, and often motivated by minimization of taxes and regulations. The measured global asset position of U.S. multinational corporate affiliates would *shrink* to *one-eighth* of its recorded size if only tangible assets (plant, equipment, inventory) were counted! A supplementary set of corporate-ownership-based accounts would help identify and distill out such phantoms, and would raise a spate of new research questions.¹

But so what? Headlines and capsules for articles on page 24B of the local paper hold distinctly low interest.

But *I* think these are *page-one* headlines!

They deserve page-one coverage because so much of services trade involves inputs of various kinds, with the fastest-growing trade in high-tech input services. Input trade generates gains from trade in much-vaunted national productivity, not merely in consumer purchasing power. Growth in trade in high-tech input services may contribute importantly to the holy grail of stronger national productivity *growth*. Finally, input trade affects national income distributions strongly when traded inputs substitute and complement differently for workers of differing skills and mobility.

But there is more to do here than headline hype.

My second focus is to describe two important gaps in Bob's path-breaking chapter; he is responsible for neither. One is services price measurement. The other is human-capital services measurement.

Services Prices Scattered, Primitive, Untrustworthy . . . Inferring Trends is Fraught

- Whether *any* of the interesting trends capsulized previously are *also* true of the *volumes* of services and goods traded (i.e., whether they are “real” in inflation-adjusted data) will remain an enormous unanswerable question for many years. Services price data are woefully primitive and patchy, as Bob and other chapters in this volume discuss, especially for traded services.

1. See Baldwin, Lipsey, and Richardson (1998), another Conference on Research in Income and Wealth (CRIW) volume, for discussion and examples.

- If prices of *traded* services could be approximately tracked by U.S. *domestic* implicit price indexes for services, then the threefold rise in services prices relative to goods prices over the past seventy-five years would seriously deflate the measured growth of services trade. In that case, the real volume of services traded would have grown very slowly compared to real goods trade, contrary to the first bullet point.
- And without refined price measurement for traded services by sector, it is anybody's guess how closely the *value*-based trends track the fundamental *real* trends in sectoral composition and comparative advantage in the previous bullet points.
- Bob understands this. In response, he builds an implicit speculative case for secularly *declining* traded services prices—even relative to goods prices—by emphasizing (as the norm) the long decline of international ocean-freight costs since the early 1950s, when they represented one-third of all services trade. If Bob's faith were to be accurate (and it may be accurate for the rapidly growing values and qualities of high-tech services), then *real* trends in services trade would be *sharper and larger* than the values trends in the chapter. Faith, however, is all that supports Bob's conjecture, and faith is in this case a very slender reed—freight transportation represented only 9 percent of overall services trade by 2003; high-tech services only 18 percent (table 1.6); and the soaring domestic relative prices of services is a strong counter-trend.

Below the Radar, Almost Completely: Human-Capital Services Trade

- Only in his section on rapidly growing educational services trade does Bob pay much attention to human-capital services, and there to point out important *nonmeasurement*; for example, imported human skill when foreign students become legal residents. I think he should have made more of this measurement gap in today's allegedly growing knowledge economy, and not only in education.
- In management and higher-skill occupations, temporary-worker mobility (dubbed officially "movement of natural persons") has mushroomed, and has been legally embedded in bilateral and regional trade treaties worldwide. Mere measurement of compensation fundamentals for such workers is rife with anomalies, arbitrariness, and incomparability. And that says nothing (nor does Bob) of more interesting measurement issues concerning remittances, contributions to properly-measured capital formation, native-input value added, and so on.²

2. Bob has worked intelligently on how to conceive exactly such measurements in an older series of jointly-authored, below-the-radar papers: Kirova and Lipsy (1998a, 1998b), Lipsy and Kravis (1987a, 1987b). Measurement authorities and their official supporters have not followed up.

- Trade negotiations in conventional services, both at the global and regional level, will likely stagnate unless richer countries extend temporary-worker concessions to designated mid-skill and nonmanagerial occupations, as advocated by India, the Philippines, South Africa, Special Commissions, and others.³ So-called Mode 4 services (trade in temporary-worker services) currently represents only roughly 2 percent of conventional services trade in the other three Modes,⁴ in all of which richer countries are generally thought to have comparative advantage. Measurement of cross-border trade in skills and worker services will finally become a priority when rich countries need to sit down to calculate the value and costs of their reciprocally negotiated services gains and concessions.

Bob Lipsey has for generations been a world leader at plugging the measurement gaps in economic globalization. It is a privilege to be plugging his plugging.

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3. See Global Commission on International Migration (2005). See Pritchett (2006) for one recent example among many in the development-research community.

4. World Bank (2004, 168), for 2001.