

Are Services Tradable?

Evidence from US Microdata*

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July 2009

The service sector broadly defined accounts for 80 percent of employment in the United States. While services trade increased significantly between 1997 and 2007 (both imports and exports more than doubled), limitations in official service trade data preclude using service trade statistics to examine trends at a detailed level. We develop a model of trade across regions that incorporates firm heterogeneity, increasing returns to scale and trade costs. From this framework, we infer the trade costs consistent with the geographic distribution of production. We estimate the parameters of the model using service sector establishment level microdata collected by the U.S. Census Bureau. We produce preliminary estimates of trade costs and find variation in the estimates of trade costs across industries. Further, we find that industries with lower trade costs exhibit a higher correlation between regional productivity and our measure of trade across regions. The results suggest that when trade costs are not prohibitive, production is undertaken by regions with higher productivity and exported to regions with lower productivity.

Keywords: Service sector, Trade, Comparative Advantage, Imperfect Competition

JEL Classification Codes: F1

*Jensen thanks the Sloan Foundation, the MacArthur Foundation, and the National Science Foundation (SES0552029) for research support and Evan Gill for research assistance. We thank Andrew Bernard, Peter Schott, and Stephen Redding for comments. Special thanks to Jim Davis for timely help when it counted. The research in this paper was conducted while the authors were Special Sworn Status researchers of the U.S. Census Bureau at the Center for Economic Studies. Research results and conclusions expressed are those of the authors and do not necessarily reflect the views of the Census Bureau. This paper has been screened to insure that no confidential data are revealed.

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