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Chapter 1: Policy, Business and Statistical Motivation for Extended International Accounts

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- Trade, Investment, and Development Policy
- Tax Policy
- Financial, Regulatory, and Macro Policy
- Environmental and Energy Policies
- Critical Materials, Food Safety, and National Security
- Business and Financial decisions
Three Examples from the U.S. of The Use of Extended Accounts and Business Statistics

• Basic Tools: Extended Accounts:
  • Table 2: Supply and Use
  • Table 3: Price and Quantity Indexes
  • Table 4: National Income
  • Table 6: Command Basis Real GDP and GNI
  • Table 7: International Transactions (BOP)
  • Table 8: International Investment Position
Twenty Percent Border Adjustment Tariff

• Simple short-run impact:
  • Increase in domestic production +$719 billion
  • Long-run depends on monetary policy (+/- $0 if no monetary accommodation)

• Incomplete, need to use extended accounts to measure GVC effects, including:
  • Reduction in U.S. exports:
     • -$87 billion (higher U.S. export prices)
     • -$25 billion (lower U.S. exports because of lower U.S. imports)
  • Reduction in U.S. MNE profits, compensation, and employment:
     • -$138 billion
  • Reduction in U.S. multi-factor productivity:
     • -$18 billion
  • Reduction in terms of trade and U.S. real GDP:
     • -$666 billion

• Extended accounts show an estimated net decline in real GDP of $214 billion, rather than a net increase of $719 billion.
FDI Location and Taxes

• The share of U.S. foreign direct investment located in low tax countries has increased from 19 percent in 1977 to 44 percent in 2007.

• This rise has been associated with the transfer of intellectual property as reflected by the share of receipts of royalty and license fees from foreign affiliates of U.S. companies located in low tax countries has increased from 13 percent in 1977 and 37 percent in 2007.

• The OECD’s high priority project on Base Erosion and Profit Shifting (BEPS) is an example of the widespread impact of tax differentials across countries on the location of the activities of multinational enterprises.
  • One of the BEPS key recommendations (Action item 11) is the development of improved data for assessing the extent and impact of profit shifting and the impact of alternative policies on profit shifting.
Tax Reform

• Extended MNE accounts data will be helpful as the United States considers such tax reforms as:
  • Significantly lowering the U.S. corporate rate (near the rates in several tax havens), to reduce the incentive for MNEs to move offshore to lower tax jurisdictions.
  • Moving from a worldwide to a territorial tax system, where U.S. corporations would not be taxed on their overseas income, thereby eliminating the incentive for corporate inversions.
  • Adopting a destination-based tax that would tax all goods and services consumed in the United States. This system would effectively tax imports but not exports and is often described as a border adjustment tax.
  • Disallowing the deduction of interest on debt so as to put debt and equity on an equal footing and reduce the incentive toward excessive use of debt (and the risks associated with too much debt). This change would also remove the ability of MNEs to use “interest stripping” to reallocate income to foreign subsidiaries in lower tax countries as part of corporate inversions.
Uses of Extended MNE Accounts for Tax Analysis

• The U.S. has extended data on the Activities of MNEs.
  • Developed because of importance of MNEs to U.S. Economy:
  • These data include country on domestic and overseas sales, profits, employment, R&D, capital expenditures, earnings, taxes, dividends, repatriations, financing (for debt and equity), and ownership structure.

• Academic and policy researchers have for some years used these data to estimate the effect of changes tax rates on profit shifting.

• Estimates of the impact of reductions in the U.S. Corporate tax rate on FDI, R&D, tax revenues are critical in providing order of magnitude impacts of the different rates (from 35 to 20 or 15 percent) being considered on the location of foreign direct investment.
  • Extended MNE accounts that map into extended supply and use, TIVA, GNP, GDI, International transactions and IIP accounts can significantly improve the accuracy of estimates of the impact of tax policies.
Uses of Extended MNE Accounts for Tax Analysis

• The U.S. has extended data on the Activities of MNEs.
  • Developed because of importance of MNEs to U.S. Economy:
    • U.S. MNE’s account for 50% of U.S. exports and over 40% of U.S. imports
    • 24 percent of U.S. GDP;
    • 20% of U.S. employment,
    • Nearly 50% of U.S. MNEs profits.
    • Foreign owned MNEs in the United States account for another 5% of U.S. GDP and 4.5 percent of U.S. employment, for a total of 29% of U.S. GDP and 25% of U.S. employment accounted for by MNE’s.

• These MNE data include country on domestic and overseas sales, profits, employment, R&D, capital expenditures, earnings, taxes, dividends, repatriations, financing (for debt and equity), and ownership structure.
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Uses of Extended MNE Accounts for Tax Analysis

• The US MNE data, cover both corporate and noncorporate data and thus can be used to assess the impact of tax changes on different organizational structures.

• They also provide data on the effective tax rates actually paid by MNEs, which provide better estimates of the effect of changes in statutory tax rates.

• MNE survey-based data differ from tax-based data where filing is contingent on reparations and therefore provide complete overseas activities data every year on domestic and overseas operations, investment, income, distribution, financing, assets, and liabilities.

• Extended MNE accounts also provide information on all taxes – direct and indirect (excise and value-added taxes). As a result, they provide a more complete set of data that can be used as control variables to disentangle tax from other effects.

• Finally, if such microdata is linked to the underlying micro (or firm level) they can provide researchers a much more robust picture of MNEs tax related activities.
Monetary Policy and Financial Regulation

• As outlined in Chapters 1, 2, and 7 global value chains and the financial system that supports them, have revealed gaps in the existing international financial statistics.

• In addition to gaps and inaccuracies, concerns about the transmission of risk and of financial business crises across countries associated with Multi-national banks (as well as through non-financial MNEs) has prompted calls for extended financial flow and balance sheet data that provide breakouts and detail for foreign and domestic banks.
Better Portfolio Investment Data

• In today’s globally integrated financial markets, the use of existing data on securities transactions has caused problems for international transactions and international investment position data.
  • Such problems can be addressed through extended accounts (and supporting position-based data collections) based on IMF recommendations regarding reporting by country of issuer, country of holder, or for foreign direct investment, ultimate beneficial owners.

• Transactions-based data:
  • Overstate transactions and positions with financial centers and understate them for other countries
  • Do not fully reflect transactions made on behalf of foreign official investors;
  • Do not fully capture transactions that do not go through standard broker dealers or where assets are held by foreign investment managers and global custodians
U.S. Example

• Benchmark survey (1997) resulted in large revisions to the existing transactions-based data.
  • Total U.S. holdings of foreign securities was found to be understated by 20 percent, despite there having been a benchmark survey just four years earlier in 1994.
  • Large revisions to country holdings, with significant upward revisions to French, German, Dutch, Swiss, Latin American, Japanese, Asia-emerging markets, and significant downward revisions to British and Canadian stocks.
  • U.S. Responded with annual benchmark surveys.
Financial crises revealed further gaps in transactions-based data:

• In 2008, the transactions-based monthly data showed U.S. investors sharply cutting back on their holding of foreign bonds, especially those from emerging market countries, which raised concerns about EME’s ability to obtain financing.
  • Later, more accurate positions-based estimates showed that the reductions for EME’s were significantly less than the early estimates, but the reductions in U.S. holding of advanced countries securities were much larger.

• During this same critical time frame, the transactions-based data showed less sales of U.S. bonds to foreign residents than that revealed by later more accurate positions-based data.

• Data in other countries also provided misleading signals. Based on existing data, many in the European Union understated their exposure to the U.S. financial crisis.

• In 2010, when the United States was trying to assess the impact of the announced intention by China and other large holders of U.S Treasury securities to diversify away from U.S. Treasuries, the early transactions-based data showed a 1/3 reduction in foreign holdings, but later position-based data showed no decline.

• The U.S. responded by instituting a monthly positions-based survey.
Foreign Direct Investment Position in the United States of Selected Countries, 2010

- By country of foreign parent
- By country of ultimate beneficial owner

- Luxembourg
- Switzerland
- Netherlands
- Israel
- United Arab Emirates
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Similar Problems With FDI Data

![Bar chart showing Foreign Direct Investment Position in the United States of selected countries, 2010. The chart compares investment by country of foreign parent and by country of ultimate beneficial owner. Luxembourg leads in total investment, followed by Switzerland and the Netherlands. Israel and the United Arab Emirates have significantly lower investment amounts.](image-url)