Addressing the Challenges of Globalization in National Accounts

Brent R. Moulton[1] and Peter van de Ven[2]

National accounts are designed to measure economic activity based on national boundaries and residency. Because multinational enterprises are not defined by national identity, they pose challenges for residency-based national accounts. These challenges have become more severe with the increasing importance of knowledge assets, such as computer software, research and development, and entertainment, literary and artistic originals, as well as knowledge assets that may not yet be recognized in national accounts, such as product development and design, brand equity, and organizational structure. These intangible assets can be used across a multinational enterprise without physical assets ever crossing national boundaries or any change in ownership being recorded. Furthermore, the value added and income generated by using these assets (and other movable assets such as transport equipment) in the production of goods and services, whether or not as part of global production arrangements, can relatively easily be relocated from one country to another. Other income from these knowledge assets, such as royalties and license fees, can also be assigned to special purpose entities created to minimize the enterprise's global tax burden. These ownership arrangements have distorted traditional uses of gross domestic product as a measure economic activity, as reflected in gross domestic product (GDP), employment and productivity.

More generally, price levels of cross-border intra-concern deliveries of intermediate goods and services, and especially the use of knowledge assets and corporate services, may be governed by tax considerations, thus affecting the allocation of output and value added across countries, and consequently levels of GDP in current prices. Globalization may also affect price and volume measures for GDP. For example, intermediate consumption can be supplied from either domestic or imported sources. Thus, when the sourcing of a productive input switches, for example, from a domestic source to an imported source, the price and volume measures need to track the price differences between these sources. Failure to track these changes in sourcing leads to so-called "offshore bias," which can lead to an overstatement of GDP volume growth if gains due to offshoring are incorrectly attributed to domestic production. Price indexes used for deflation need to track the supply and use of commodities across domestic and foreign sources.

National accounts also may face problems in tracking global production processes, and – if recorded appropriately – they may not be well suited for the monitoring and analysis of the impacts of global production arrangements on the performance and competitiveness of an economy. These problems may be partially resolved by analytic tools such as trade in value added or extended supply-use tables that combine information from many countries, especially when they can identify the trade flows related to multinational enterprises.

The challenges of globalization are also reflected in the financial accounts and balance sheets, where it would be desirable for the accounts to better identify national vulnerabilities to international financial

[1] U.S. Bureau of Economic Analysis (retired)
[2] Organisation for Economic Co-operation and Development (OECD)

shocks and crises. These challenges were exposed during the Great Recession of 2007 to 2009, when many countries were surprised by their vulnerability to collateralized securities and other risky instruments. While the G-20 Group, along with the Financial Stability Board and the IMF have made progress toward filling data gaps and providing better statistical data for dealing with possible future crises, continued work is needed to reach goals for comprehensive and transparent financial data, including foreign direct investments and exposures related to portfolio investment.

This paper will review the international standards and guidance, the progress made on each of these issues, and make recommendations for future steps. We will consider the overall structure of the accounts and consider whether, given the current international standards, additional breakdowns and types of analysis would be helpful to explain economic developments. In addition, more fundamental modifications may be needed to more fully capture the economic activities of multinational enterprises, and we will consider whether the standards need to be modified or extended to avoid the distortions caused by multinational enterprises that arrange cross-border intra-concern deliveries, the ownership and recording of knowledge assets and financial activities for purposes of tax avoidance. In doing so, we weigh traditional needs of national accounts with emerging needs.