



HOW TO DEAL WITH THE CHALLENGES POSED BY GLOBALISATION?

*Meeting of the Economic Statistics Review Group,
Dublin, November 15, 2016*

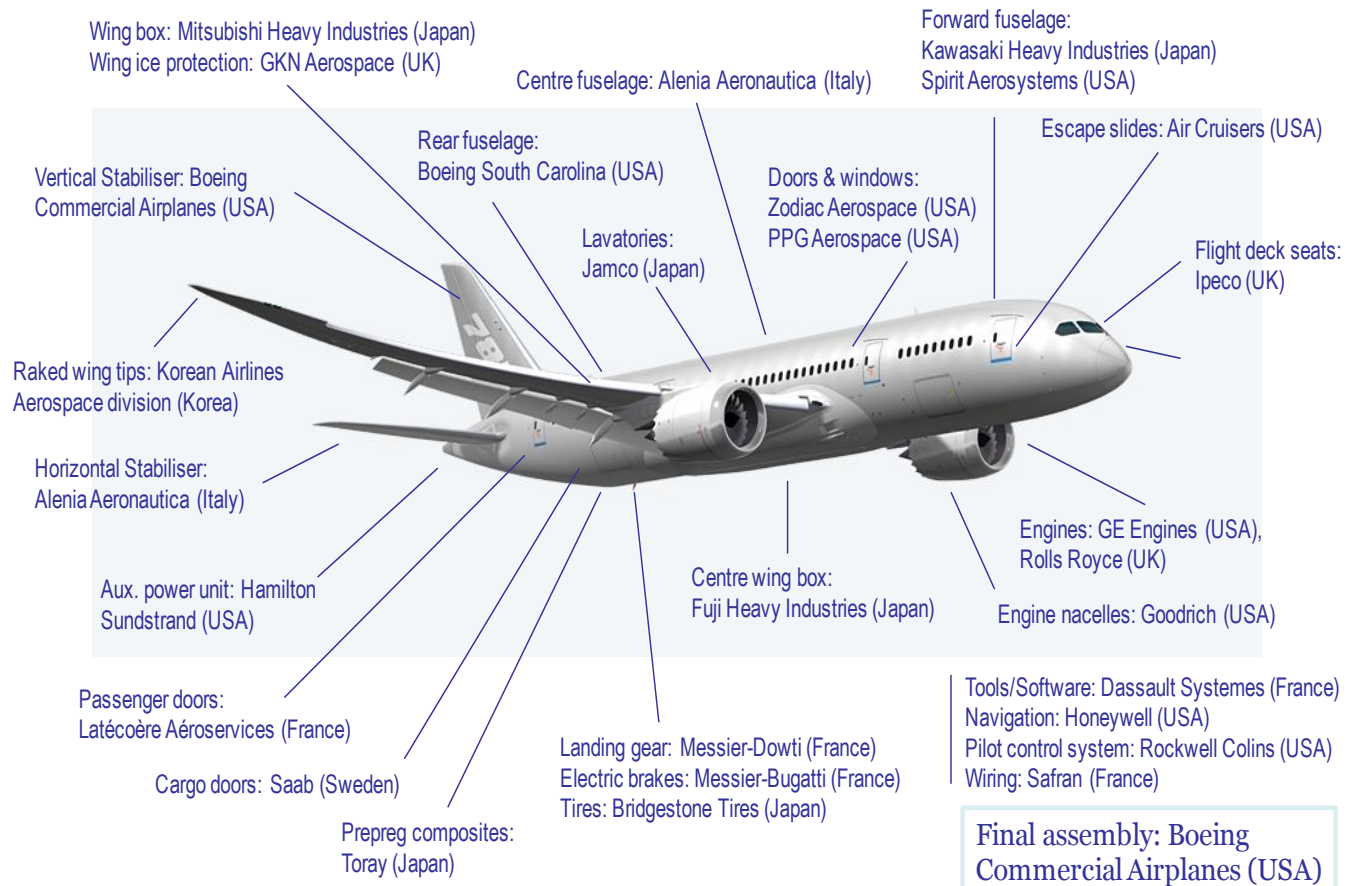
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The Phenomenon of Globalisation



Increasing interconnectedness (global value chains)

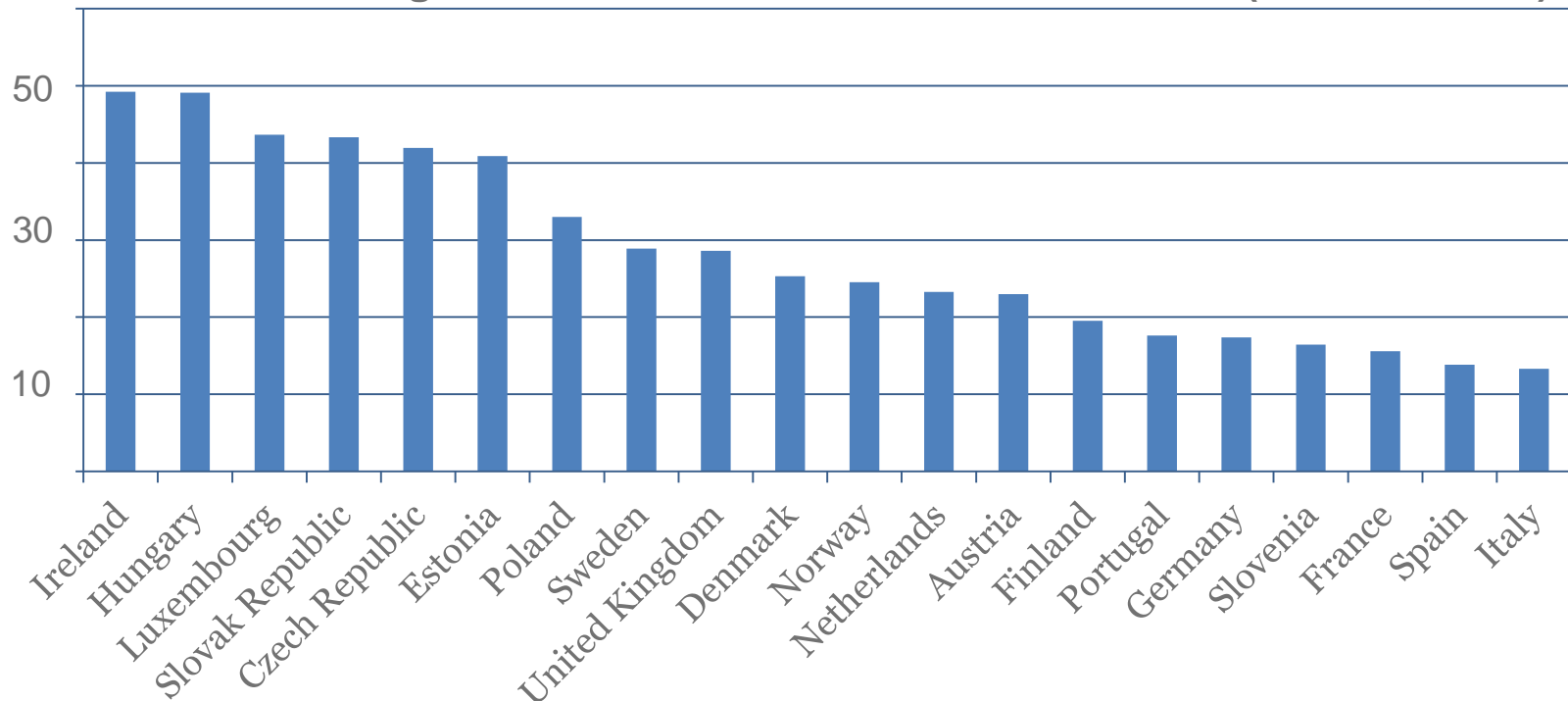




Increasing presence of MNEs

Significant value-added is generated by foreign affiliates, with a large share of value added repatriated to parents as property income:

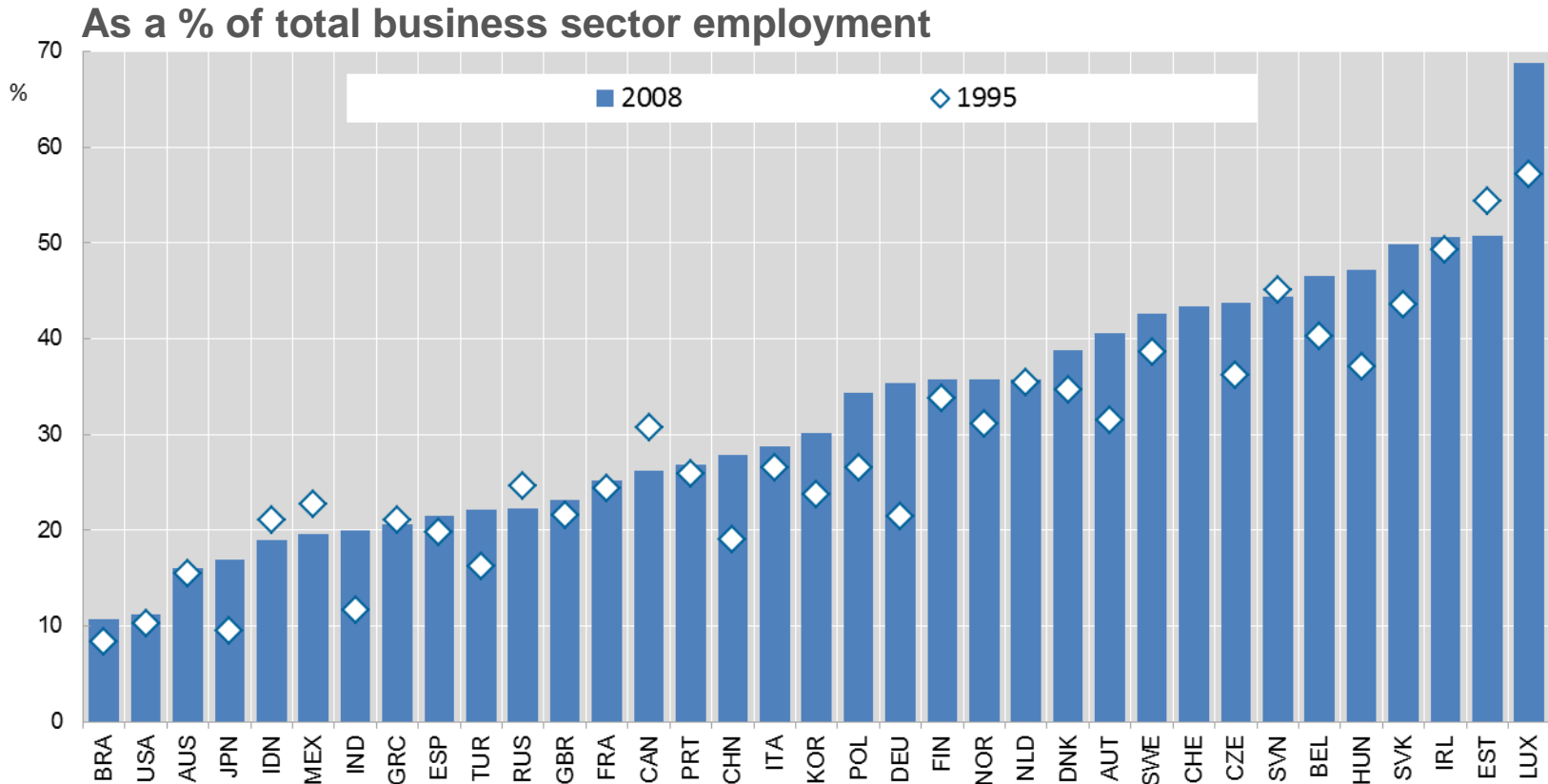
Value-Added of Foreign Affiliates – share of national total 2009 (ISIC B-N, ex K)





Increasing interdependencies

Jobs in the business sector (ISIC Rev.3, 10 – 74) sustained by foreign final demand



Source: OECD, Science, Technology and Industry Scoreboard, 2013



Increasing set-up of conduits

Special Purpose Entities in the Netherlands (2010):

• Value Added	-390
• Compensation of employees	-660
• Operating surplus (gross)	-1050
• Property income received	117350 (19.9%)
• Property income paid	-114480 (19.4%)
• Primary income (gross)	1820
• Taxes on income	-1820
• Disposable income (gross)	0
• Capital formation (gross)	-570
• Net lending	-570
• Total financial assets (*1,000 mln Euro)	2060.1 (349.9%)



Minimisation of global tax burden

Ratio profits to compensation of employees for affiliates of MNEs with headquarters in the US (2005)

• All Countries	0.84
• Europe	0.58
– Ireland	6.64
• Latin America	1.56
• Middle East	1.84
• Asia Pacific	1.18



Measurement Issues



National allocation of value added

- Mainly caused by minimisation of global tax burden through:
 - Transfer pricing
 - Channelling funds through SPEs
 - Optimisation of recording economic ownership and use of intellectual property products (IPPs)
 - Optimisation of the organisation of global production arrangements
- Economic rationale, but it hampers analysis and policy from an economic substance point of view



International transactions in IPPs

- Research among 8 MNEs
 - NL-share of worldwide R&D-employment: 46%
 - NL-share of worldwide total employment: 13%
- Only 1 MNE reports substantial R&D-exports
- Other 7 MNEs only report zero or very small amounts of R&D-exports
- Use (or change in economic ownership?) of IPPs within MNEs often implicit part of income flows
=> may (significantly) affect productivity analysis
- Often SPEs involved in worldwide IPPs



Special Purpose Entities

- May complicate economic analysis, e.g. FDI, financial transactions and balance sheets, and related property income flows
- Discussion on economic ownership of IPPs
- Leave them out?
 - No, also because of the need to arrive at internationally consistent recording
 - Alternative: presenting data for Rest of the World and for relevant sectors including and excluding SPEs



More general issues

- Quickly changing organisational arrangements
- Conceptual differences between SNA/business statistics (ownership) versus foreign trade (cross-border)
- Complication of having different statistical units

- More generally, growing inconsistencies between various statistics, especially in the case of large, internationally operating enterprises



Summary of main issues

- Major inconsistencies between statistics within a country
- Major inconsistencies between national statistics
- Issues related to economic ownership and use of IPPs
- Overnight changes in organisational structure of enterprises
- More traditional types of analysis may become “flawed”:
 - Productivity analysis and ownership/use of IPPs
 - Competitiveness and gross trade flows
- Traditional interpretation of some macro-economic indicators (e.g., GDP) becomes more questionable



Way Forward



Get the measurement right

- Micro-balancing of data for large internationally operating enterprises
 - => set-up of organisational unit to perform micro-balancing
 - => coordinated survey at national level?
- International exchange of (confidential) data
- Coordination of the enterprise population between countries (e.g. Euro Groups Register)
- Surveying MNEs at international level?



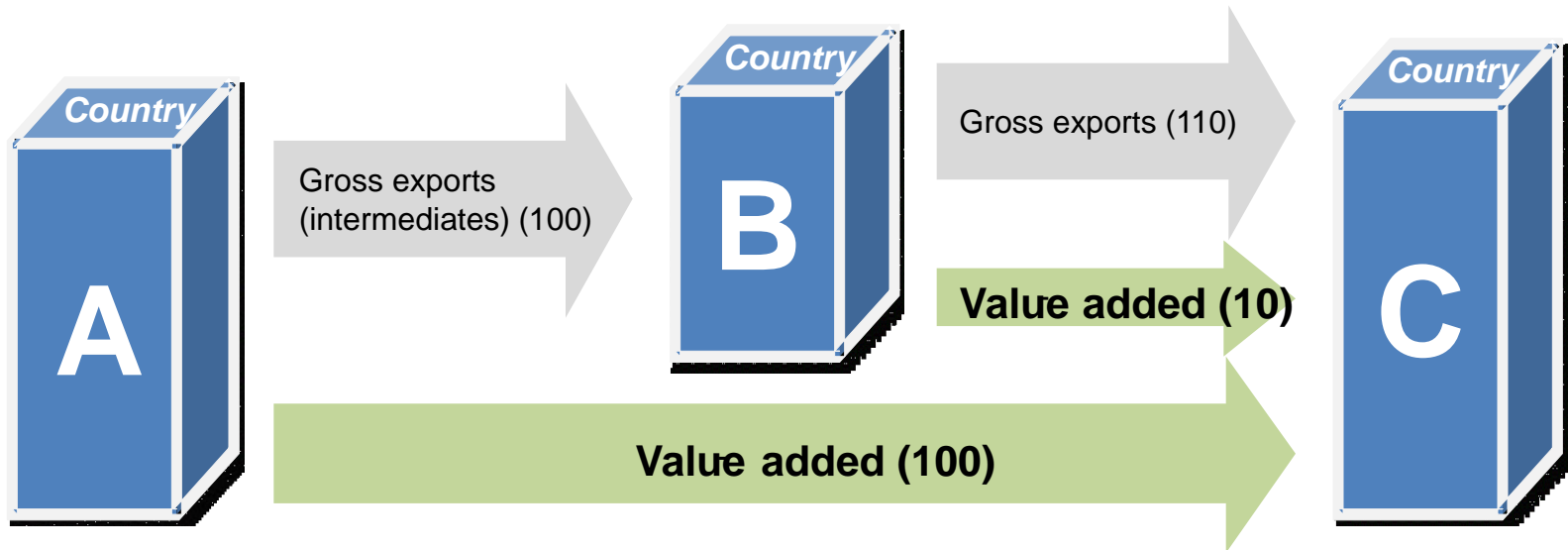
Rethink standards and classifications

- Consider the possibility of having one statistical unit (enterprise)
 - => allows for an improved, combined analysis of production, income and finance
 - => provides more opportunities for micro-linking
- Separately distinguish foreign controlled enterprises, or more generally internationally operating enterprises, throughout the whole system
- Compile international accounts for MNEs, as supplementary tables



Alternative types of analysis (1)

Trade in Value Added (TiVA), measuring the value that is added by individual firms in the production process ...



... and going further beyond TiVA



Alternative types of analysis (2)

- Need to break out transactions and positions of multinational enterprises, not only in national accounts but also in balance of payments, foreign direct investment, etc.
- More focus on multifactor productivity, instead of labour productivity
- Need to monitor and analyse the whole “elephant”



Emphasis on alternative indicators

- GDP not to be put on a par with purchasing power of people in a society
- Increasing need to put more emphasis on alternative indicators from the system of national accounts, e.g. household (adjusted) disposable income; see e.g. the OECD Dashboard on Household Economic Well-Being: <http://www.oecd.org/std/na/household-dashboard.htm>
- Or even going beyond national accounts, and take into account non-economic aspects of well-being; see e.g. the OECD Better Life Index: <http://www.oecdbetterlifeindex.org/>



The “Irish case”

- OECD recently published a short note: see <https://www.oecd.org/std/na/Irish-GDP-up-in-2015-OECD.pdf>
- Main conclusions:
 - GDP adequately reflects economic reality (although for some not the preferred reality)
 - If IPPs would have been purchased outright by an independent entity, the same increase would have incurred (although with added complication of use in global manufacturing type of arrangements)
 - Basic issue surrounding economic ownership, which is not trivial in the case of multinationals
 - No reasonable alternative for following the money flows
 - Use alternative indicators for reflecting the purchasing power of Ireland (e.g. household disposable income)
 - Note: Not directly related to the 2008 SNA/2010 ESA



Thank you for your attention!