

Abstract for “Formulary Measures for the U.S. Current Account: Accounting for Transactions Attributed to Special Purpose Entities within Multinational Enterprises”

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International standards and practices attribute international transactions to countries based on the residence of trading entities. The residence of an entity is generally the country in which most of the entity’s economic activity takes place. In the case of an entity with little or no physical presence, such as a special purpose entity (SPE), residence is determined as the country in which the entity is legally incorporated or registered. Thus, the residency-based framework is applied to transactions between unrelated entities resident in different countries and also to transactions between related entities (i.e., affiliates) resident in different countries in order to attribute economic activity to the appropriate country. Consistent with the residency-based framework, the U.S. Bureau of Economic Analysis (BEA) accounts for transactions of multinational enterprises (MNEs) based on a method of separate accounting. An MNE may, however, be structured with one or more SPEs that employ few or no local inputs and that engage in little or no economic activity. In this case, separate accounting may potentially yield distorted measures of transactions attributed to a country based merely on legal incorporation or registration (Lipsey, 2010).

In this paper, I will use survey data collected by BEA on MNEs to construct input-based measures of transactions attributable to MNEs in the U.S. current account. In particular, I will use formulary apportionment, which is also consistent with international guidelines (Rassier and Koncz-Bruner, 2013), as an alternative for separate accounting to attribute service transactions between foreign affiliates and their U.S. parents. In contrast to separate accounting, formulary apportionment attributes output to affiliates based on observed factors that reflect economic activity.

Preliminary work suggests that a large number of MNEs report no factors of production at foreign affiliates that are reported to have service transactions involving finance, insurance, and intellectual property. Preliminary results indicate that switching to formulary apportionment would result in a relatively large decrease in U.S. imports – approximately 3 percent of published total private service imports – but no meaningful change in exports. The overall effect on U.S. GDP is a small increase – approximately 0.1 percent. Overall, formulary apportionment appears to yield a picture of the U.S. current account that is more congruent with economic activity than the picture generated under a method of separate accounting.