How U.S. Multinational Companies Strengthen the U.S. Economy

Data Update

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Foreword and Synopsis

In spring of 2009, Business Roundtable and the United States Council Foundation sponsored the report, *How U.S. Multinational Companies Strengthen the U.S. Economy*. Based on official government statistics collected by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, this report provided a fact-based analysis of the many contributions that U.S.-based multinational firms make to the overall U.S. economy. The goal of this analysis was to offer timely input into the ongoing business-policy conversations about how best to support productivity growth and raising the average standard of living for Americans.

Today in spring 2010, there is now one additional year of BEA data that offers the most up-to-date view of the U.S. and global operations of U.S. multinationals. In addition, the past year has also brought a continuation of the deep recession facing the United States and much of the world economy. In particular, the severity of job destruction and broader labor market pressures make even more acute the need for policies that will restore economic growth for American workers, communities and companies.

This update to *How U.S. Multinational Companies Strengthen the U.S. Economy* revises the original data analysis to reflect the most current information. The key findings of this report remain unchanged. U.S. multinationals are first and foremost American companies, and continue to enhance the nation's economy by their capital investment, research and development, and continued support of good-paying American jobs. Their ability to strengthen the U.S. economy is enhanced, not reduced, by their global engagement. In particular, foreign-affiliate activity tends to complement, not substitute for, key parent activities in the United States such as employment, worker compensation, and capital investment.

The global engagement of U.S. multinationals has long supported American jobs and economic growth. These contributions are especially critical now, as the United States struggles to emerge from the world financial crisis and deep recession. From the start of the recession in late 2007 to early 2010, 8.4 million payroll jobs in the United States — or 6.1 percent — had been lost. These job losses were entirely in the private sector — 8.5 million private-sector payroll jobs had disappeared, a remarkable 7.4 percent of the late-2007 total.

The major policy challenge facing the United States today is not just to create jobs of any kind. Rather, it is to create high-paying private-sector jobs that can foster sustained long-term economic growth. It is U.S. multinational firms that tend to create precisely these high-paying jobs involving knowledge creation, capital investment and exporting. To climb out of the great recession to sustainable economic growth, the U.S. economy needs to create millions of the kinds of jobs that U.S. multinationals tend to create. Accordingly, U.S. economic policy on all fronts should be encouraging job growth in these important firms.

Executive Summary

The contribution U.S. multinational companies make to the American economy is increasingly being called into question.* Critics claim that these companies have abandoned the United States, that they succeed only by exporting jobs, and that their domestic and international operations need to be rebalanced through changes in U.S. tax, trade and investment policy. Based on official government statistics and current research, this report addresses these claims.

U.S. multinational companies are, first and foremost, American companies. They perform large shares of America's productivity-enhancing activities — capital investment, research and development, and trade — that lead to jobs and high compensation. The central role of U.S. multinational companies in underpinning U.S. economic growth and job creation is even more important today as the United States seeks to address the challenges presented by the ongoing deep recession. Strong U.S. multinational companies that are able to compete effectively in foreign markets will be better positioned to help restore American economic growth. The ability of U.S. multinationals to stem domestic job losses and return to hiring more American workers depends on the health, vitality and competitiveness of their worldwide operations.

- ***The worldwide operations of U.S. multinationals are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates.*** The idea that U.S. multinationals have somehow "abandoned" the United States is not supported by the facts. They maintain a large presence in America relative to the overall U.S. economy and relative to the size of their foreign affiliates.

- ***International engagement drives the overall strength of U.S. multinational companies.*** Although the United States is still the world's largest single-country market, in the past generation it has been a slow-growth market compared with much of the world — and it remains so when compared to the many countries recovering more quickly from the worldwide recession. This means that the overall strength of U.S. multinationals is increasingly tied to their success in both America and abroad. To achieve strong revenue growth, for example, many U.S. multinationals must expand their access to foreign customers. It also means that viewing the domestic and foreign operations of U.S. multinationals as unrelated is increasingly incorrect. U.S. multinationals must make strategic investment and employment decisions from a truly global perspective, with links across all locations and dynamic variation in strategies both across companies and over time.

- ***Foreign-affiliate activity tends to complement, not substitute for, key parent activities in the United States such as employment, worker compensation and capital investment.*** Being globally engaged requires U.S. multinationals to establish operations abroad and also to expand and integrate these foreign activities with their U.S. parents. The idea that global expansion tends to "hollow out" U.S. operations is incorrect. Rather, the scale and scope of U.S. parent activities increasingly depends on successful engagement abroad. Expansion by U.S. parents and their affiliates contributes to the productivity and average standard of living of all Americans.

* A U.S. multinational company is any U.S. enterprise, called the "parent," that holds at least a 10 percent direct ownership stake in at least one foreign business enterprise, called the "affiliate." In 2007 there were 2,202 U.S. multinational parents that controlled 24,755 majority-owned foreign affiliates. This report analyzes majority-owned foreign affiliates and their U.S. parents.

Key Facts*

U.S. parent companies perform large shares of America's productivity-enhancing activities that lead to high average compensation for American workers.

- *Output*: Parent companies accounted for 24.3 percent of all private-sector output (measured in terms of gross domestic product) — nearly $2.6 trillion.
- *Capital Investment:* Parent companies purchased $482.5 billion in new property, plant and equipment — 29.4 percent of all private-sector capital investment.
- *Exports:* Parent companies exported $515.4 billion in goods to the rest of the world. This constituted nearly half — 45.2 percent — of the U.S. total.
- *Research and Development:* To discover new products and processes, parent companies performed $200.4 billion of research and development. This was 74.4 percent of the total R&D performed by all U.S. companies.

All these productivity-enhancing activities contribute to larger-than-average paychecks for the millions of employees of U.S. multinationals.

- Parent companies employed more than 22 million U.S. workers. This was 19.1 percent of total private-sector payroll employment.
- Total compensation at U.S. parent companies was more than $1.39 trillion — a per-worker average of $63,272. This average was $9,957, fully 18.7 percent above the rest of the private sector average of $53,315.

U.S. parents purchased a total of $6.03 trillion in intermediate inputs. Of this total, 88.9 percent — or $5.36 trillion — was bought from other companies in the United States.

The worldwide operations of U.S. multinational companies are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates.

- *Employment*: Parent companies account for 68.7 percent of worldwide employment of U.S. multinationals — 22 million parent workers versus 10 million at affiliates. This translates into a ratio of about 2.2 U.S. employees for every one affiliate employee.
- *Output*: Parent companies account for 69.8 percent of worldwide output (in terms of value added) of U.S. multinationals — almost $2.6 trillion versus about $1.1 trillion.
- *Capital Investment:* Parent companies undertake 74.1 percent of worldwide capital investment by U.S. multinationals — $482.5 billion versus just $169.1 billion. For every $1 in affiliate capital expenditures, parents invested $2.85 in the United States.
- *Research and Development:* Parent companies perform 85.1 percent of worldwide research and development by U.S. multinationals — $200.4 billion versus just $35.0 billion, or $5.72 in parent knowledge discovery for every $1 by affiliates.

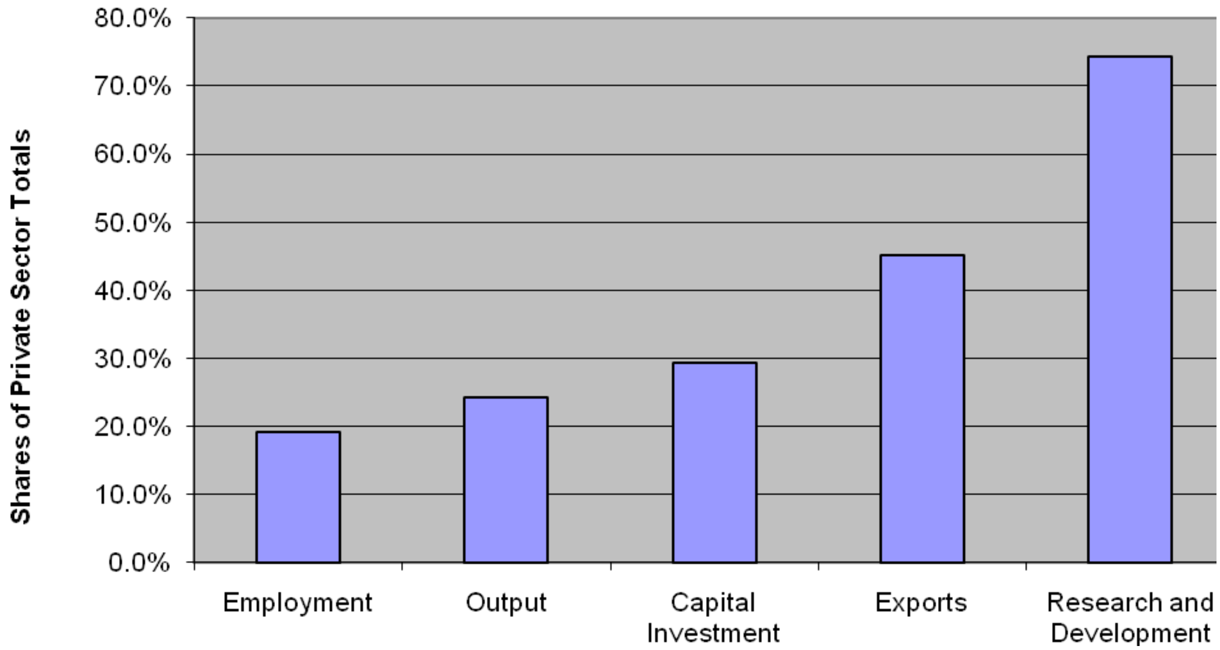
Foreign affiliates are located primarily in high-income countries that in many ways have economic structures similar to the United States, not in low-income countries.

- Affiliates in high-income countries accounted for more than three-quarters of total affiliate output — and a similar two-thirds of output by all affiliates newly established or acquired.

*All statistics reported on this page are for 2007, the most recent year of data available on U.S. multinational companies from the Bureau of Economic Analysis of the U.S. Department of Commerce.

Detailed Synopsis

<u>Graph 1</u>: U.S. Parent Companies Account for Large Shares of the Overall U.S. Economy



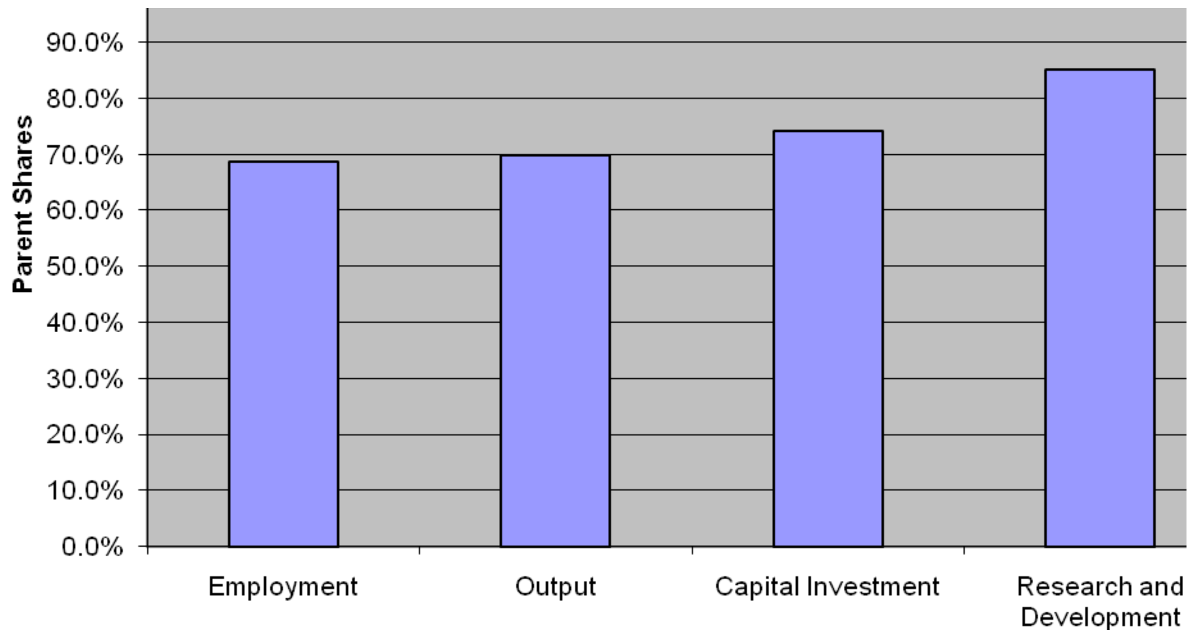
U.S. parent companies perform large shares of America's productivity-enhancing activities that lead to high average compensation for American workers. **2007 data show the following:**

- *Employment*: Parent companies employed more than 22 million workers in the United States. This was 19.1 percent of total U.S. private-sector payroll employment.
- *Output*: Parent companies accounted for 24.3 percent of all U.S. private-sector output (measured in terms of gross domestic product) — nearly $2.6 trillion.
- *Capital Investment:* Parent companies purchased $482.5 billion in new property, plant and equipment — 29.4 percent of all U.S. private-sector capital investment.
- *Exports:* Parent companies exported $515.4 billion of goods to the rest of the world. This constituted nearly half — 45.2 percent — of the U.S. total.
- *Research and Development:* To discover new products and processes, parent companies performed $200.4 billion of research and development. This was 74.4 percent of the total R&D performed by all U.S. companies.

All these productivity-enhancing activities contribute to larger-than-average paychecks for the millions of employees of U.S. multinationals.

- Total compensation at U.S. parent companies was more than $1.39 trillion — a per-worker average of $63,272. This average was $9,957, fully 18.7 percent above the rest of the private sector average of $53,315.

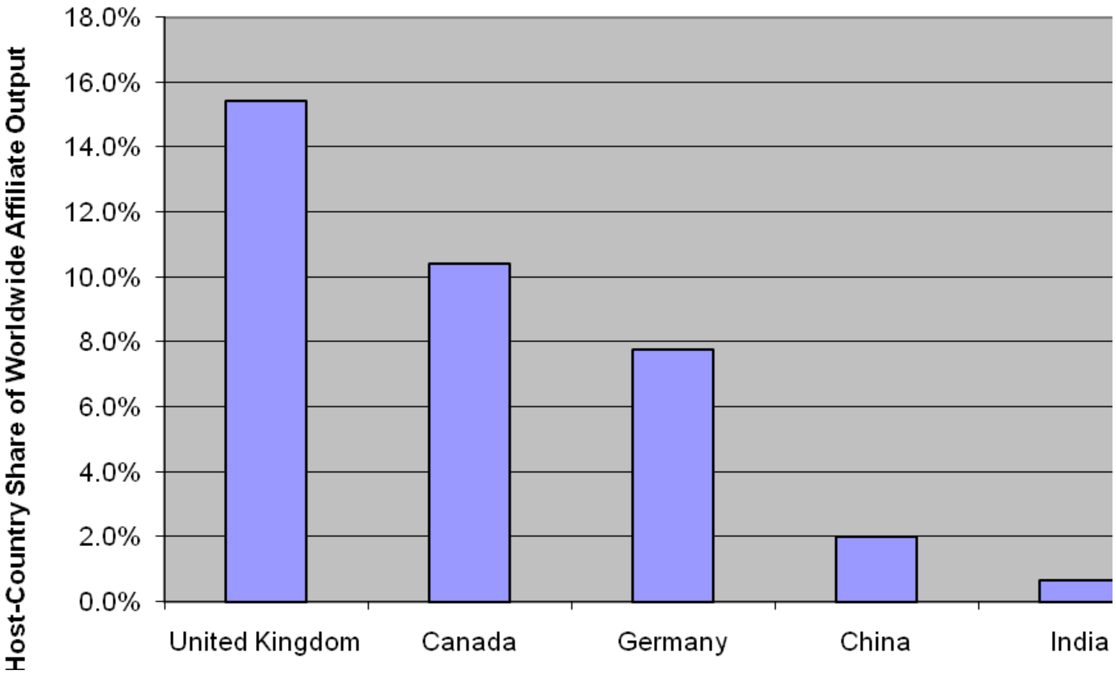
***Graph 2*: U.S. Parents Account for the Large Majority of Worldwide Activity of U.S. Multinationals**



The worldwide operations of U.S. multinational companies are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates. 2007 data show the following:

- *Employment*: U.S. parents account for 68.7 percent of worldwide employment of U.S. multinationals — 22 million parent workers versus 10 million at affiliates. This translates into a ratio of about 2.2 U.S. employees for every one affiliate employee.
- *Output*: U.S. parents account for 69.8 percent of worldwide output (in terms of value added) of U.S .multinationals — nearly $2.6 trillion versus about $1.1 trillion.
- *Capital Investment:* U.S. parents undertake 74.1 percent of worldwide capital investment by U.S. multinationals — $482.5 billion versus just $169.1 billion. For every $1 in affiliate capital expenditures, parents invested $2.85 in the United States.
- *Research and Development:* U.S. parents perform 85.1 percent of worldwide research and development by U.S. multinationals — $200.4 billion versus just $35.0 billion, or $5.72 in parent knowledge discovery for every $1 by affiliates.

***Graph 3*: High-Income Countries Account for the Majority of Worldwide Affiliate Activity**

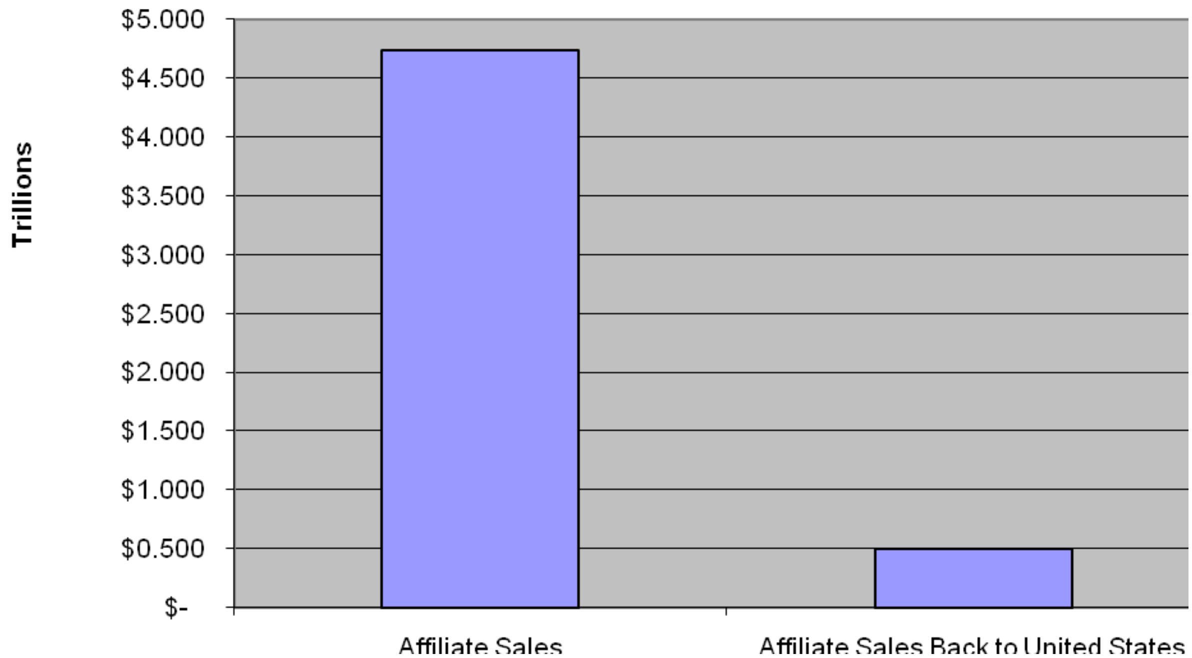


Foreign affiliates are located primarily in high-income countries that in many ways have economic structures similar to the United States, not in low-income countries.

- In 2007, affiliates in high-income countries accounted for more than three-quarters of total affiliate output — and a similar two-thirds of output by all affiliates newly established or acquired in that year.
- The three countries that in 2007 accounted for the largest shares of affiliate output were the United Kingdom (15.4 percent), Canada (10.4 percent), and Germany (7.8 percent).
- China and India, despite their very fast overall GDP growth of the past generation, accounted for just 2 percent and 0.7 percent of total affiliate output, respectively.

This concentration of affiliate activity in other high-income countries is consistent with U.S. multinationals expanding abroad mainly to gain global competitiveness by serving foreign customers.

Graph 4: Affiliate Sales Stay Overwhelmingly Abroad



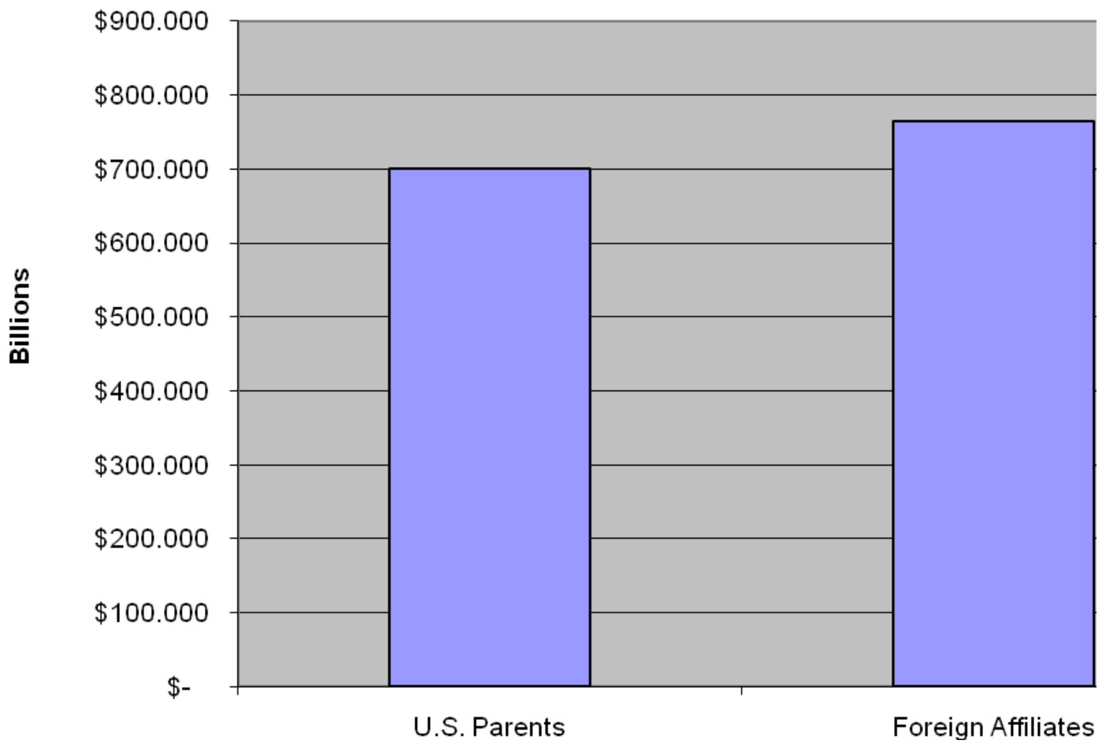
U.S. multinationals in many lines of business — both services and manufacturing — simply must establish on-the-ground foreign affiliates if they want to access foreign customers.

- Sales by majority-owned affiliates in 2007 were more than $4.7 trillion, of which just $499.5 billion were sales back to the United States. Nearly 90 percent of affiliate sales are into the host-country market or other foreign markets, and only 10.5 percent of affiliate sales are back to the United States.

Another notable fact is that affiliate sales often tend to stimulate, not substitute for, exports from their U.S. parents.

- In 2007, the main industry of 4,267 majority-owned foreign affiliates — 17.2 percent of the total — was wholesale trade. This reflects how an important dimension of global engagement for many manufacturing parents is to establish foreign affiliates to which parent products are exported for distribution within host-country markets.

<u>Graph 5</u>: Net Income of Foreign Affiliates Now Exceeds That of U.S. Parents

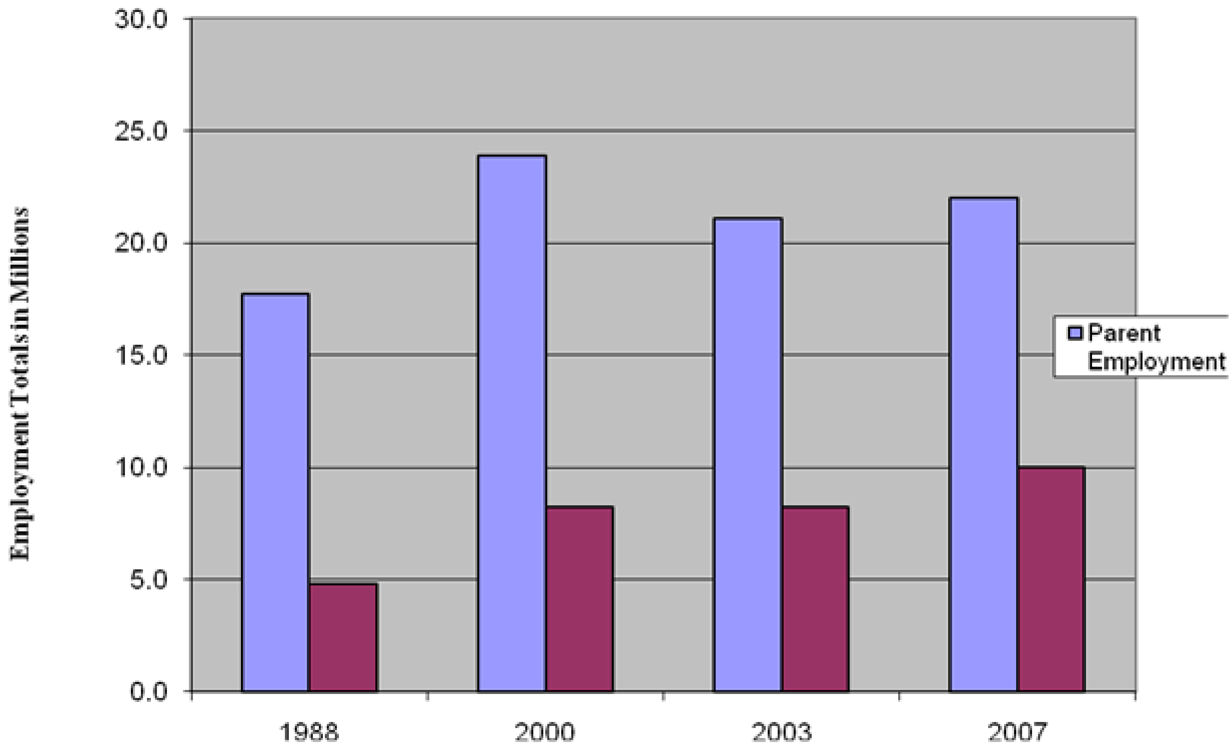


Today, the global competitiveness of U.S. multinationals depends as much on profitability of foreign affiliates as it does profitability of parents.

- In 2007, the net income of all foreign affiliates was $765.2 billion. Total U.S. parent net income that year was just $701.3 billion, which means that foreign affiliates accounted for more than half — 52.2 percent — of the worldwide net income of U.S. multinationals.
- Indeed, U.S. multinationals across many industries have recently offset slowing U.S. sales and profits with stronger sales and profit growth outside America. Affiliate success abroad can help sustain key U.S. parent activities like paying workers, funding research and development, and financing capital investment — especially at times like today when the domestic U.S. economy continues to struggle.

This competitive success of foreign affiliates supports the global competitiveness of U.S. multinationals, all of which in turn rebounds to operations of these companies everywhere — including in the United States. Indeed, a company that is not globally competitive and profitable over the long term will not be able employ any workers — in the United States or abroad.

***Graph 6*: Employment at U.S. Parents and Foreign Affiliates**



Both aggregate and company-level statistics show that foreign-affiliate expansion tends to complement U.S. parent employment, investment, and sales as well.

- From 1988 through 2007, affiliate employment rose by 5.2 million workers, from 4.8 million in 1988 to 10.0 million. Over that same period, parent employment in the U.S. rose by nearly as much: 4.3 million, from 17.7 million to 22 million. This broad pattern of rising employment globally suggests that employment at U.S. parents and foreign affiliates tend to be complements.
- A similar picture of complementarity is given by capital expenditures. From 1988 through 2007, affiliate capital spending rose by $122.5 billion, from $46.6 billion to $169.1 billion. Over that same period parent capital spending in the U.S. rose by two-and-a-half times that amount: $305.3 billion, from $177.2 billion to $482.5 billion.

Disaggregating the data by companies, countries, and years reveals a pattern not of affiliates hollowing out parents, but rather of different business cycles and overall business environments facing U.S. parents and affiliates—and an overall picture of complementarity.

- In U.S. parents, several major industries experienced slight employment declines from 2000 to 2007. The one industry experiencing a major employment decline was manufacturing: a fall of more than 1.7 million workers, or fully 91.8 percent of the all-parents decline of 1.9 million. But, contrary to the common assertion that falling U.S. manufacturing employment is being caused by U.S. parents exporting jobs to their foreign affiliates, it is notable that during this same period foreign-affiliate employment in manufacturing rose only slightly: by 274,000, or just 6.2 percent.

- U.S.-parent employment changes since 2000 were likely driven by two major forces. One was the U.S. recession in 2001, which continued to pressure the U.S. labor market until mid-2003. As Graph 6 shows, from 2000 through 2003 parent employment fell from 23.9 million to just 21.1 million. Indeed, overall U.S. manufacturing employment during this time fell by more than 3 million. The global nature of this recession seems to have restrained affiliate employment as well, which as the graph above shows changed very little at about 8.2 million from 2000 through 2003. The other major force was the strong productivity performance of U.S. parents. Productivity gains can reduce short-term employment when sales growth is not strong enough to keep pace with the innovations. Since 2003, when the economic recovery was well underway both at home and abroad, total U.S. parent employment has risen each year: from 21.1 million to 22 million in 2007.

- What about foreign-affiliate employment? 60.9 percent of the 2000-2007 employment increase in affiliates was accounted for by just three industries: retail trade (+425,900); business administration and support services (+381,700); and food and accommodation services (+288,300). These are the very sort of activities where reaching foreign customers necessarily happens through affiliates, not exporting, and where foreign expansion tends to complement parent activity, not substitute for it. Indeed, over this time period U.S. employment was rising for parents operating in both retail and food/accommodations.

- Looking at affiliate-employment increases by country underscores the key message that U.S. multinationals have been expanding substantially in fast-growing markets around the world. Consider the much heralded BRICs — Brazil, Russia, India, and China — four countries that have generated some of the world's fastest rates of GDP growth over the past decade. During the 2000-2007 period, affiliate employment in these four countries rose by 809,400. This was 43.9percent of the post-2000 increase in affiliate employment worldwide — even though these four countries accounted for just 8.6 percent of affiliate employment worldwide in 2000. Rapidly growing countries present vast new revenue opportunities for U.S. multinationals — opportunities that tend to boost both affiliate employment and parent employment.

- Many studies using company-level data on U.S. multinationals have found that the large majority of these firms exhibit employment changes consistent with parent and affiliate operations being complements rather than substitutes. One analysis of all U.S. multinationals in manufacturing from 1982 to 2004 found that each additional dollar in an affiliate's employee compensation generates an average increase in its parent employee compensation of about $1.11, and each additional dollar in an affiliate's capital investment causes an average increase in its parent's capital investment of about $0.67.

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