Multinational Enterprises (MNEs) and Globalization

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Presentation to Goldschmidt Fellows 01/11/2017
Outline

• How MNEs affect the U.S. economy
  – U.S. MNEs operating here and abroad
  – Foreign MNEs operating here
• Where to find the data on BEA’s website
• Q&A
Two senior reporters on globalization

Louis Uchitelle
http://www.nytimes.com/by/louis-uchitelle

David Wessel
http://topics.wsj.com/person/W/david-wessel/1566
A favorite question of Louis and David

Where are U.S. MNEs hiring workers?
Worldwide employment of U.S. MNEs

Source: BEA, December 2016 Survey of Current Business
Do U.S. MNE workers abroad represent lost U.S. jobs?
BEA statistics alone can’t answer the question

Chart 5. Some Possible Causes of a Change in the Domestic Share of U.S.-MNC Employment

1. Different rates of economic growth in the United States and abroad
2. Different rates of productivity growth in U.S. parents and foreign affiliates
3. New market opportunities abroad that cannot be served by U.S. exports
4. Changes in foreign government policies toward direct investment
5. U.S. parent outsources an activity to a domestic company that is not also a U.S. parent
6. U.S. parent outsources an activity to an unaffiliated or affiliated foreign company

Source: BEA, March 2004 Survey of Current Business
Domestic and foreign workers of multinational companies are:

**Complements**

- Desai, Foley, & Hines '05/09
- Navarette & Castellani '04

**Substitutes**

- Brainard & Riker '97
- Harrison & McMillan '09
“At some companies, hiring to sell or make products abroad means more research or design jobs in the U.S.”

Production sharing between U.S. parent companies and their foreign subsidiaries increases demand for headquarter services (HQ) in the United States.

Specifically, a 1-percentage point increase in production sharing tends to be associated with a

– 0.17-percentage point increase in subsidiaries’ demand for HQ services

• This effect is stronger (0.33) in high-tech manufacturing than in low-tech manufacturing (0.06).

Source: Marilyn Ibarra-Caton and Raymond Mataloni, “Headquarter Services in the Global Integration of Production” (under review at the Journal of International Management)
Where are U.S. MNEs hiring workers abroad?
Foreign employment of U.S. MNEs

Source: BEA
Destination of sales by foreign subsidiaries

Source: BEA
“As a greater percentage of our sales have been outside the U.S., we have seen our work force outside the U.S. grow,’ says Jim Dugan, spokesman for construction-equipment maker Caterpillar.”

“`We’re globalized around markets, not cheap labor. The era of globalization around cheap labor is over...Today we go to Brazil, we go to China, we go to India, because that’s where the customers are.’’”

Now let’s look at foreign MNEs in the USA
“Companies from abroad [...] now have a large enough presence in the American corporate sector to strengthen or weaken the economy by their behavior.”

How important are foreign-owned companies in the U.S. economy?
They accounted for 5.2% of U.S. private employment in 2014.

Source: BEA, August 2016 Survey of Current Business
Role of foreign-owned companies in the U.S. economy

Source: BEA (data cover 2014)
How do foreign-owned companies affect the U.S. economy?
Here, too, published BEA data cannot *fully* answer this question but microdata from BEA surveys can be used by researchers to do so. Research has shown that foreign-owned firms advance U.S. economic growth because they:

– Pay higher wages (Doms and Jensen 1998)
– Are more productive (Doms and Jensen 1998)
– Have a higher propensity to export (Bernard, Jensen, and Schott 2009)
Summary

• Published data from BEA surveys can be used to show the activities of:
  – U.S. and foreign MNEs in the United States
  – U.S. MNEs abroad

• Microdata from the BEA surveys can be used by researchers to examine the impact of MNEs on the U.S. economy.
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