Global Goliaths

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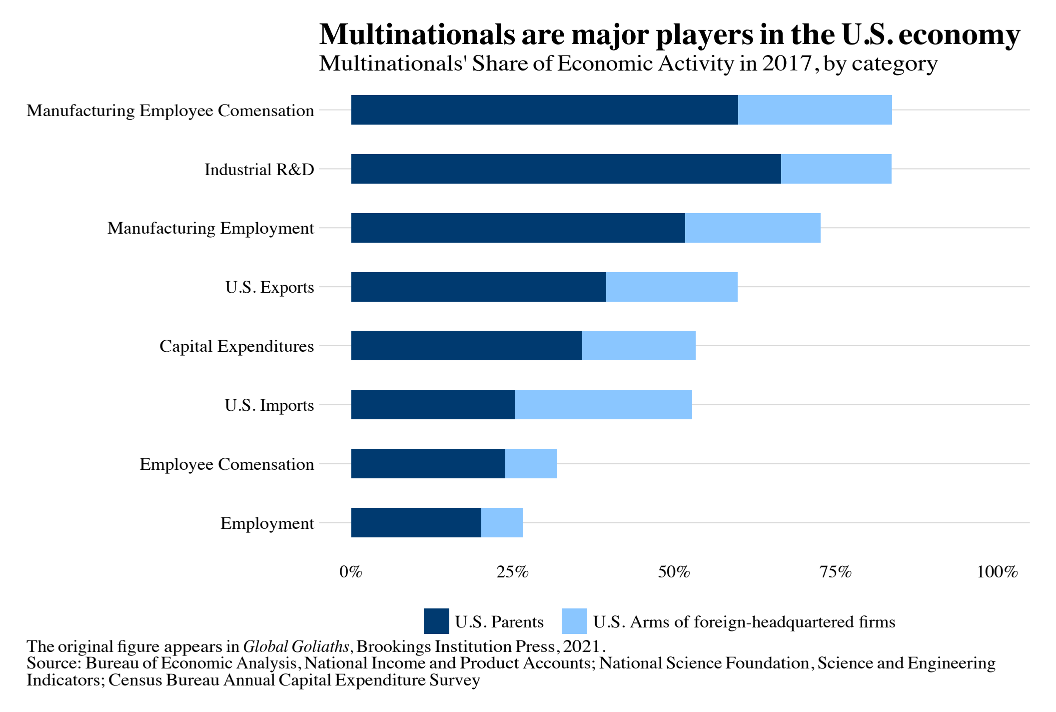
2021-03-04

Multinational corporations (MNCs) are the global goliaths of modern times, responsible for large portions of world production, employment, investment, international trade, research, and innovation. Decisions made by these firms affect those who work for them, buy from them, do business with them, and compete with them as well as the economies and societies of the places in which they are located. Some are critical of MNCs.

Figure 1



A nice image.

Multinationals are major contributors to the U.S. economy.

U.S.-headquartered MNCs accounted for 20.1 percent of all U.S. private sector employment in 2017, and foreign-headquartered firms accounted for another 6.4 percent. And that does not count workers at their suppliers and customers. Jobs at multinationals tend to pay more, on average, than others, in part due to the industries in which MNCs are most active and the occupations of the workers they employ, so multinationals account for a larger share of total labor compensation than their share of workers.

Multinationals play a particularly large role in manufacturing: more than 70% of all U.S. manufacturing employment is in MNCs. Multinational firms accounted for more than half of all non-residential capital expenditures and more than 80 percent of all industrial R&D done in the United States. Multinationals account for more than half of U.S. exports and imports of goods and services.

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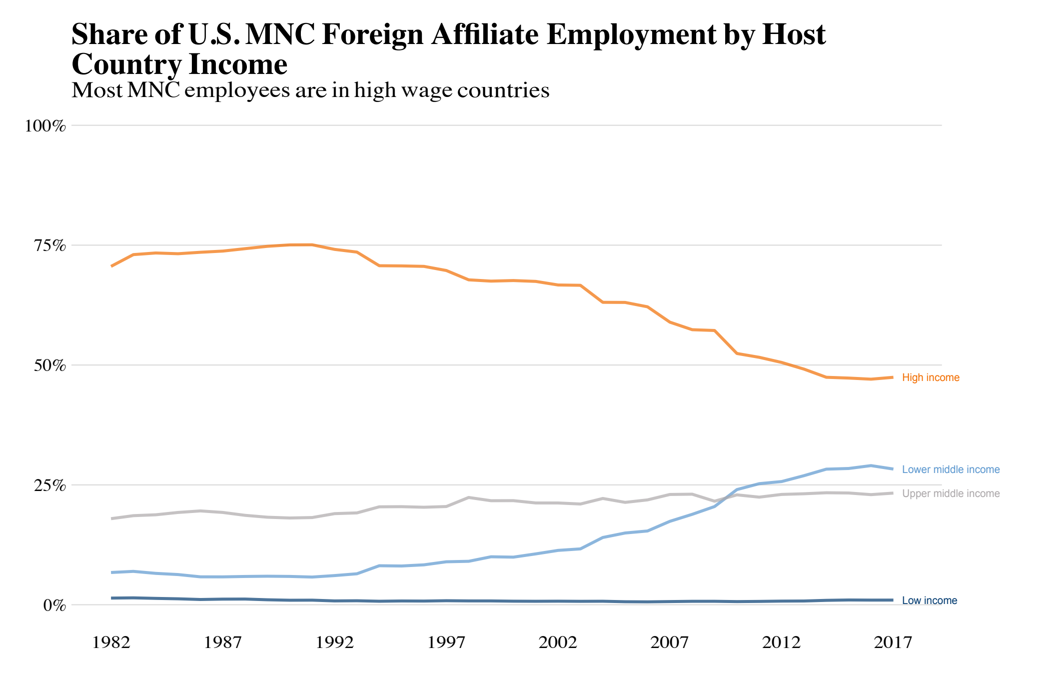

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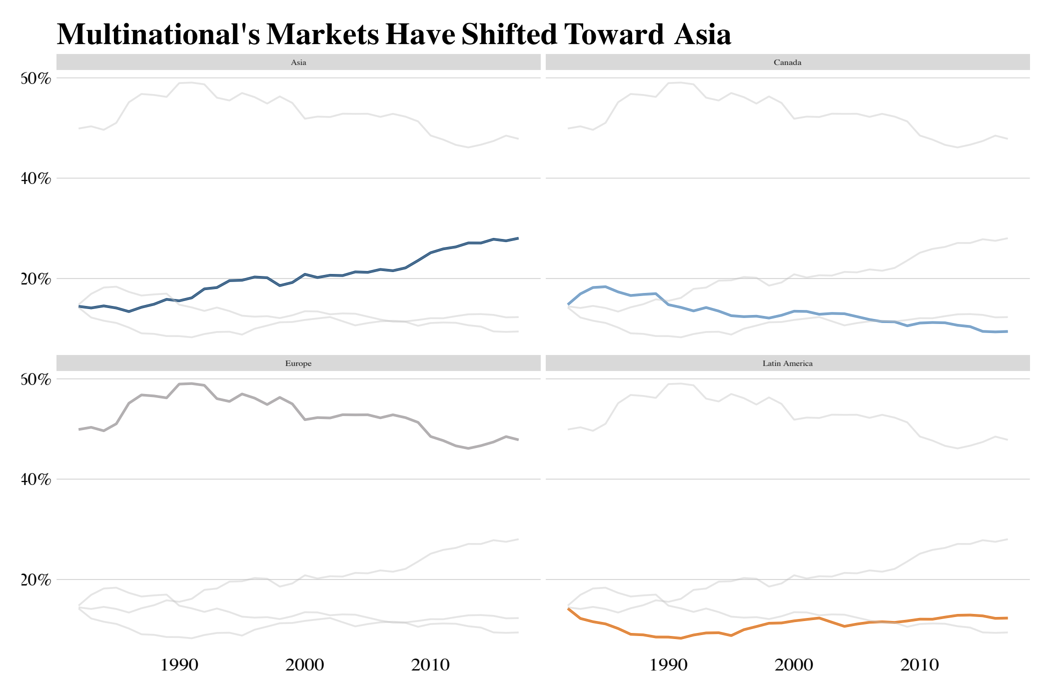

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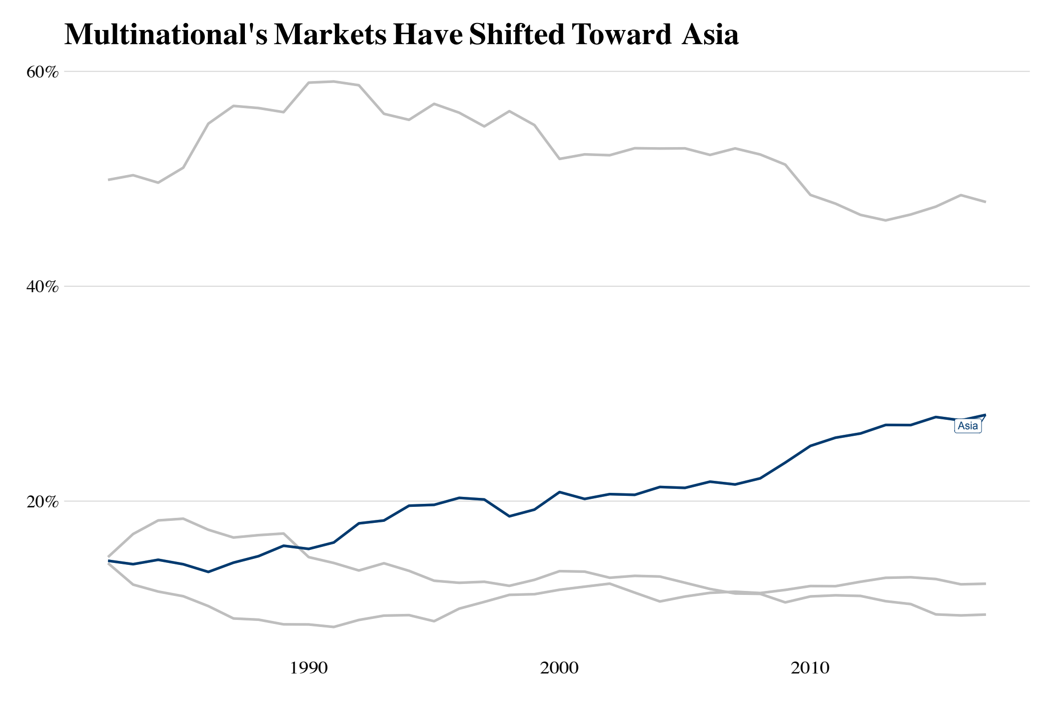

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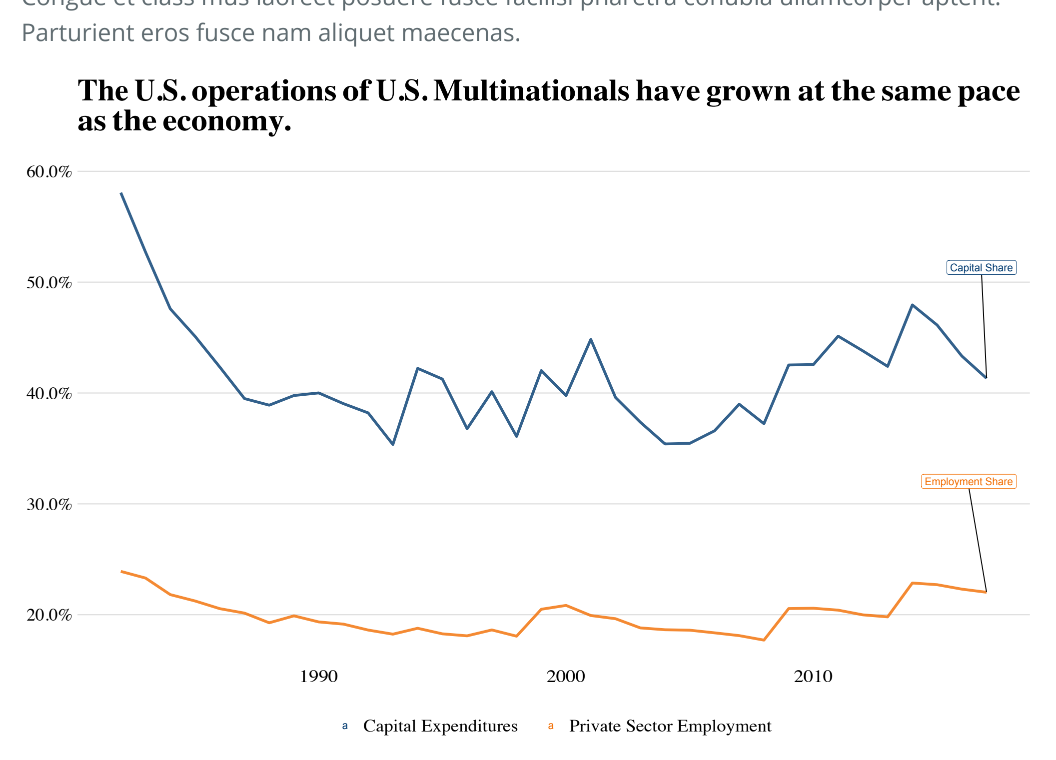

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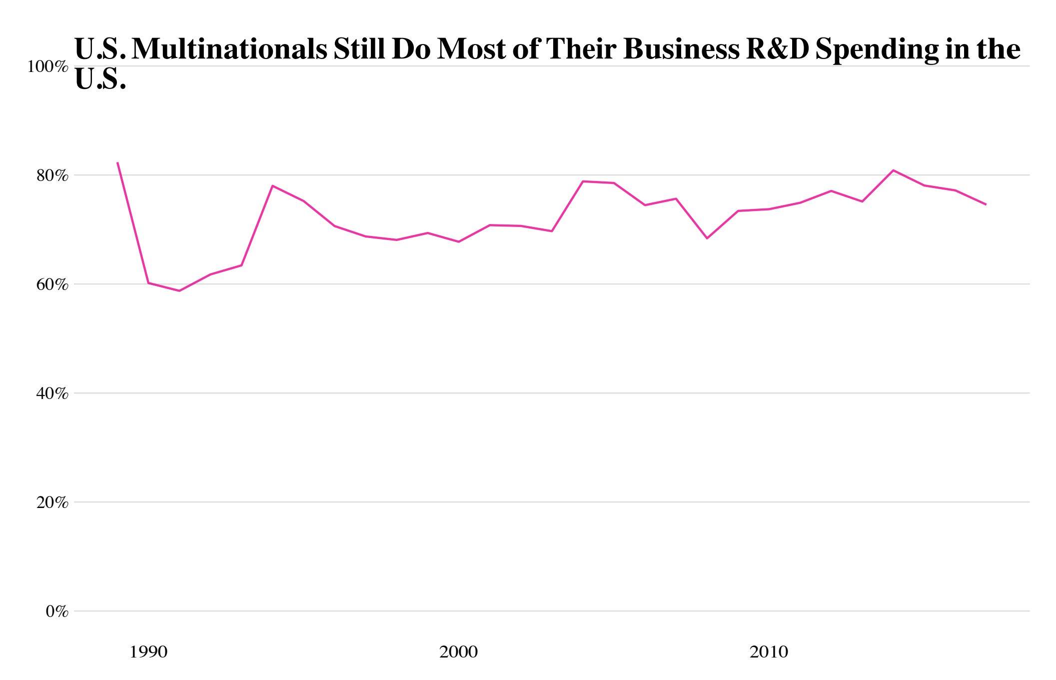

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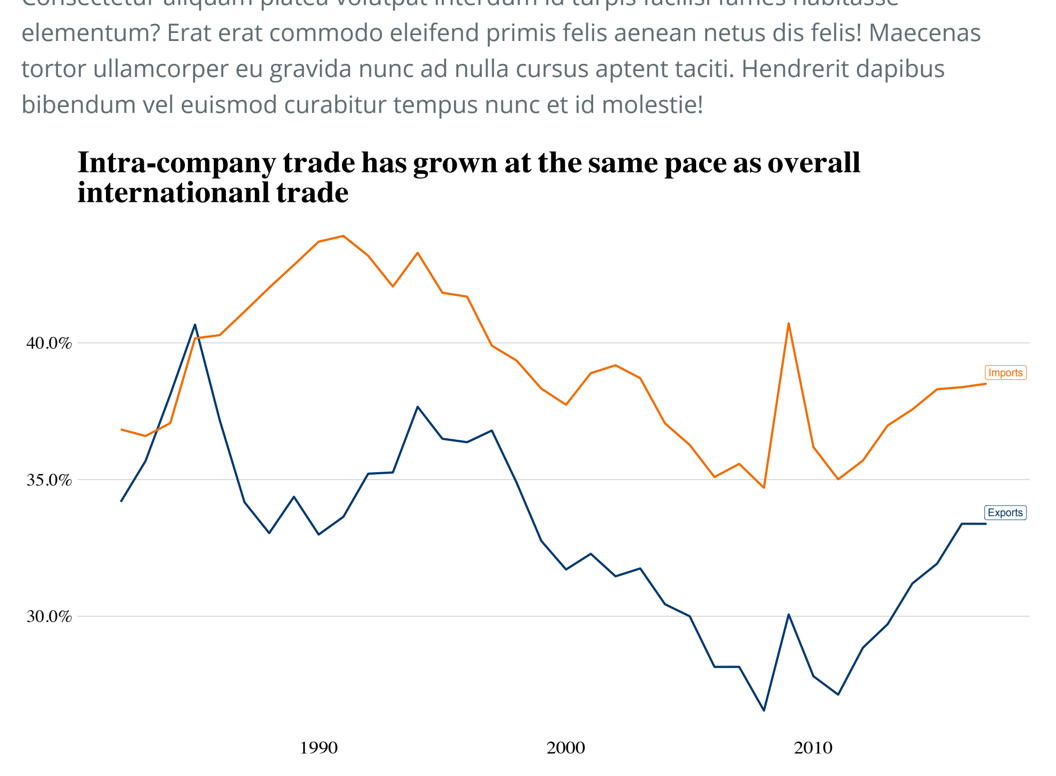
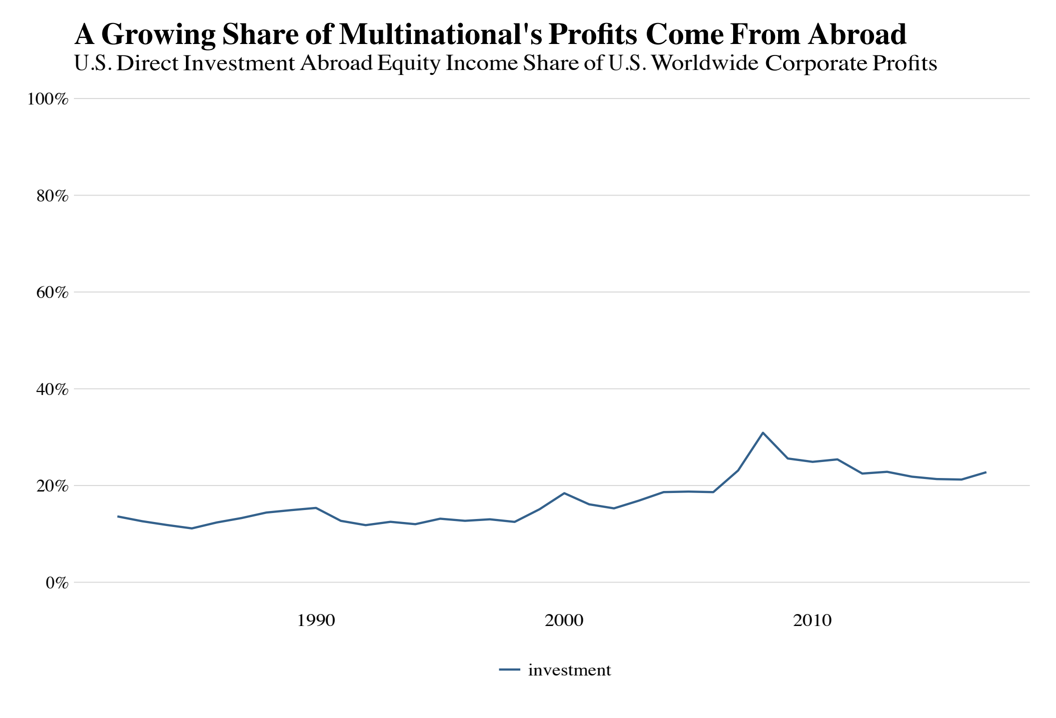


Figure 7



There is ample reason to believe that U.S. multinational firms derive ever-greater shares of their profitability from their foreign operations, though given the available data and inherent ambiguity in the origin of profits, precisely measuring the profitability of U.S. multinationals foreign operations is difficult. Data from national income accounts on U.S. firms' direct investment income on equity investments abroad indicate that the overseas share of profits grew from 14 percent in 1982 to 23 percent in 2017. The foreign share of profits tends to rise during U.S. recessions, a pattern particularly evident in 2008, because of the relative decline of profitability in the United States.

Another approach to measuring the contributioin of foreign profits uses data on total and foreignpretax income reported by U.S.-based publicly listed firms and compiled by Compustat. These data show that foreign profits rose from 23 percent of the total in 1989 to 34 percent in 2017. These data likewise show that the foreign share of profits rises when the U.S. economy is weak; indeed, the measure exceeds 100 percent in 2008, when many large listed financial services firms reported significant losses. These data must be interpreted carefully, since the total number of publicly listed firms has declined precipitously over time, so those that remain listed tend to be larger on average than previously.

Still, it is noteworthy that 19 percent of listed firms reported earning pretax foreign income in 1989, whereas 38 percent did so in 2017.