

Irish GDP growth: the effect of multinational transfers

J. Montornès

*BdF and Insee when this research was carried out with M.B. Khder and N. Ragache

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Les questions que l'on se pose

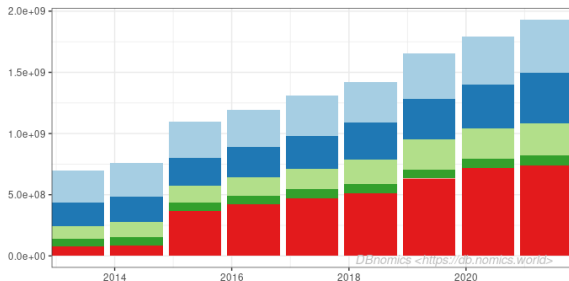
Le cas du PIB irlandais est bien connu depuis 2016 (révision de 7% à 26% !) mais les distorsions persistent

- Quel est l'effet des activités des multinationales sur le PIB irlandais ?
- Où localiser la production dans une économie mondialisée ? qui plus est lorsqu'elle mobilise des actifs intangibles ?
- Quelles solutions actuelles et futures ?

The relocations of intangible assets in Ireland

"Shocks" on intangible assets in 2015, 2019, 2020, etc. are due to external transfers/relocations of balance sheet of multinationals

Gross capital stock by asset type (current prices in euros)



- Dwellings, excluding land
- Other buildings and structures including roads
- Transport equipment
- Other machinery and equipment including office machinery and hardware
- Cultivated assets
- Intangible fixed assets including computer software and research and development

Asset relocations in Ireland: its effects on Irish GDP?

- **Balance sheet operations** : multinationals which re-located intellectual property in Ireland (in 2015 €300 billion, after 2015 smaller transfers)
- **A balance sheet operation should not have impacted the GDP no more than the extent of new revenues of the intangible assets**
- **However, Irish affiliates of multinationals have meanwhile become economic owners of some new production** (manufactured abroad under contract manufacturing / "goods for processing")

Residency of the producer

- National accounts do not define the **producer** as one who physically participates in the production activity but as **one who owns the product** that is being processed
- **This principle leads to the recording in the territory of residence of the producer the value added** that results from physical production abroad
- National accounts then allocate production to the country who own intellectual property rights

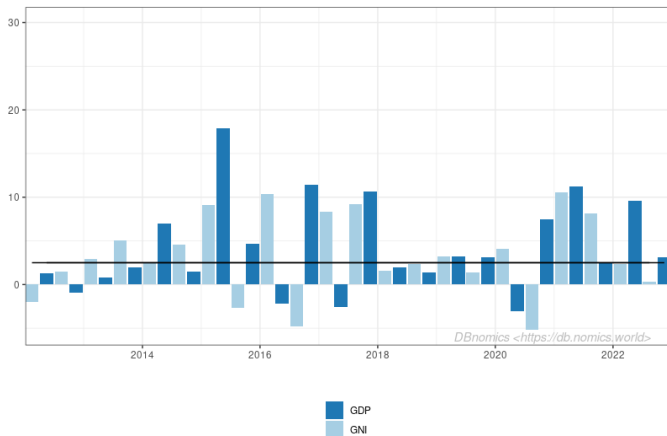
Production is assigned to the unit which has *economic property*

- The distinction between **legal** and **economic** property is fundamental principle of national accounts
- The situation is blurred because Irish affiliates became economic owner of goods (e.g. smartphones) after an asset transfer of intellectual property
- Economic property is hard to track within MNEs + complex guidance of SNA 2008

Irish GDP growth

Irish GDP growth over the recent period has been strongly influenced by US MNEs

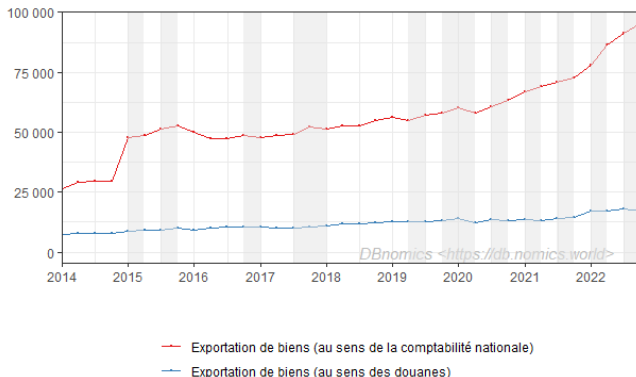
Irish GDP and GNI (Gross National Income) (%-growth, real terms)



Expenditure approach

Exports is the main channel of the effects of MNE's transfers, stemming from contract manufacturing

From International trade data to National accounts (K euros)

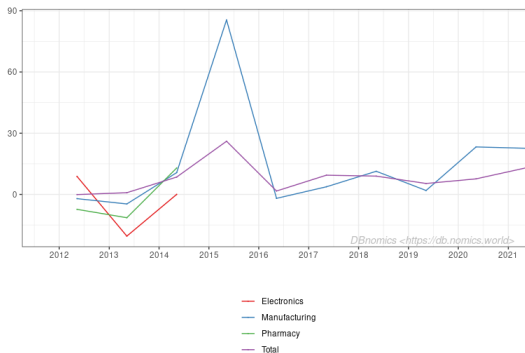


Note: the "contract manufacturing" is the gap between the two curves ; shaded area: quarterly GDP > 2.5%

Production approach

Recording of manufacturing production (pharmaceuticals and electronics) as a counterpart of exports

Manufacturing and total value added (growth in %, real terms)

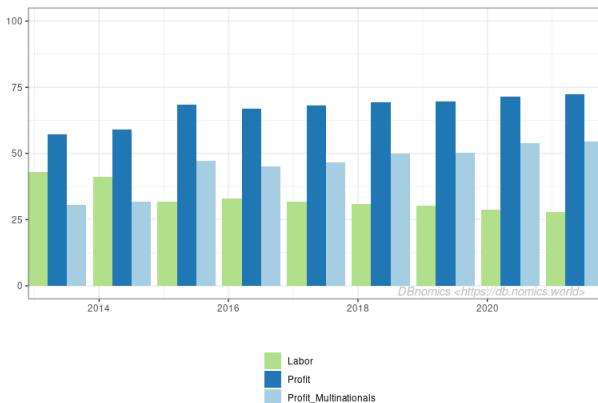


Note: Electronics and pharmaceuticals value added series are not available after 2014

Income approach

Profit share > labor share in Ireland

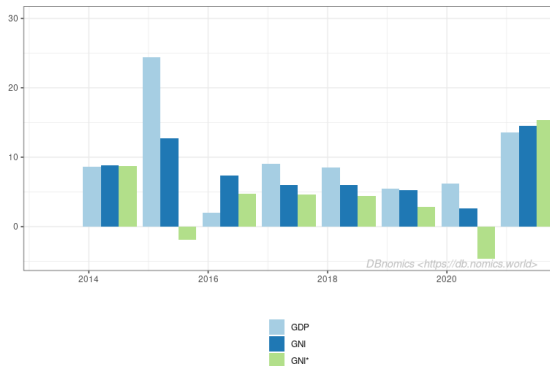
Labor and profit share (in % of value added)



Solution 1: New complementary indicator, the GNI^*

- GNI^* which equals GNI adjusted for:
 - the *retained earnings* of *re-domiciled* firms
 - depreciation on *foreign-owned domestic* capital assets

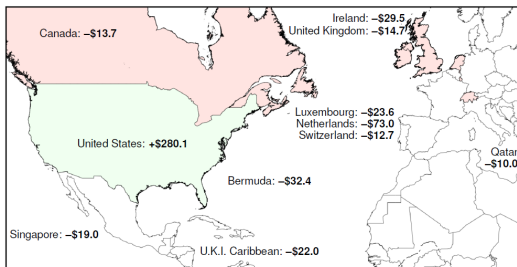
Irish GDP, GNI and GNI^* (growth in %, real terms)



Solution 2: Adjusting GDP for MNEs' offshore profit shifting

- Guvenen et al. (2022) inspired by tax lawyers' "formulary apportionment method": re-attributing profits to each multinational to its entities (the US parent and its affiliates) according to the share of the MNE's employment/sales to capture the "true" economic activity in each location

FIGURE 4 – Geographical reattribution of earnings of U.S. MNEs, 2012 (bil. USD)



Notes: The United Kingdom Islands (U.K.I.), Caribbean, are made up of the British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands.

Solution 3: Multi-regional input-output tables and KLEMS

Recent developments: WIOD, TiVA, FIGARO, ExioBase, Eora, etc.

- Reduce asymmetries between countries in the international exchange of goods and services
- Avoiding double counting between countries in the case of offshoring/relocation
- Locate the countries where intangible assets are accumulated or hosted in global value chains
- Enhance measure the income flows of intangible assets (share of intangible revenues in VA > tangible capital revenues)

Solution 4: Towards the 2025 SNA

Special purpose entities: legal entities with no or little employment or physical presence, to gain the benefits of varied legal and tax systems

New recommendations

- **The economic ownership** (parent, producer, special purpose entities), for previously produced intellectual property, depends on the underlying arrangement, there is no default solution applicable to all cases
- **A clearer decision tree** to determine the economic owners of intellectual property across a group

Conclusion

- Developments in GDP may result from changes concentrated in a few large groups
- This calls for greater exchange of information between countries on the monitoring of major groups
- Increase the the use of indicators based multi-regional input-output tables (e.g. domestic / foreign content of exports)