Measuring the economic contribution of firms and activities in terms of national income

Topic:
Author: Oscar Lemmers

Translating production into value added is well known. Part of that value added will flow abroad. Directly, e.g., because foreign owned multinationals transfer profits to the parent abroad. Indirectly, e.g., because an SME pays interest to a bank that uses it to pay divided to foreign stockholders. How much national income is generated by industries, types of firms (non-multinational, domestic multinational, foreign multinational) and different types final expenditure?

We illustrate our method with data for the Netherlands, 2015. First, we compile an input-output table where each industry is split by type of multinational. We use the existing input-output table, microdata about production, value added, international trade and a multinational indicator. Then we compile a flow of funds table, using a mix of macro and micro data to split the income flows in the Dutch Sectoral Accounts. It shows income flows between each type of multinational in each industry, several sectors and rest-of-world. This allows for estimates at detailed level (for example, by industry, by type of enterprise, by type of final expenditure) how much of the value added flows abroad.

A novelty is that the indirect flow abroad is captured. E.g., when a manufacturer pays interest to a bank that uses it to pay dividends to a foreign entity. Other papers consider various types of income (e.g., interest, dividends, re-invested earnings) flowing abroad or various types of firms (e.g., multinationals and non-multinationals). To our knowledge, this paper is the first to do both.

Key messages: a substantial part of value added flows abroad. A sizeable part, also value added of domestically owned firms, first flows to a domestic entity and only then leaves the country. There are substantial differences between industries and types of firms.