

RESPONSE TO GUIDANCE NOTE G.2 BY THE REITH LECTURES DISCUSSION GROUP

This document makes two main comments on Guidance Note G.2 on the treatment of MNEs and intra-MNE flows. Whereas the accompanying survey wishes us to say which is our preferred option of those discussed in the G.2, we would like to comment at a level above that. We believe the Guidance Note

(a) does not enable future analysts and policymakers to handle externalities and harm that are becoming increasingly important,

(b) does not sufficiently recognise the different purposes of bringing MNEs into national accounts, for which different options are appropriate.

Therefore we recommend further work on the Guidance Note and a reissue for new consultation.

1. THE PROBLEM OF GLOBAL 'EXTERNALITIES' AND HARM

The Guidance Note establishes that existing reporting for SNAs does not adequately capture the financial activity of Multinationals and associated activities, much less provide a basis for more wholistic reporting of global issues like climate change and biodiversity loss. Such so-called 'externalities' need to be taken into account right at the heart of both global and national economies. THEREFORE much a broader system of measurements is needed. (Dasgupta [2021] has argued for this in the UK Treasury and shown how they might be incorporated into national accounting.)

Even though, strictly, GDP and other national accounting measures are not intended as a measure of 'health' or 'progress' in an economy or nation, they have always tended to be (mis)used in that way and will continue to be so. Governments, media and other opinion-leading entities will, unfortunately, continue to do so, especially because GDP seems to offer a way to compete with others on economic grounds. THEREFORE, national accounts should recognise actual (mis)use of figures, even while defining them in certain ways, and find ways to minimize deleterious effects of such misuse.

The changing situation in the world, such as with climate change and biodiversity loss, will require a fundamental change in approach, whether we retain GDP in a modified form or not. The climate emergency and the coming emergency of biodiversity loss - both global issues - will force governments and economists to take those things into account in our measurements. THEREFORE any system of national accounts devised should be able to take these 'externalities' fully into account.

Climate change and biodiversity loss is not adequately considered under the umbrella of Globalization. If it is not, then this part of SNA 2025 is likely to become seriously outdated and useless within a very short time of its publication, and need to be either urgently reworked again, or even completely replaced. THEREFORE, since they are global issues, they need to be explicitly taken into account in the Globalization work area, not just the Wellbeing and Sustainability area.

In addition to recognising externalities, there is a need to recognise that economic activity does HARM as well as good. That which is harmful should be restricted and the good encouraged, by policymakers, and so national accounts should enable them to do so with good data. For example, climate change emissions and spreading virus infections are harm, whereas maintaining health is good. (What is harm and what is good is for another discussion, not here.) THEREFORE the system of national accounts requires a mechanism for distinguishing harm from good.

Note: Climate and biodiversity should not be assumed to be the only 'externalities' that need to be taken into account at a global level. Other important issues include: child labour, poor work conditions, the promotion of unhealthy diets high in sugar, salt, oil or chemicals, which impact wealthy as well as developing countries. THEREFORE any system of national accounts that is devised should be open to being amended as they emerge. Annex 1 suggests a few that might need to be included.

MNEs contribute to the globalized issues like climate change and biodiversity loss and other harmful externalities as much as national enterprises do. Global harm is particularly important. MNEs cause considerable harm throughout the world, and the impacts are found in individual nations - for example deforestation and mineral extraction and all the associated knock-on problems. Harms like psychological stress and attitude change arise from the competitive nature of work, fostered by MNEs. THEREFORE there needs to be ways to recognise and measure the harm done in each nation, and so we need a way to bring this into the national accounts of each nation.

As far as we can tell, (a) Externalities like climate and environmental destruction are not able to be taken account of in any of the options. (b) None of the options allow harm to be differentiated from good. THEREFORE all four options need to be reconsidered by the experts specifically to find ways in which a range of EXTERNALITIES and kinds of HARM can be brought into each. Making these possible would most likely require adding new indicators, broader than the existing financial transactions by MNEs and SPEs.

Currently neither GDP nor the indicators in Option 1 allow differentiation of kinds of externalities nor harm from good. The eSUT tables in Option 3 could perhaps be extended with another parameter: good versus harm. We are currently working on how to differentiate harm from good in a systematic and measurable way; see Annex 2. It may be that Option 4 would be amenable to receiving the result of this work.

We are also working on the details of how such environmental and other externalities can be brought into national accounts, and in particular into balance of payments and foreign direct investment; see Annex 3. This will be sent in due course.

2. PRESUPPOSITION AND CONFUSION OF PURPOSES

There is a presupposition in the Guidance Note that one option can be chosen which will suit all reasons for bringing MNEs into national accounts. However, there are several reasons, and which method of bringing MNEs into national

accounts is appropriate will differ according to the those reasons - the purposes that national accounts serve. Some possible purposes are alluded to:

- » to influence MNE investment decisions towards more justice (alluded to in G.2(1));
- » to make inter-group transfer pricing more just (alluded to in G.2(2));
- » to treat intellectual property more appropriately (alluded to in G2(2));
- » to bring domestic policymaking more in line with the reality of MNEs; operating in the domestic economy (alluded to in G.2(3)).

However, they are not explicitly distinguished or characterized in terms of what they imply for how MNEs are brought into national accounts. In addition, other purposes are not mentioned but might in fact have influenced thinking at a subliminal level. For example, the following:

- » to make fairer the 'game' of comparing between economies of nations (such allocating the contribution of intellectual property more appropriately);
- » to make must just the comparison between MNEs and the economies of individual nations or blocs;
- » to better recognise the true worth of developing countries (see below);
- » to allow especially developing nations to understand the impact of MNEs on their economies and lifestyles;
- » to hold MNEs more to account for their activities, including in the externalities of their operations (especially climate change, biodiversity loss, etc.) and to more effectively influence MNE activity;
- » others.

We do not claim this list as either comprehensive or true, only indicative of the variety of purposes for which it might be important to bring MNEs into national accounts. Far too often, such purposes are presupposed or taken for granted, or lurk as hidden agendas or elephants in the room. Yet each speaks of a different problem, and each purpose calls for a different way of bringing MNEs into national accounts. One size will not fit all.

THEREFORE the purposes served by bringing MNEs into national accounts should be carefully investigated and clearly delineated and characterized before any options are chosen.

Note: Is there a danger that what is proposed in Guidance Note G.2 will result in the financial activity of MNEs being counted multiple times? This could inappropriately elevate the supposed financial importance of MNEs compared with national enterprises. However, whether this is a problem or not varies according to purpose. For example, if the purpose is to allow fair comparison of national accounts, then the duplicated counting might be appropriate, in that the importance of MNE activity is counted equally across the countries. On the other hand, if the purpose is to understand the importance of MNEs in comparison with national economies, then the double-counting must be prevented. THEREFORE, as above, it is important to clearly recognise and cater for the purposes for which MNEs are brought into national accounts.

Note: This stating of such purposes differs from the statement of the "problems" caused by globalization, as found for example in the pptx presentation at the 12th Meeting, entitled "How to deal with globalization in the system of national accounts". That merely states a problem whereas the above differentiate various ways in which the problem is meaningful and should be rectified.

Note: On the above purpose “recognising the worth of developing countries”. Suppose the Democratic Republic of Congo contributes (as raw materials, labour, etc.) around 5% to the value of an iPhone. However, without the Congo, iPhones would not be possible. So the value of the Congo is much more than 5%. Such value should be attributed to the national accounts of the Congo. Is that possible in any of the options offered in the Guidance Note?

THEREFORE WE SUGGEST that several methods of accounting (Options), not just one, be acknowledged and worked out in detail, and all to be linked to the purpose(s) for which it is appropriate. It should not be choice of one of the options alone, but of several, including perhaps some that have not yet been considered. However, the options given need more work, as indicated in Section 1.

3. CONCLUSION

WE CALL FOR more work to (a) identify a full range of purposes for bringing MNEs into national accounts, (b) identify more options or modify the existing ones, to take into account diverse externalities and to differentiate harm from good, (c) consider keeping several options running simultaneously for different purposes.

This suggests that Guidance Note G.2 should be rewritten and reissued for consultation.

ANNEXES

Annex 1. Other Global Externalities

Years ago, climate change and biodiversity were not recognised widely as major problem externalities. Others also cause concern and it is likely that others might in future. Whereas climate change is a physical issue, and biodiversity a biotic issue, it is likely that other problem externalities might be meaningful in yet other aspects. The following list of examples deliberately mixes together externalities that are already well-known with others that are less well-known:

Injustices (e.g. slavery, human rights, child labour)
Surfeit of meaningless entertainment
Increase in self-centredness and decrease in generosity and empathy
Religious movements, such as militant Islam in reaction against Western lifestyle
Increases in psychological stress
Obesity and poor foods
Various kinds of corruption.

Some of these will be more difficult to measure than others. However, work like the World Happiness Report shows the importance of some of them and how they might be measured.

Annex 2. On Differentiating Good from Harm

We are currently investigating the use of the suite of aspects proposed by the Dutch thinker, Herman Dooyeweerd. Each aspect defines a different kind of good

or harm, which transcends subjective opinion and culture. For each aspect, its kernel meaningfulness is given, with illustrative examples of good and harm. Harm may be differentiated from good from the Biotic aspect onwards.

- 1 The quantitative aspect concerns discrete amount.
- 2 The spatial aspect concerns continuous extension.
- 3 The kinematic aspect concerns flowing movement.
- 4 The physical aspect concerns energy and mass.

- 5 The biotic aspect concerns life functions and the integrity of organisms.
 Good: Health
 Harm: Disease, pandemic
- 6 The sensitive or psychic aspect concerns sensing, feeling and emotion.
 Good: Mental health
 Harm: Mental stress; blindness, etc.
- 7 The analytical aspect concerns distinction, abstraction, and logic.
 Good: Clarity of thinking (Good national accounts can help with this)
 Harm: Confusion
- 8 The formative aspect concerns deliberate shaping and achieving; history, culture, technology, expertise.
 Good: Achievement
 Harm: Destruction
- 9 The lingual aspect concerns symbolic signification.
 Good: Good communication and information
 Harm: Lack of, or misleading, information
- 10 The social aspect concerns social interaction, relationships, roles and institutions.
 Good: Achieving more together
 Harm: Enmity, aloofness
- 11 The economic aspect concerns frugality, skilled use of limited resources.
 Good: Conservation and care
 Harm: Waste
- 12 The aesthetic aspect concerns harmony, surprise, fun.
 Good: Harmony in people's lives, enjoyment, adequate leisure
 Harm: Lack of these
- 13 The juridical aspect concerns 'to each, their due': rights, responsibilities, restitution.
 Good: Appropriateness, justice to all
 Harm: Injustice
- 14 The ethical aspect concerns self-giving love, generosity.
 Good: Generosity
 Harm: Self-centred competition
- 15 The pistic aspect concerns faith, commitment and vision of who we are.
 Good: High morale and purpose
 Harm: Meaninglessness in life, damaged morale.

Annex 3. Work Being Carried Out

1. For the macro component of it, we are looking to work with:

FDI (Foreign Direct Investment) - Most MNE who are established or look to establish in a country of choice will invest in green investment.

FDI in the form of mergers and acquisition - where MNE has merged with local firms to operate

BOP (Balance of Payment)- Highlights decisions made by MNE to import/export/reinvest or bring back profits to its own country

Consolidated and subsidiary accounts- these accounts highlight MNE operations

2. From the above:

We can ask these questions:

How much of FDI is green investment especially in sectors such as manufacturing, construction, transport, electricity and heat?

In the MNE supply chain from agriculture to end product is there child labour, workers working in sub standard conditions, fruit/veg grown with too much pesticides or preserved with chemicals that can cause cancer or other diseases?

Is the end product healthy? sugar, salt, chemicals, oils that levels which highlights red or amber?

Is the MNE contributing to carbon emissions? or polluting waters and rivers?

Does the product produced causes deforestation or wiping out of flora and fauna?

We are working to create an account from the first part and highlight the second. Still work in progress.

RERERENCES

Dasgupta P. 2021. The Economics of Biodiversity; the Dasgupta Review. UK, HM Treasury.

World Happiness Report. "<https://worldhappiness.report/ed/2021/>".

Compiled by Andrew Basden, 3 August 2021 in discussion with members of the Reith Lectures Discussion Group (["http://christianthinking.space/economics/reith2020/"](http://christianthinking.space/economics/reith2020/)).