profits of all companies are counted in the expenditure and income accounts, respectively, and there is no double counting. If foreign affiliates were treated like domestic firms, their foreign sales would show up as exports on the expenditure side and their profits would show up on the income side.[4]

Although the balance of payments includes repatriated profits, they are not a sufficient indicator of the foreign activities of domestically-based multinational companies. In 1991, the sales of U.S. foreign-based affiliates accounted for 85% of total U.S. multinational sales to unaffiliated foreigners. Only 15% was exported directly from the U.S. to such customers. Thus, standard export statistics miss 85% of such international activities of U.S. multinationals. Profit repatriation captures some business activity, but there might be tax or other reasons why the profits of foreign affiliates are not wholly repatriated, or are only repatriated at certain times of the year.

An important weakness of the NAS proposal is that the new export statistics would no longer have the same implications for domestic factor employment. The purchases of goods and services from foreign firms are deducted from sales to arrive at a net foreign sales figure, but the payments to foreign capital and labour are not. As a result, an increase in net sales to foreigners could have a positive impact on foreign employment (e.g., the labour force of the foreign-based affiliate) and no impact on domestic employment. This is quite different from the employment implications that can be drawn from currently available trade statistics.

Julius Proposal

The Julius method avoids the factor employment problem of the NAS proposal by excluding payments to labour and other factors of production as well as the local purchases by foreign affiliates in arriving at a net sales figure. By netting out all payments to (and receipts from) foreigners, the foreign affiliate is treated as a part of the investor country's firm and, statistically, is no different than any other domestic firm engaged in exports. Although the employment effects of an increase in net foreign sales are still potentially ambiguous, since foreign and domestic labour markets can independently experience employment gains, at least the payments to foreign labour (and capital) do not affect net foreign sales data.

[4] It is important to recognize, however, that none of the three proposals suggests altering the national accounts to integrate the new trade statistics. All the proposals are meant to supplement the data already available.