Chapter 3

Brief History of the Accounts

3.1. The history of the U.S. international economic accounts dates to the early 1920s. The U.S. Department of Commerce first published the balance of payments accounts in 1922 and later provided statistics back to 1919. The Department's Bureau of Foreign and Domestic Commerce published the accounts throughout the 1930s and during World War II. These statistics were in great demand to measure the flow of goods and services abroad during the war. Even greater attention was focused on the accounts published by the Office of Business Economics (OBE), BEA's predecessor agency. OBE played a prominent role in the measurement of financial assistance provided for economic reconstruction in the late 1940s and much of the 1950s.

3.2. With the advent of increased currency convertibility and the increased flow of capital globally, considerable disagreement arose by the late 1960s as how best to present the accounts. Several "partial" balances, consisting mostly of various components of the current account and some long-term capital transactions, were viewed as presenting an incomplete picture of total payments flows. Financial transactions were not recognized as part of the payments flow of the nation in any of these balances, yet they had begun to rise sharply in size. This was especially true with the surge in transactions of U.S. banks in the rapidly developing Eurodollar market. With capital mobility, it became increasingly difficult to distinguish between transactions in liquid and illiquid assets and to distinguish between financial flows (particularly short-term) that arose from the nation's payments and flows that were considered settlement transactions required of monetary authorities under the system of fixed exchange rates.

3.3. Differences of opinion also emerged on how best to capture, in a single "overall" or "summary" balance, the total payments flows of the nation. Several "overall" balances were published as part of the official presentation of the accounts, but often gave conflicting evidence on the payments flows of the nation for a given quarter or year. Equally important, these "overall" balances were far too volatile in short time periods to provide a reliable gauge of longer run developments in the payments position of the nation. In the final analysis, the choice of one or several "overall" balances was made more difficult not only by limitations of the statistical reporting system but also by complications resulting from the dollar's role as an international reserve currency.

3.4. The choice of several "overall" balances was retained, and improved somewhat, in the 1971 modification of the presentation of the accounts, but the end of the Bretton Woods system of fixed exchange rates in 1973 made the presentation of these balances considerably less relevant. The most recent presentation of the accounts by BEA originated in 1976, following a review by an expert

advisory panel, which recommended that the accounts be presented with no single "overall" or "summary" balance; however, presentation of "partial" balances was considered appropriate. That same committee also recommended that BEA's primary presentation feature "international transactions" rather than "balance of payments." This recommendation led to the accounts being renamed the International Transactions Accounts (ITAs). Although the presentation has been modified since 1976, no significant alterations in the basic structure of the ITAs were made until the comprehensive restructuring in June 2014.

3.5. The United States was also involved in the 1920s with the collection of data on the operations of U.S. multinational enterprises (MNEs). When U.S. MNE data were first provided in 1929, the scope was limited to one item—the value of foreign commercial assets controlled by U.S. companies. Since then, the scope has been greatly expanded in step with the growth in MNEs and the increasing integration of the global economy. A Department of Commerce census of U.S. direct investment abroad (outward investment) for 1950 marked the first appearance on a federal government survey of questions on the financing and operations of foreign affiliates of U.S. companies. In response to increased foreign direct investment in the United States, BEA conducted its first survey of the financing and operations of the U.S. affiliates of foreign MNEs in the 1980s.

Overview of historical changes

3.6. BEA's international economic accounts have evolved continuously in response to policy needs and to address gaps in the coverage of international transactions and financial position statistics, particularly those arising from rapid growth and innovation in international services trade and financial markets and the shifting global patterns of goods production and merchandise trade. Below are examples of some of the major changes that have been introduced to keep the accounts up-to-date and relevant to the needs of government and business officials. Most of these changes resulted in improvements to the ITAs but some also resulted in improvements to the International Investment Position (IIP) Accounts and statistics on the Activities of Multinational Enterprises (AMNE).

3.7. With continued growth of outward direct investment and the acceleration of inward direct investment in the 1970s and 1980s, interest in the finances and operations of MNEs—such as employment, technology, and domestic production—increased correspondingly, and equal emphasis started to be placed on collecting data on investment in both directions. In response, BEA expanded its data on the overall operations of U.S. parent companies and their foreign affiliates and instituted new surveys to collect similar data on the operations of the U.S. affiliates of foreign companies. The resulting AMNE statistics became a main BEA data series. The authority to collect these data regularly on a mandatory basis was secured with the enactment of the International Investment Survey Act of 1976.

3.8. As concern over the rapid growth of inward direct investment increased during the late 1980s, the U.S. Congress and the general public demanded more information to assess the impact of this investment on particular industries and

states. This concern led to major efforts in the early 1990s to link BEA's enterprise-level data on direct investment with establishment-level data from the Census Bureau and the Bureau of Labor Statistics. These linkages provided access to those agencies' more detailed data by industry and state for the foreign-owned U.S. companies that report to BEA. This project represented one of several improvements that have been achieved through sharing of existing data without imposing additional reporting burden on the business community. These data sharing projects were authorized by the Foreign Direct Investment and International Financial Data Improvements Act of 1990.

3.9. In the late 1980s and early 1990s, BEA's current collection system for business services was first developed to capture the rapidly expanding universe of internationally traded services, partly in response to the International Investment and Trade in Services Survey Act of 1984, which amended the 1976 International Investment Survey Act. The 1984 amendment established mandatory reporting of U.S. international trade in services and called for benchmark surveys of international services. For the first time, trade in services between affiliated enterprises (parent companies and their affiliates) was recorded on a gross basis. Previously, services transactions between parent companies and their affiliates had been recorded on a net basis. This net treatment obscured the two-way flow of intrafirm services trade resulting in an understatement of total exports and imports of services.

3.10. Shortly afterwards, questions pertaining to sales reported on BEA's surveys of U.S. affiliates abroad and foreign affiliates in the United States were expanded to request separate reporting of sales of goods and services. As a result, BEA started to provide annual statistics on the sales of services by affiliates, often described as Foreign Affiliate Statistics. The supply of services by affiliates corresponds to the delivery of services via the channel of commercial presence, which is one of the four modes of service delivery identified in the General Agreement on Trade in Services. Later, during the mid-2000s, BEA developed new measures of services supplied by affiliates for insurance services, financial services, and wholesale and retail trade services that better capture the value of these services.

3.11. In 1989, the ITAs adopted the international Harmonized Commodity Description and Coding System (Harmonized System) of commodity classification for goods exports and imports, which provided a much improved and more detailed structure for classifying merchandise trade data. The Harmonized System was developed under the auspices of the World Customs Organization to establish an internationally accepted standard for the classification of traded goods. Many countries adopted the system at the time of its introduction in the late 1980s, and in 1989 the Census Bureau and BEA adopted the Harmonized System as the basic building block for U.S. merchandise trade data. At that time, BEA revamped its end-use commodity classification system to reflect the new Harmonized System. Commodity trade flows on the newly developed end-use basis were carried back to 1978.

3.12. Starting with the first quarter of 1990, U.S.-compiled exports to Canada were replaced with the counterpart Canadian import statistics, and Canadian-compiled exports to the United States were replaced with the counterpart U.S.

import statistics. This exchange of statistics between the U.S. Census Bureau and Statistics Canada eliminated many of the U.S. balance of payments adjustments to the Census-basis data for timing, coverage, and valuation that were needed when Canada and the United States each collected their own export and import data.

3.13. In 1994, a new set of monthly services statistics was introduced in response to requests from policymakers for more timely data on services transactions that complemented the long-standing monthly series for merchandise trade. The new services statistics for seven services categories enabled BEA and the Census Bureau to begin publishing a joint monthly release for goods and services trade, which resulted in a more complete picture of U.S. international trade.

3.14. In the late 1990s, BEA introduced new statistics for receipts and payments for financial services based on its first benchmark survey of financial services transactions between U.S. financial services providers and unaffiliated foreigners conducted for 1994. Services newly covered included financial management services, financial advisory and custody services, credit card services, credit-related services, securities lending services, and electronic funds transfer services. Indirect methods used for brokerage services were replaced by survey data for commissions on stock transactions, private stock and bond placements, futures transactions, and foreign exchange transactions. The new statistics based on the benchmark survey began with 1992.

3.15. In the late 1990s, changes resulting from the issuance of the 5th edition of the *Balance of Payments Manual* were introduced in the ITAs, including the establishment of the financial account along with the capital account in order to distinguish financial asset transactions from transactions in nonproduced nonfinancial assets. Transactions were presented in three accounts: current account, capital account, and financial account. Previously, transactions had been presented in just the current account and the capital account. The current account was redefined by removing capital transfers and transactions in nonproduced nonfinancial assets to the new capital account. The previous capital account became the new financial account. The revised presentation provided statistics starting with 1982.

3.16. From 2001 to 2005, the reorganization and significant expansion of the U.S. Treasury Department's and Federal Reserve Board's statistical collection system for transactions in securities and for transactions of banks and nonbank firms—the Treasury International Capital (TIC) reporting system—led to major improvements in coverage, which resulted in benefits not only for the financial account and the IIP accounts but also for portfolio and other investment income. In 2007, estimates of transactions in financial derivatives were incorporated into the ITAs and the IIP accounts for the first time based on a newly developed TIC survey conducted by the Federal Reserve Bank of New York on behalf of the U.S. Treasury Department.

3.17. In July 2003, insurance services in the current account were redefined and new estimation methods were developed to remove the impact of catastrophic events on the measure of services activity. Insurance services were previously measured as premiums less actual losses paid or recovered. A major

shortcoming of this measure was that the often highly variable fluctuations in losses from period to period caused the measure of insurance services to vary in a way that had little relation to the services provided. The new method measures services as premiums less expected, or "normal" losses, where normal losses are inferred from the relationship between actual losses and premiums averaged over several years. Statistics were revised back to 1992. In addition, auxiliary insurance services were reclassified from business, professional, and technical services to insurance services.

3.18. In 2006 and 2007, the geographic detail available for the ITAs was expanded significantly from 18 to 38 major countries and areas in response to demand for bilateral statistics for a wider set of U.S. trading partners.

3.19. In July 2008, services receipts and payments were revised for 2006 and 2007 to incorporate BEA's benchmark survey of international services for 2006 and BEA's new quarterly follow-on surveys for 2007. Both the benchmark and quarterly surveys were redesigned to consolidate transactions with affiliated and unaffiliated parties into a single reporting system. In addition, detail by type of service activity for affiliated transactions was greatly expanded to parallel the detail available for unaffiliated transactions. The new estimates provided a more complete picture of services trade by detailed type of service.

3.20. In July 2008, claims on foreign residents reported by U.S. nonbank firms were revised for 2005–2007 to significantly expand the coverage of financial intermediaries' claims associated with the issuance of asset-backed commercial paper (ABCP), resulting in improvements to both the ITAs and the IIP accounts. During this period, many offshore structured investment vehicles and ABCP conduits set up 100-percent-owned affiliates in Delaware for the sole purpose of issuing ABCP in the U.S. market. The ABCP proceeds were then lent to the offshore special purpose vehicles, which used the funds to purchase other assets. The intercompany debt transactions between Delaware affiliates and their offshore parents took the form of increases and decreases in U.S. nonbank claims on financial intermediaries' accounts. Estimates were based on data from industry sources.

3.21. In the annual revisions of the ITAs and the IIP accounts released in June 2013, BEA integrated new monthly data on cross-border holdings of U.S. and foreign long-term securities collected on a new TIC form, Aggregate Holdings of Long-Term Securities by U.S. and Foreign Residents (SLT). BEA now uses the monthly SLT positions data to supplement the monthly transactions data from the TIC reporting system to improve coverage of long-term securities in financial account statistics.

3.22. Other improvements, both introduced in March 2013, include the acceleration of the release of monthly goods and services trade statistics from 40 days after the end of the reference month to 35 days and the establishment of the quarterly IIP accounts. One important factor that allowed production of quarterly IIP accounts was an acceleration of the reporting of financial derivatives in the TIC system from 60 days to 45 days after the reference quarter. Both of these acceleration initiatives responded to requests from policymakers for more timely and more frequent data from the U.S. international economic accounts.