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NON-FINANCIAL CORPORATIONS IN US ECONOMY: PERFORMANCE COMPOSITION

НЕФІНАНСОВИЙ КОРПОРАТИВНИЙ СЕКТОР США: СКЛАДОВІ КАПІТАЛУ У ДИНАМІЦІ

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Abstract. *The capital structure of nonfinancial corporations is an important determinant of their overall financial performance. In recent years, the capital structure of US nonfinancial corporations has evolved significantly, due to a number of factors, including globalization, technological change, and regulatory changes.*

This paper examines capital structure of US nonfinancial corporations over the last decade. Visualizing US net savings dynamics helps to explain identified alerting trends in net savings structure. Global change in trends is highlighted.

It also finds that the negative net worth of the US non-financial companies sector is a concerning trend, and that it is important to address the factors that have contributed to this trend in order to strengthen the non-financial companies sector and protect the long-term health of the economy.

The paper also identifies a number of general and specific trends that have influenced the formation of multinational corporation (MNC) capital structures over the last decade. It argues that the capital structure of an MNC can have a significant impact on its financial performance, and that the optimal capital structure for an MNC will vary depending on the specific circumstances of the company. However, in general, MNCs should strive to maintain a capital structure that is both financially sound and sustainable.

Keywords: *MNE, capital structure, nonfinancial corporations, United States economy, net worth, net savings.*

Анотація. *Структура капіталу нефінансових корпорацій є важливим чинником їхньої загальної фінансової діяльності. Останніми роками структура капіталу нефінансових корпорацій США суттєво змінилася внаслідок ряду факторів, включаючи глобалізацію, технологічні зміни та нормативні зміни. У цій статті розглядається структура капіталу нефінансових корпорацій США за останнє десятиліття. Візуалізація динаміки чистих заощаджень у США допомагає пояснити виявлені тривожні тенденції в структурі чистих заощаджень. Підкреслюється глобальна зміна тенденцій. Він також вважає, що від'ємний чистий капітал сектору нефінансових компаній США викликає занепокоєння, і що важливо розглянути фактори, які сприяли цій тенденції, щоб зміцнити сектор нефінансових компаній і захистити довго - термін здоров'я економіки. У статті також визначено ряд загальних і* *специфічних тенденцій, які вплинули на формування структури капіталу транснаціональних корпорацій (МНК) протягом останнього десятиліття. Він стверджує, що структура капіталу ТНК може мати значний вплив на її фінансові показники, і що оптимальна структура капіталу для ТНК буде змінюватися залежно від конкретних обставин компанії. Однак, загалом, МНК повинні прагнути підтримувати структуру капіталу, яка є фінансово надійною та стійкою.*

Ключові слова: *БНП, структура капіталу, нефінансові корпорації, економіка США, чистий капітал, чисті заощадження.*

Introduction. The capital structure of a corporation is the mix of debt and equity that the company uses to finance its operations. The capital structure decision is a complex one, as it involves balancing a number of factors, such as the cost of debt and equity, the risk of bankruptcy, and the tax implications of different financing options. To properly study the capital structure of corporations, it is important to understand how its structure evolved over the last decades. The capital structure decision is a complex one, as it involves balancing a number of factors, such as cost of debt and equity, risk of bankruptcy, tax implications. The capital structure of corporations has transformed over time in response to a number of factors, such as changes in the financial markets, technological advances, and regulatory changes.

In the early 20th century, most corporations were financed primarily by equity. Debt was generally only used to finance major investments, such as the construction of a new factory. However, after the Great Depression, corporations began to rely more heavily on debt. This was due to a number of factors, including the rise of institutional investors, the development of new debt markets, and the introduction of tax advantages for debt financing. In the 1970s and 1980s, there was a wave of mergers and acquisitions, which led to a significant increase in corporate debt. This was because many companies were using debt to finance acquisitions. However, the high levels of debt that were incurred during this period made many companies more vulnerable to bankruptcy during the recession of the early 1990s. In recent decades, there has been a trend towards lower corporate debt levels. This is due to a number of factors, including the increased availability of equity financing, the rising cost of debt, and the increased risk of bankruptcy associated with high levels of debt.

The scientific study of capital structure has evolved over time along with the evolution of corporate capital structure itself. Early research on capital structure focused on developing models to explain the optimal capital structure for a given firm. However, more recent research has begun to focus on the dynamic nature of capital structure and the role of factors such as managerial incentives and investor preferences in shaping capital structure decisions. One of the most important advances in the scientific study of capital structure has been the development of dynamic capital structure models. These models take into account the fact that a firm's capital structure can change over time in response to changes in its financial situation and the external environment.

The purpose of the research is to help to better understand the current state of corporation's capital structures and how they may transform in the future by identifying and understanding structural trends.

The latest literature review. Despite a significant number of publications on the issues of capital structure by foreign [1-8] and national [9-20] authors, the general overview with global trends have yet been left aside.

Research results. The capital structure of corporations is the mix of debt and equity that a company uses to finance its operations. It is an important determinant of company's financial risk and cost of capital.

To properly study the capital structure of corporations, it is important to understand how it has evolved over time. This is because the optimal capital structure for a company can vary depending on its industry, stage of development, and the overall economic environment.

In recent decades, the capital structure of corporations has undergone significant changes. The evolution of the capital structure of corporations has important implications for the real economy. Nonfinancial corporations are the backbone of the real economy, and their access to capital is essential for economic growth.

The evolution of the capital structure of corporations is a complex and dynamic process. It is influenced by a variety of factors, including economic conditions, technological change, regulatory changes, and the preferences of investors and managers. To properly study the capital structure of corporations, it is important to understand the forces that have shaped it over time. This will help us to better understand the current state of corporate capital structures and how they may evolve in the future.

Nonfinancial corporations represent the real economy, which is the primary driver of economic growth and wealth distribution. For example nonfinancial corporations in the United States play a critical role in the economy by steadily generating half of domestic income (Figure 1).

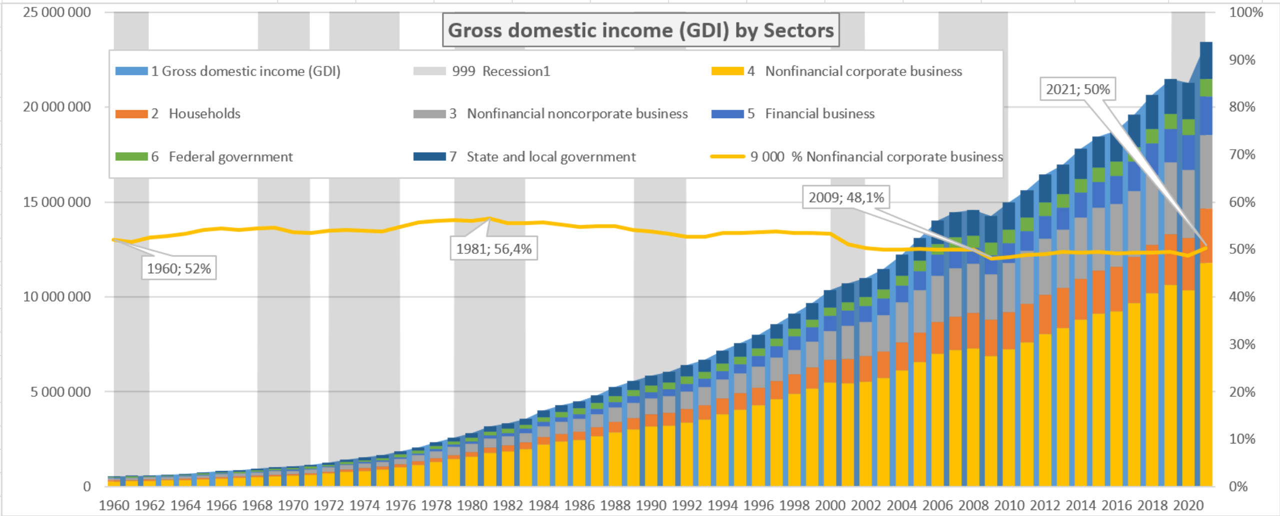

Figure 1: US gross domestic income by sectors. Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

Nonfinancial corporations are the backbone of the real economy. They produce goods and services that people need and consume, and they employ millions of workers. When nonfinancial corporations do well, the economy tends to do well.

In contrast, the financial sector is often seen as being more speculative and less productive. While the financial sector can play an important role in supporting economic growth, it is important to remember that it does not create value on its own. It simply allocates capital from one place to another.

The non-financial corporate sector has shown a steady increase in absolute GDP contribution, but its share of total GDP has remained relatively constant at around 50%. Conversely, the US net savings contribution by nonfinancial corporations has also grown steadily, but it exhibits a cyclical pattern that correlates with periods of economic expansion (Figure 2).

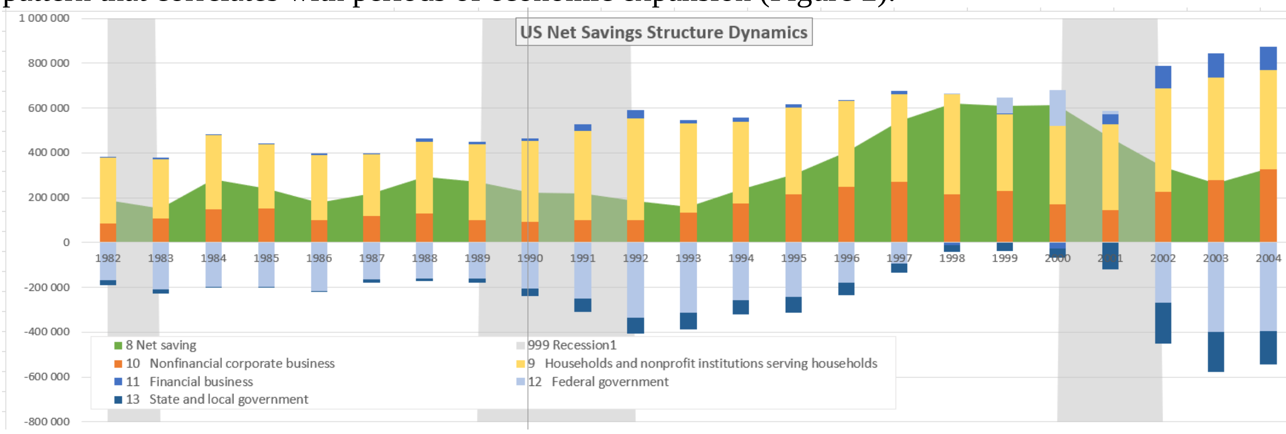

Figure 2: US net savings structure (before 2004). Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The dynamics of US net savings in the US have been concerning since the 2001 recession. Prior to 2001, the US economy experienced cyclical growth with periodic downturns. During downturns, the net savings of the US would typically decline. However, following each downturn, the net savings would rapidly recover. This pattern of rapid growth following periods of decreasing budget expenditures was broken by the recent pandemic and geopolitical tensions. The pandemic caused a severe recession in the US economy, and the net savings of the US declined sharply. However, the recovery from the pandemic has been slow, and the net savings of the US has not yet fully recovered. The geopolitical tensions caused by the war in Ukraine have also contributed to the slow recovery of the US economy. The war has led to higher energy prices and supply chain disruptions, which have increased costs for businesses and consumers [Khaki, Akin, 2020].

Another intriguing observation about US macro trends is that prior to the 2001 crisis, the economy's net savings were consistently several times greater than those of nonfinancial corporations (up to three times) (Figure 2).

After 2001, the net savings of the economy as a whole fell (the economy was spending more than the real economy was generating). Since the recovery in 2014, the net savings of the economy as a whole have surpassed those of the real sector alone, but have declined steadily since 2021 (Figure 3).

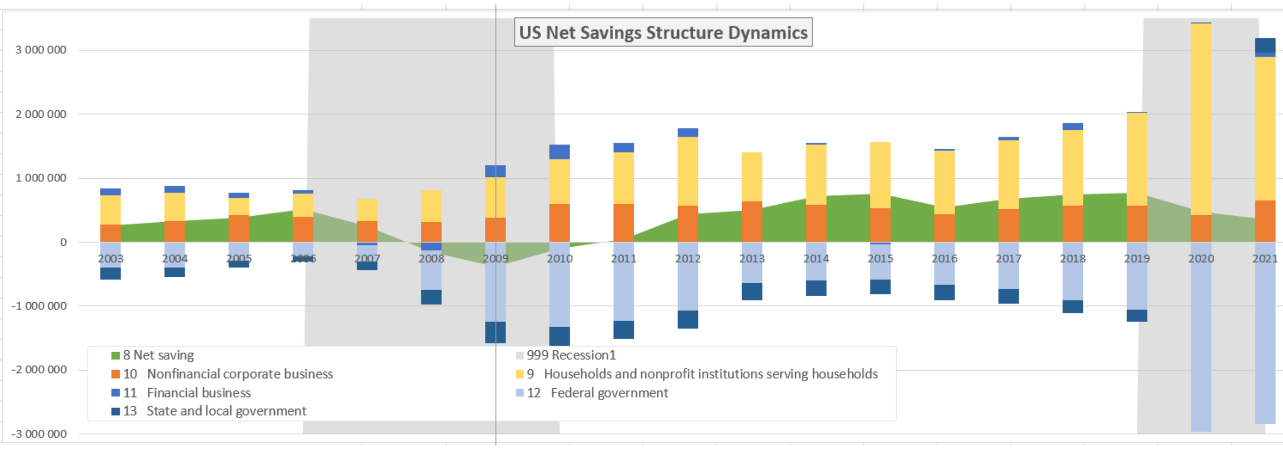

Figure 3: US net savings structure (after 2003). Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The slow recovery of the US economy and the low net savings are concerning because they could make the US more vulnerable to a future economic downturn. A downturn could lead to a decline in the net savings of the US, which could further weaken the economy.

One possible explanation for the decline in net savings is the aging population. As the population ages, a larger share of the labor force retires and begins to draw down on their savings. This reduces the amount of savings available for investment.

Another possible explanation is the rise of income inequality. As income becomes more concentrated in the hands of a few wealthy individuals, the overall savings rate tends to decline. This is because wealthy individuals tend to have lower savings rates than middle-class and lower-class individuals.

The decline in net savings is also a reflection of the country's long-standing trade deficit. When the US imports more than it exports, it is essentially borrowing from the rest of the world. This increases the country's net debt and reduces its net savings.

The decline in net savings is a complex issue with no easy solutions. However, it is important to understand the causes of this trend and to develop policies that can address them. This could include policies to boost household savings, promote investment, and reduce the trade deficit.

Additionally, the decline in net savings could make the US more vulnerable to external shocks, such as a global recession or a financial crisis. The decline in net savings could also lead to higher interest rates, which could slow economic growth and investment. It also could make it more difficult for the government to finance its budget deficit, which could lead to higher taxes or cuts to government programs [Dao, 2020].

It is important to note that the decline in net savings is not inevitable. There are a number of things that can be done to reverse this trend, such as increasing household savings rates, promoting investment, and reducing the trade deficit.

For these reasons, it is important to focus on the capital structure of nonfinancial corporations when trying to understand the overall health of the economy. By examining the capital structure of nonfinancial corporations, we can gain insights into the factors that are influencing investment and growth.

The capital structure of a multinational enterprise (MNE) is the mix of debt and equity that the company uses to finance its operations. The capital structure decision is a complex one, as it involves balancing a number of factors, such as the cost of debt and equity, the risk of bankruptcy, and the tax implications of different financing options [Multinational Enterprises, 2020].

We have identified some general trends that have influenced the formation of MNC capital structures over the last decade:

- Globalization: MNCs have increasingly become global entities, with access to capital markets and investment opportunities all over the world. This has given them more flexibility in terms of how they finance their operations.
- Technological change: Technological change has also had a significant impact on MNC capital structures. For example, the rise of e-commerce has led to increased investment in technology and infrastructure, which has required additional funding.
- Regulatory changes: Regulatory changes have also played a role in shaping MNC capital structures. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act has imposed new capital requirements on banks, which has made it more difficult for MNCs to obtain debt financing.
- Increased use of debt financing: MNCs have increasingly relied on debt financing in recent years. This is partly due to the low interest rates that have prevailed in many developed economies. It is also due to the fact that MNCs have become more diversified, which has reduced their overall risk profile.
- Growing importance of emerging markets: Emerging markets have played an increasingly important role in the global economy over the last decade. This has led to an increase in MNC investment in these markets. However, financing in emerging markets can be more expensive and risky than in developed markets. As a result, MNCs have often had to use a mix of debt and equity financing to finance their investments in emerging markets.
- Rise of sustainable finance: Sustainable finance has become increasingly popular in recent years. This is a type of financing that takes into account environmental, social, and governance (ESG) factors. MNCs are increasingly using sustainable finance to raise capital, as this allows them to demonstrate their commitment to ESG principles to investors [Multinational Enterprises, 2020].

In addition to these general factors, there are also a number of specific factors that can influence the capital structure of an MNC, including:

- Industry: Some industries, such as the airline industry, are more capital-intensive than others, and therefore require a higher level of debt financing.
- Riskiness: MNCs with more volatile earnings or higher operating risk may need to use more debt financing to reduce their overall risk.
- Tax laws: The tax treatment of debt and equity can vary from country to country, and this can affect the optimal capital structure of the MNC.
- Agency costs: Debtholders have a higher claim on the MNE's assets than equityholders, and this can lead to agency problems. Equityholders may take on more risk than is in the best interests of the MNE in order to increase their returns.
- Access to capital markets: MNCs with a good credit rating and a strong track record may be able to borrow at lower interest rates than MNCs with a weaker financial position [Filipenko, 2021].

The capital structure of an MNC can have a significant impact on its financial performance. A high level of debt can lead to higher interest expenses, which can reduce the MNE's profits. However, a high level of debt can also lower the MNE's cost of equity, which can boost its profits.

The optimal capital structure for an MNC will vary depending on the specific circumstances of the company. However, in general, MNCs should strive to maintain a capital structure that is both financially sound and sustainable. The capital structure of an MNE is a dynamic decision that should be reviewed regularly. As the MNE's circumstances change, so too should its capital structure. By carefully considering all of the relevant factors, MNCs can choose a capital structure that is right for them and that helps them achieve their financial goals.

The capital structure of an MNE is a dynamic decision that should be reviewed regularly. As the MNE's circumstances change, so too should its capital structure. By carefully considering all of the relevant factors, MNEs can choose a capital structure that is right for them and that helps them achieve their financial goals.

To comprehensively analyze the capital structure of multinational corporations (MNCs), we have chosen to commence our investigation with the largest economy, the United States, and its historical capital structure. We have chosen to focus on nonfinancial corporations, as per the United States Bureau of Economic Analysis (BEA).

Empirical evidence on the capital structure decisions of US non-financial corporations is slightly different from theoretical groundings resulting in negative net worth of the US non-financial companies sector (Figure 4).

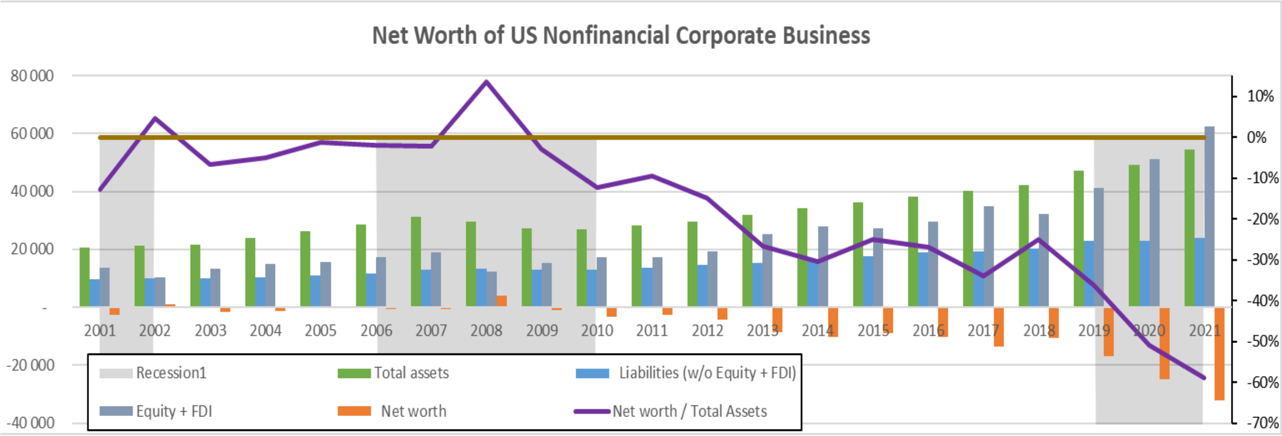

Figure 4: Capital structure of US non-financial corporations. Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The negative net worth of the US non-financial companies sector is a concerning trend. It means that these companies are more vulnerable to financial distress. If a company's debts become too large, it may be forced to declare bankruptcy. This can have a ripple effect on the economy, as it can lead to job losses and a decline in investment.

It is important to address the negative net worth of nonfinancial companies, as it is a threat to the long-term health of the economy. One of key reasons to this are:

- the increasing cost of doing business: The cost of labor has been rising in recent years, due to factors such as a tight labor market and rising minimum wages. The cost of energy has also been rising, due to factors such as the COVID-19 pandemic and the war in Ukraine. These rising costs have made it more difficult for companies to generate profits.
- the financial crisis of 2008: The financial crisis of 2008 led to a decline in corporate profits and a tightening of credit markets. This made it more difficult for companies to borrow money and invest in their businesses. The crisis also led to a number of bankruptcies, which further weakened the non-financial companies sector.
- the rise of shareholder activism: Shareholder activists are investors who pressure companies to make changes that will increase shareholder value. This can include returning more money to shareholders in the form of dividends and share repurchases. However, it can also lead to companies taking on more debt to finance these payouts [Contemporary Trends, 2019].

The negative net worth of the US non-financial companies sector is a complex issue with no easy solutions. However, the factors discussed above are some of the most important ones that have contributed to this trend. It is important to address these factors in order to strengthen the non-financial companies sector and protect the long-term health of the economy.

Conclusion.

The evolution of corporate capital structure has a number of implications for managers, investors, and policymakers. Managers need to carefully consider their capital structure decisions and balance the risks and rewards of different financing options. Investors need to understand the capital structure of the companies they invest in and assess the risks associated with different levels of leverage. Policymakers need to consider the implications of corporate capital structure decisions for the overall economy, such as the potential for excessive leverage to lead to financial crises.

The capital structure of nonfinancial corporations is a dynamic decision that should be reviewed regularly. As the corporation's circumstances change, so too should its capital structure. The optimal capital structure for a corporation will vary depending on the specific circumstances of the company. However, in general, corporations should strive to maintain a capital structure that is both financially sound and sustainable for their specific business model.

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