Financial Services and Main Street

Supporting American Economic Growth and U.S. Competitiveness

June 2021

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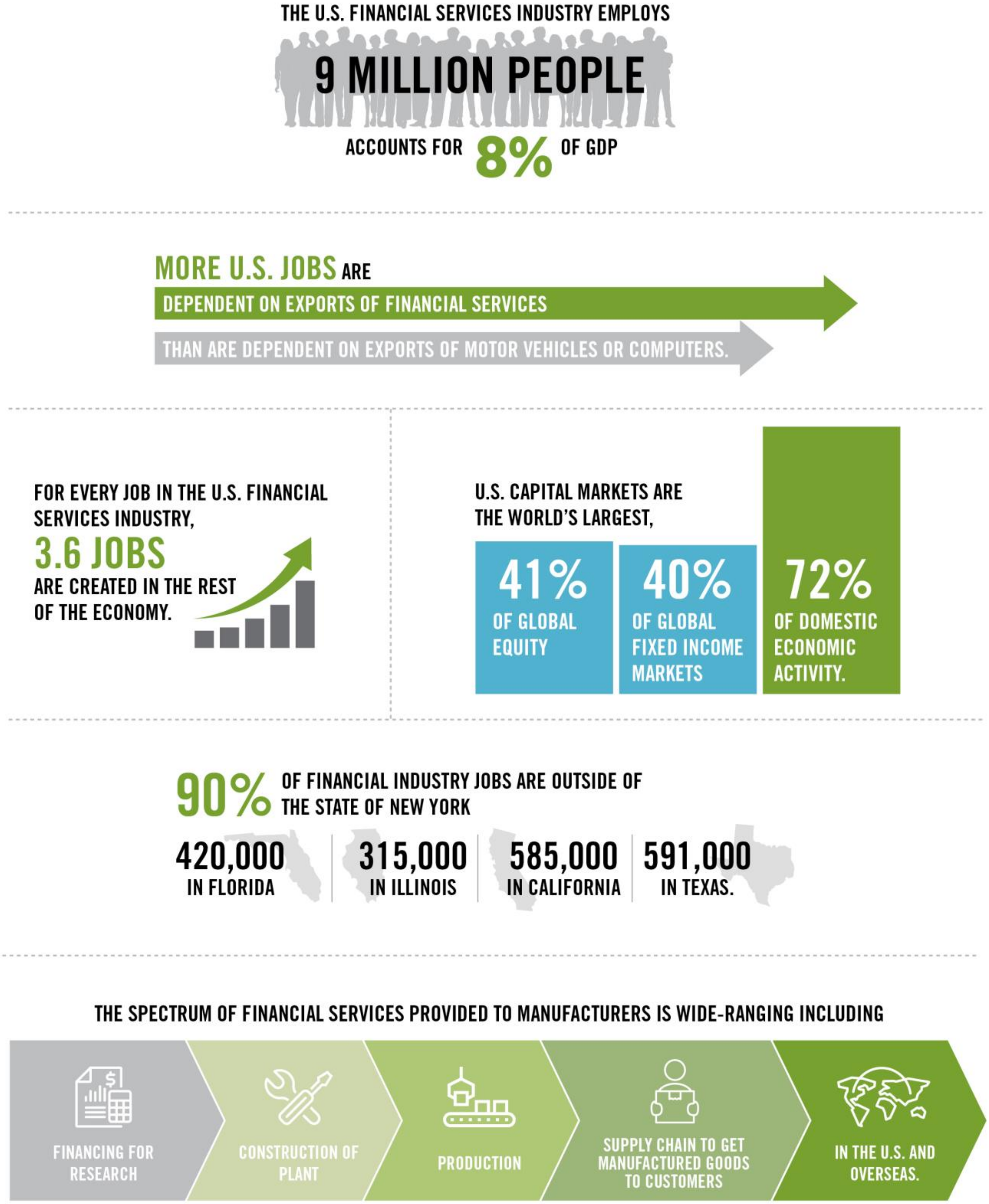
SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.9 trillion for businesses and municipalities in the U.S., serving clients with over $20 trillion in assets and managing more than $72 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

Key Facts: How the international competitiveness of U.S. financial services benefits the whole economy



THERE ARE A WIDE RANGE OF DEBT FINANCING OPTIONS FOR MANUFACTURERS. THESE INCLUDE

CONVENTIONAL BANK LENDING

LINES OF CREDIT AND COMMERCIAL REAL ESTATE LOANS

EQUIPMENT FINANCING

TRADE FINANCE IS ANOTHER CRUCIAL WAY IN WHICH FINANCIAL SERVICES FIRMS SUPPORT U.S. MANUFACTURERS (AND OTHER SECTORS).

THE TOTAL SIZE OF THE MARKET FOR CLIMATE FINANCE IN 2018

$600 BILLION

(INCLUDING MITIGATION AND ADAPTATION)

THE FINANCIAL SERVICES SURPLUS IS PRESENTLY WORTH

$95 BILLION

PER ANNUM WHICH COMPARES WITH A DEFICIT ON MANUFACTURING TRADE.

OVERSEAS OPERATIONS OF U.S. FINANCIAL INSTITUTIONS EARN THE U.S. ECONOMY **$330MN** PER YEAR.

FOREIGN FINANCIAL INSTITUTIONS HAVE **$760BN** DOLLARS INVESTED IN U.S. BASED OPERATIONS

AS A RESULT, THEY EMPLOY ALMOST

EVERY SINGLE U.S. STATE HAS FINANCIAL SERVICES WORKERS EMPLOYED BY **FOREIGN INSTITUTIONS**

Executive Summary

The U.S. financial services industry is fundamental to our economy. It employs 9 million people and accounts for 8 per cent of GDP. It supports millions of families and small businesses and governments at all levels, local to federal. It does this by providing capital to households and businesses and through the provision of complementary services. The past year has also demonstrated how central to our livelihoods financial services are: financial firms have been integral in helping our communities mitigate many of the economic effects of the COVID-19 pandemic.

The financial services industry is also highly globalized. U.S. based financial firms export their services throughout the world and consistently record a trade surplus. Indeed, more U.S. jobs are dependent on exports of financial services than are dependent on exports of motor vehicles or computers. Financial services also operate directly in overseas markets through foreign direct investment. This investment is reciprocated by the $760bn invested in the U.S. by foreign banks, brokers and other institutions which collectively employ almost 400,000 workers in the United States.

Financial institutions provide capital to every sector of the U.S. economy. Through its investments in agriculture, manufacturing and other service industries, the positive impact of finance multiplies and helps generate much more in terms of growth and jobs than the financial sector accounts for directly. For example, for every job in the U.S. financial services industry, 3.6 jobs are created in the rest of the economy.

The international contribution of U.S. financial services goes beyond this. Globally active financial institutions are better placed to service clients in manufacturing, agriculture and other service industries. When invested abroad U.S. capital can help spread U.S. business practices, promote compliance with our standards and raise demand for U.S. exports. There is also a positive reinforcement between the reserve currency status of the dollar and the global presence of U.S. financial services firms.

Introduction

In a world where the dynamics of economic leadership are fluid and evolving, the United States continues to lead the global economy in financial services. U.S. capital markets are the world's largest, accounting for 41 percent of global equity and 40 percent of global fixed income markets; domestically they fund 72 percent of U.S. economic activity.[1] Capital, raised through equity and debt, is fundamental to every single American's livelihood and is used in every state, city and town to:

[1] https://www.sifma.org/about/our-markets/

grow businesses and payrolls; finance investments in new plants, equipment, and technology, and; fund infrastructure improvements. This enhances broad-based prosperity and helps to create well-paying jobs across a wide range of companies and industries, including small and mid-sized enterprises.

The U.S. financial services sector is also one of the world's largest, serving as a source of strength for consumers, businesses, and communities across the globe. The global presence of U.S. finance also helps to promote a rules-based, open and competitive industry on the world stage.

Because capital markets and financial institutions are fundamental to saving, investment and job creation, they are essential to the recovery from the COVID-19 crisis in every sector of the U.S. economy. A robust financial system drives economic activity and job growth, diversifies risk, and supports financial stability.

The financial services industry contributes around 8 per cent of U.S. GDP. It employs almost 9 million people in the U.S., an increase of around 10 per cent over the past decade.[2] Those jobs are widely distributed throughout the country[3] with over 90 per cent located outside of New York State with, for example, 420,000 in Florida, 315,000 in Illinois, 585,000 in California and 591,000 in Texas. Many millions more jobs derive from the industry through multiplier effects: for every job in financial services there are around 3.6 jobs created elsewhere in the economy.[4]

The financial services industry will also play a pivotal role in ensuring the future growth of our economy – and the international economy – is sustainable. The total size of the market for climate finance in 2018 (including mitigation and adaptation) was $600 billion and the banking and capital markets sector has made strong commitments toward achieving ambitious climate goals.

This includes commitments from banks to align portfolios with a pathway to net zero by 2050, as well as financing targets linked to sustainability considerations. For example, an analysis of sustainable finance commitments made by banks globally shows at least $4 trillion worth of total sustainable finance commitments made for varying time frames (typically over the

[2] https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm
[3] https://states.sifma.org/#states
[4] https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/

next 5–10 years), which translates to approximately $700 billion in terms of annual commitments toward sustainable finance.[5]

Financial Services and COVID-19

The financial services industry has been proactive in helping the U.S. economy respond to the crisis provoked by COVID-19. This support to communities across the country has taken multiple forms and has ranged from help to individuals, to small businesses and governments. Below are some examples.

- Financial firms have led the huge increase in social bond issuance to help respond to the crisis. These bonds have raised funds for healthcare provision, nursing homes and various forms of support to low income or unemployed groups.
- Early in the crisis, banks eliminated ATM fees to help ensure access to cash for people who might be sheltering with family away from home and waived early withdrawal penalties on certificates of deposit to allow ready access to savings. The range of products on which such fees were waived soon grew significantly.
- They also provided and administered Paycheck Protection Program loan applications for small business owners.
- Financial firms have also accelerated the availability of contactless payment via credit cards during the COVID crisis. According to a study by global management consulting firm A.T. Kearney, Between March 2019 and April 2020, overall contactless card usage in the U.S. grew by 150 per cent.

Analysis by the American Bankers Association[6] suggests that three quarters of bank customers were either satisfied or very satisfied with their bank's response to the crisis. And 84 per cent believe banks are important to the recovery.

Financial services firms have also been critical to intermediating a wide variety of government support measures to support individuals, firms and the wider economy.

[5] https://www.sifma.org/wp-content/uploads/2020/12/Climate-Finance-Markets-and-the-Real-Economy.pdf
[6] https://www.aba.com/news-research/research-analysis/americans-satisfied-banks-response-covid19

Financial Services and Manufacturing

While it is relatively easy to measure the direct international contribution of financial services to the U.S. economy, it is harder to measure the indirect impact the industry has in supplying a key input to the rest of the economy – namely capital. Capital catalyzes the whole economy, allowing firms and industries to invest, innovate, grow and create jobs.

Manufacturing is an example of where these indirect forces are at work. Manufacturing is a hugely important sector in the U.S. economy. It employs over 12 million people[7] and accounts for almost 11 per cent of GDP.[8]

But financial services and manufacturing are closely linked with the financial industry providing multiple financial products and services to U.S. manufacturers that help those businesses expand domestically and internationally and grow their workforces. As has been noted by the Washington International Trade Association 'it is in fact efficient services that make U.S. manufacturing more productive and give it a competitive edge in global markets[9].'

The spectrum of financial services provided to manufacturers is wide-ranging including financing for research, construction of plants, production and the supply chain to get manufactured goods to customers in the U.S. and overseas.

There is a wide range of debt financing options for manufacturers. These include conventional bank lending, lines of credit and commercial real estate loans. They also include equipment financing which enable manufacturers to obtain equipment and machinery without having to pay the full cost upfront. And financial institutions help manufacturers of various sizes raise capital through the issuance of debt or through the supply of private equity.

Trade finance is another crucial way in which financial services firms support U.S. manufacturers (and other sectors). Trade finance represents the financial instruments and products that are used by companies to facilitate international trade and commerce making it easier for importers and exporters to transact business through trade. It is used to protect against international trade's unique inherent risks, such as currency fluctuations, political instability, issues of non-payment, or the creditworthiness of one of the parties involved. Estimates suggest it is worth around $75 billion per annum although can

[7] https://fred.stlouisfed.org/series/MANEMP
[8] https://apps.bea.gov/iTable/index_industry_gdpIndy.cfm
[9] https://www.wita.org/blogs/the-linkage-between-services-and-manufacturing-in-the-u-s-economy/

vary over the business cycle. Analysis also suggests that trade finance intensity increases systematically with the importing country's distance from the United States.[10]

Finally, the presence of an international financial services industry is also qualitatively important to the global success of our manufacturing base. For U.S. manufacturing to succeed internationally it is crucial that it has access to global finance and the expertise that goes with it.

A strong financial services sector is a competitive U.S. advantage globally

Financial services are a source of competitive advantage for the U.S. economy. In 2018, the World Economic Forum placed the United States second in its Global Competitiveness League Tables.[11] Of the 12 pillars on which the WEF based its assessments, the United States received some of its best scores in financial market development, including first place for its domestic equity markets and the access they provide to finance, and second place for overall availability of financial services.[12]

As a result of this competitive strength, the United States has consistently run a trade surplus on financial services – exports have risen steadily through the 21st century and the financial services surplus is worth $95 billion annually. The U.S. has surpluses on financial services trade with every other G20 economy.[13]

The international competitiveness of financial services generates high quality employment here at home. Over 670,000 U.S. jobs are dependent on exports of financial services. More jobs in the United States rely on exports of financial services than rely on exports of:[14]

- Motor vehicles (over twice as many direct export dependent jobs in financial services).
- Agriculture, forestry, fishing, hunting (43 percent more in FS).
- Machinery (84 per cent more).

[10] https://libertystreeteconomics.newyorkfed.org/2014/05/the-trade-finance-business-of-us-banks.html
[11] http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf
[12] This 2018 breakdown of financial sector competitiveness was excluded from the latest edition of the Competitiveness League Tables.
[13] https://www.bea.gov/data/intl-trade-investment/international-services-expanded#:~:text=In%202019%2C%20U.S.%20exports%20of,U.S.%20MNEs%20were%20%241%2C704.3%20billion.
[14] https://legacy.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005506.pdf

- Computer and electronics (58 percent more).

In terms of future growth, evidence also suggests that what economists refer to the income elasticities of U.S. services exports – including financial services – are higher than for services imports. In other words, for every dollar extra income earned, foreign consumers will buy more US exports of services than US consumer will in terms of services imports.[15]

As a result of the liquidity, efficiency, and security of its capital markets and financial system, the United States is home to multiple international financial centers, with six U.S. cities featuring in the top twenty. New York City has become the world's leading financial center – now ahead of London.[16] San Francisco, Los Angeles, Boston, Washington DC and Chicago are all important centers in their own right. This means the United States is a magnet for capital that in turn helps U.S.-based businesses to grow and create employment opportunities.

Internationalization – The Benefits for Investors and Savers

Operating in international capital markets strengthens the diversification opportunities for U.S. investors and savers, and for foreign holders of U.S. capital – U.S. investors hold almost $13trn worth of foreign equities and bonds and overseas investors hold almost the same in U.S. corporate securities.

Investments in emerging markets – where growth opportunities are stronger than in mature markets – are also beneficial to the U.S. economy, providing investment opportunities for U.S. savers, retirees and others. Emerging and developing economies account for almost 12 per cent of global market capitalization up from 1 per cent in 1988.[17]

Reserve currency status of the U.S. dollar

The U.S. financial sector and its global role support the status of the U.S. Dollar as the world's reserve currency and the advantages that gives to U.S. economy. More companies and individuals using the dollar means more transactions denominated in dollars, which provides more liquidity for this currency. Liquidity means that financial assets can be priced more easily and loans are more easily provided. It also provides a bulwark to efforts by rival centers to promote alternate payments systems. In short, U.S. firms get easier access to funding because of the U.S. dollar's reserve currency status.

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[15] https://www.federalreserve.gov/pubs/ifdp/2005/836/ifdp836.pdf
[16] https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/
[17] https://www.msci.com/our-solutions/index/emerging-markets

Promotion of U.S. interests abroad and strengthening U.S. economic growth at home

The international operations of financial services firms generate strategic and dynamic benefits for the U.S. economy. U.S. financial institutions have increased their foreign direct investment substantially in recent decades. For U.S. financial institutions operating abroad, overseas operations improve services to clients in manufacturing and other industries.[18]

The quality of professional and financial services available locally or on a global-account basis may have also played a role in enabling Global Value Chains. Global manufacturing firms are likely to find it easier to set up significant production or sales operations in countries with established legal and insurance services and strong financial sectors; local access to credit and efficient payment systems help improve efficiency and lower supply cost.

At the same time, U.S. investment overseas has been reciprocated with significant growth in foreign investment into the U.S.--based industry. The U.S. economy also benefits substantially from the over $760bn of foreign investment into the U.S. finance, banking, and insurance industry here at home.[19] This investment helps provide additional sources of capital for wide range of businesses. It also gives Americans access to higher paying jobs;[20] the average wage/salary for those working for foreign headquartered financial institutions here in the U.S. is around twice that for those working for foreign manufacturing companies.[21]

Underpinning this crisscross growth pattern are financial companies deploying their capital and different kinds of expertise for businesses and investors where they generate most growth and jobs and hence strongest returns.

But the benefits of the U.S. financial sector's presence overseas are far broader:

- U.S. capital is instrumental as countries develop and rebalance their economies away from exports and investment and more towards consumption – a trend which benefits world leading U.S. companies in those very industries by boosting demand for U.S. goods and services.
- U.S. financial institutions operating abroad introduce greater competition in those markets, increasing their efficiency and improving the quality of global investment.

[18] https://silo.tips/download/chapter-3-services-contribution-to-manufacturing
[19] https://www.bea.gov/data/intl-trade-investment/direct-investment-country-and-industry
[20] https://www.bea.gov/international/activities-us-affiliates-foreign-multinational-enterprises-revised-2017-statistics
[21] BEA data indicates the average salary for employees of U.S. affiliates of foreign financial institutions is $191,000 per annum compared with $91,000 in manufacturing affiliates.

- U.S. firms operating overseas raise the standards of financial services that contributing positively to financial stability and the local economy - U.S. financial services firms are crucial in conveying U.S. values and business practices across the globe.
- Rates of return for U.S. financial institutions abroad are higher than for foreign financial institutions operating in the U.S. – by around one percentage point per annum. This is evidence of superior U.S. competitiveness in financial services globally.
- Overseas footprints contribute to global efforts against anti-money laundering and terrorist financing.
- International financial services matched with the most liquid capital markets in the world help strengthen national security and U.S. soft power.
- Overseas investment strengthens activities and investment at home and benefits SMEs/the next generation of small businesses.

Future growth of financial services

The financial services industry is dynamic and constantly evolving. It promises to continue to be a foundation for growth in a well-informed public policy environment, and will continue to serve investors, businesses, and communities.

Rapid advances in information technology and the related growth of global value chains have expanded both the level and the range of services tradable across national borders and will continue to do so, meaning significant growth opportunities for competitive U.S. financial services firms. For example, the digitalization of international trade finance provides an opportunity to streamline processes, reduce transaction time and cost, and mitigate fraud risk which helps customers as well as digitally capable financial services providers.

Conclusion

The U.S. financial services industry contributes significantly to the growth of our economy. It is a major source of direct growth and employment and, on the international stage, provides a major competitive advantage to the United States. But financial services are also fuel for the rest of the economy, and are critical to the success of our farmers, manufacturers and other firms in all industries competing with foreign rivals in overseas markets. In an increasingly competitive global economy, ensuring that financial services are integrated into U.S. international economic strategy will be vital to our continued growth and prosperity.