

Do Intangible Assets Explain High U.S. Foreign Direct Investment Returns?

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ABSTRACT: U.S. investors abroad receive a higher return on their assets than their counterparts that invest in the United States. I examine the degree to which excluding intangible assets from the measurement of foreign direct investment can account for this gap. Using a growth accounting framework, I estimate intangible capital stocks for foreign-owned affiliates. Accounting for intangible assets reduces the long-run gap in returns since U.S. affiliates abroad hold a relatively large share of their assets as intangible capital. American owned foreign affiliates are taxed at the relatively high U.S. corporate rate, giving them an incentive to hold more intangible assets relative to those owned by other countries. I find that multinational tax policy is quantitatively consistent with both the size and the persistence of the gap.