

Taxation and the Sources of Growth: Estimates from United States Multinational Corporations

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Abstract

Capital income tax policy affects investment by the parent and affiliates of multinational corporations (MNCs). In a model in which technical advances are embodied in new capital, investment will translate directly into productivity gains. In this paper, I use this framework to guide the growth accounting decomposition and clarify the relationship between capital growth and overall firm growth. A semiparametric technique is used to correct for the usual bias that afflicts production function parameter estimates. These estimates are used to analyze the sources of MNCs' growth. Three findings stand out: (1) growth in parent and affiliate capital are the most important sources of growth, with FDI contributing more to growth than the sum of the contributions of parent and affiliate employment, and materials; (2) productivity has boomed since 1992, due to productivity growth in MNCs with Canadian affiliates; (3) the investment elasticity of productivity growth is large and adjustment costs of investment are small, suggesting that changes in the after-tax price of capital result in robust investment which translates directly into productivity gains.

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