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Domestic Effects of the Foreign Activities of U.S. Multinationals

by Mihir A. Desai, C. Fritz Foley and James R. Hines Jr.

Abstract

Do firms investing abroad simultaneously reduce their domestic activity? This paper analyzes the relationship between the domestic and foreign operations of American manufacturing firms between 1982 and 2004 by instrumenting for changes in foreign operations with GDP growth rates of the foreign countries in which they invest. Estimates produced using this instrument indicate that 10% greater foreign investment is associated with 2.6% greater domestic investment, and 10% greater foreign employee compensation is associated with 3.7% greater domestic employee compensation. These results do not support the popular notion that expansions abroad reduce a firm's domestic activity, instead suggesting the opposite.

Keywords: Foreign Direct Investment; Global Range; Local Range; Multinational Firms and Management; Compensation and Benefits; Operations; Manufacturing Industry; United States;

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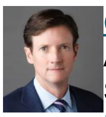

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