Productivity Slowdown and MNEs' Intangibles: where is productivity measured?

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Abstract :
Based on French firm-level data over 15 years we evaluate the contribution of the microlevel profit shifting –through tax haven foreign direct investments (FDI), may it be in or outward- to the aggregate productivity slowdown in France and the role that intangible investments play in this relation. We show that firm productivity in France experiences a decline over the immediate years following the establishment in a tax haven, with an average estimated drop by 3.5% in labor productivity. We argue that this productivity decline, following a presence in a tax haven, is most likely explained by MNEs' fiscal optimization, where domestic productivity is underestimated as profits are not recorded anymore in the home country. The fall in productivity is especially strong for firms that are intensive in intangible capital and is equivalent to 4.1% (versus 2.7% for low intangible intensive firms), reflecting the fact that these types of assets are more easily transferred across countries and facilitate fiscal optimization. Our results additionally suggest that the mismeasurement has strong dynamic effects, as the decline becomes more important the longer the firm remains in a tax haven. Due to possible attenuation biases, we argue that our estimates provide a lower bound of the productivity mismeasurement. Finally, given these firms' weight in the economy, our results imply an 8\% loss at the aggregate in terms of the level of the labor productivity throughout the whole sample period, which is equivalent to an annual loss of 9.7\% in terms of the aggregate annual labor productivity growth.