

# Offshore Profit Shifting and Domestic Productivity Measurement

Dylan G. Rassier  
U.S. Bureau of Economic Analysis  
[dylan.rassier@bea.gov](mailto:dylan.rassier@bea.gov)

Fatih Guvenen  
University of Minnesota and NBER

Raymond J. Mataloni, Jr.  
U.S. Bureau of Economic Analysis

Kim J. Ruhl  
Pennsylvania State University

The recent slowdown in U.S. productivity growth since 2004 has generated widespread concern about growth prospects for the U.S. economy. Recent literature addressing productivity measurement focuses mainly on official price indices as a source of mismeasurement. For the productivity growth to be biased, however, mismeasurement alone is not sufficient; the problem must be worsening over time, which is a harder fact to establish. While the jury is still out, the recent studies generally find modest effects from mismeasurement.

In this paper, we investigate a source of mismeasurement in official statistics, which arises from offshored profit shifting by multinational enterprises operating in the United States. This profit shifting causes part of the economic activity generated by these multinationals to be attributed to their foreign affiliates, leading to an understatement of measured U.S. gross domestic product. Profit-shifting activity increased significantly since the mid-1990s, resulting in an understatement of measured U.S. aggregate productivity growth. We construct adjustments to correct for the effects of profit shifting on measured gross domestic product. The adjustments raise aggregate productivity growth rates by 0.1 percent annual for 1994-2004, 0.25 percent annually for 2004-2008, and leave productivity unchanged after 2008. Our adjustments mitigate, but do not overturn, the productivity slowdown in the official statistics. The adjustments are especially large in R&D-intensive industries, which are most likely to produce intangible assets that are easy to move across borders. The adjustments boost value-added in these industries by as much as 8.0 percent annually in the mid-2000s.

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