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*Tax Distortions*," RAND Journal of Economics, Winter 1997.

<sup>14</sup> I. W. H. Parry, R. C. Williams III, and L. H. Goulder, "When Can CO<sub>2</sub> Abatement Policies Increase Welfare? The Fundamental Role of Pre-Existing Factor Market Distortions," Journal of Environmental Economics and Management, 37 (January 1999), pp. 52–84.

<sup>15</sup> L. H. Goulder, I. W. H. Parry, R. C. Williams III, and D. Burtraw, "The Cost-Effectiveness of Alternative Instruments for Environmental Protection in a

*Second-Best Setting*," Journal of Public Economics, 72(3) (1999), pp. 329–360.

<sup>16</sup> See, for example, M. Cropper and W. Oates, "Environmental Economics: A Survey," Journal of Economic Literature, 30 (1992), pp. 675–92.

<sup>17</sup> A. L. Bovenberg and L. H. Goulder, "Neutralizing Adverse Industry Impacts of CO<sub>2</sub> Abatement Policies: What Does It Cost?" in Distributional and Behavioral Effects of Environmental Policy: Evidence and Controversies, C. Carraro and G. Metcalf, eds., forthcoming.

<sup>18</sup> Specifically, under policies involving CO<sub>2</sub> emissions reductions of up to 30 percent, the government needs to freely offer (rather than auction) only a small fraction (less than 10 percent) of CO<sub>2</sub> emissions permits or, similarly, must exempt only a small share (less than 10 percent) of emissions from the base of a carbon tax, to protect the profits of domestic fossil fuel (coal, oil, and natural gas) firms.

<sup>19</sup> L. H. Goulder and R. C. Williams III, "The Usual Excess Burden Approximation Usually Doesn't Come Close," NBER Working Paper No. 7034, March 1999.

## International Taxation

James R. Hines Jr.\*

The ability and evident willingness of taxpayers to relocate activity, to shift taxable income between jurisdictions, and to respond to incentives created by the interaction of domestic and foreign tax rules, mean that the tax policies of other countries obviously must be considered in the formulation of domestic policy. In the current environment, almost every U.S. tax provision influences foreign direct investment (FDI) or provides incentives for international tax avoidance.

Research in the field of public finance reflects a growing awareness of the importance of foreign tax policies; over the last ten years, there have been many new quantitative studies of the impact of taxation in open economies.<sup>1</sup> This research considers how tax policies affect three aspects of economic activity: FDI, international tax avoidance, and economic efficiency.

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### Foreign Direct Investment

Tax rate differences over time and between countries can be very large, thereby significantly affecting aftertax returns to FDI. By now there is ample evidence that countries with lower tax rates receive much more FDI than do countries with higher tax rates. And, for a given country, FDI is greater in years in which associated tax burdens are lighter.<sup>2</sup> To be sure, there are important complications to this otherwise very simple story. The ability of taxpayers to adjust the financing of FDI, and the repatriation of profits to home countries, also can affect the magnitude of FDI.<sup>3</sup> Furthermore, one of the stumbling blocks confronting efforts to estimate the impact of taxes on FDI is the importance of other nontax considerations—such as market size and proximity, local factor prices, and local infrastructure—and the possibility that they are correlated with tax rates.

There have been several efforts to identify the impact of tax rates on FDI in a way that removes as much as possible of the effect of correlated omitted variables. The U.S. Tax Reform Act of 1986 (TRA) provides one such opportunity, since it was a major tax change with important international repercussions, and it af-

ected certain firms and industries differently than it did others. Firm- and industry-level evidence suggests that American companies concentrating in assets not favored by the TRA reacted by increasing their foreign investment after 1986; furthermore, foreign investors in the United States (for whom the TRA provisions had relatively smaller impact) may have concentrated in these more heavily taxed assets in the years after 1986.<sup>4</sup>

Mihir Desai and I evaluate the impact of the TRA by comparing its effect on FDI undertaken by joint ventures and FDI undertaken by majority-owned foreign affiliates.<sup>5</sup> The TRA introduced an important distinction between income received from these two foreign sources by requiring Americans to calculate foreign tax credit limits separately for each joint venture. This change greatly reduced the attractiveness of joint ventures, particularly those in low-tax foreign countries. We find that American participation in international joint ventures fell sharply after 1986, while international joint venture activity by non-American firms rose. The drop in American joint ventures was most pronounced in low-tax countries, which is consistent with the incentives created by

the TRA. Furthermore, after 1986 American joint ventures used more debt and paid greater royalties to their American parents, reflecting their incentives to economize on dividend payments.

Other types of comparisons offer useful evidence of the effect of taxation on FDI. The distribution between U.S. states of investment from countries that grant foreign tax credits with investment from all other countries provides one such comparison. The ability to apply foreign tax credits against home-country tax liabilities reduces an investor's incentive to avoid high-tax foreign locations. I find that differences in state corporate tax rates of a single percent are associated with differences between the investment shares of foreign-tax-credit investors and the investment shares of all others of 9 to 11 percent. This suggests that state taxes significantly influence the pattern of FDI in the United States.<sup>6</sup>

Comparisons between American and foreign FDI in third countries offer a different type of powerful evidence of the impact of taxation. American and foreign tax systems differ in their treatment of foreign income, in particular because most high-income capital-exporting countries grant "tax sparing" for FDI in developing countries, while the United States does not. Tax sparing is the practice of adjusting home country taxation of foreign investment income to permit investors to receive the full benefits of any host country tax reductions. For example, Japanese firms investing in countries with whom Japan has tax sparing agreements are entitled to claim foreign tax credits for income taxes that they would have paid to foreign governments in the absence of tax holidays and other special abatements.

The evidence indicates that the ratio of Japanese FDI to American FDI in countries with whom Japan has tax sparing agreements is roughly

double what it is elsewhere. In addition, I find that Japanese firms are subject to 23 percent lower tax rates than are their American counterparts in countries with whom Japan has tax sparing agreements.<sup>7</sup> Similar patterns appear when tax sparing agreements with the United Kingdom are used as instruments for Japanese tax sparing agreements. This evidence suggests that tax sparing influences the level and location of FDI, as well as the willingness of foreign governments to offer tax concessions.

By now there is extensive evidence that the volume and location of FDI is sensitive to its tax treatment. There is even in the literature something of a regularity among estimates: the implied tax elasticity of FDI is in the neighborhood of  $-0.6$ . This reveals an impact of taxation on FDI that is strong enough to appear clearly, despite the importance of many other variables that influence FDI. Furthermore, it suggests that international investors cannot use creative financing and other methods so effectively and costlessly that they avoid all taxes on their international income. Nor do governments imposing high tax rates fully compensate foreign investors in indirect ways by providing various forms of infrastructure.

### Tax Avoidance

International investors often can reduce their tax liabilities through careful structuring and financing of their investments, use of transactions between related parties located in different countries, and decisions as to when to repatriate profits to parent firms in home countries. These practices often must be coordinated with FDI decisions, but together with FDI appear to be strongly influenced by tax rate differences.

Sophisticated international tax avoidance typically entails reallocating taxable income from countries with high tax rates to countries with low tax rates, and may include

changing the timing of income recognition for tax purposes. Many of these methods are quite legal and closely resemble those used by domestic taxpayers. One example is the financing of foreign affiliates, which clearly can affect ultimate tax liabilities. If an American firm finances its foreign subsidiary with equity, then its foreign profits are taxable in the host country, and no U.S. tax is due until profits are repatriated to the United States. The alternative of financing the foreign subsidiary with debt from the parent company would entail lower foreign tax liabilities (since interest payments are deductible) but higher domestic tax liabilities (since interest receipts represent taxable income). Hence, the choice between financing a foreign affiliate with debt or with equity should depend on the difference between home and foreign tax rates, an implication that is quite consistent with the behavior of American multinational firms. Glenn Hubbard and I find that American-owned foreign subsidiaries located in high-tax countries are more likely to pay interest to their American parent companies in 1984 than are subsidiaries in low-tax countries, while the opposite pattern holds for subsidiaries remitting dividends to their American parents.<sup>8</sup>

The TRA significantly changed the cost of capital for multinational firms with excess foreign tax credits by effectively limiting the deductibility of interest expenses incurred in the United States. Kenneth Froot and I find that after 1986 American firms with excess foreign tax credits and half of their assets abroad borrowed 5 percent less annually than did firms with deficit foreign tax credits (whose borrowing costs were not affected by the 1986 tax change).<sup>9</sup> A similar provision of the 1986 Act limited the deductibility of R and D expenses incurred in the United States by multinational firms with significant foreign sales and excess foreign tax

credits. There, too, the evidence indicates that American firms that were affected by the tax change responded by reducing R and D activity in the United States and replacing it with R and D performed in foreign locations.<sup>10</sup> The estimated unit elasticity of demand for R and D implies that a tax change that increases the cost of performing R and D in the United States by 5 percent thereby reduces the volume of R and D by roughly 5 percent.

Of course, there are other methods of reducing tax obligations in an international environment, and sophisticated taxpayers show themselves to be adept at using such methods. Multinational firms can and do adjust the timing of dividend repatriations from foreign subsidiaries to reduce the associated tax liabilities. Hubbard and I find that only 16 percent of the foreign subsidiaries of American multinational firms paid any dividends to their parent companies in 1984. Subsequent research reports similar findings for other years.<sup>11</sup> American firms incur tax penalties if they pay bribes to foreign government officials or if they participate in unsanctioned international boycotts; the cost of these penalties vary with foreign tax rates, and the evidence indicates that the extent of such behavior is sensitive to its tax cost.<sup>12</sup> Even a multinational firm's country of residence is potentially affected by that country's system of taxing foreign income. There is evidence that the nationality of what are now American firms ultimately may be determined by how the United States imposes its worldwide resident tax system.<sup>13</sup>

Tax systems often permit a certain leeway in selecting transfer prices for transactions between related parties located in countries with different tax rates. Taxpayers also typically have incentives to reduce prices charged by affiliates in high-tax countries for goods and services provided to affil-

iates in low-tax countries. The available evidence suggests that transfer pricing is sensitive to tax rate differences: reported pre-tax profit rates of foreign affiliates are inversely related to local tax rates;<sup>14</sup> royalty payments by foreign affiliates to their American parent companies are positively related to local tax rates;<sup>15</sup> American firms with tax haven affiliates tend to have lower U.S. tax liabilities;<sup>16</sup> and the foreign affiliates of American multinational firms are more likely to run trade surpluses with related parties if they are located in low-tax countries.<sup>17</sup> While it is hardly surprising that taxpayers take steps to reduce their tax liabilities, this evidence is very useful in establishing the revenue impact of such behavior and in suggesting ways in which tax avoidance affects other variables of interest, such as FDI. Far from removing incentives to locate FDI in low-tax countries, the ability to use sophisticated tax avoidance techniques probably enhances the attractiveness of low-tax locations for FDI, since FDI is necessary in order to report earning significant income in a location.<sup>18</sup>

### **Economic Efficiency**

Given the potential impact of taxation on the volume and location of FDI, as well as on the other activities of multinational firms, it is clear that the foreign provisions of actual tax systems may be responsible for considerable deadweight loss—or, to put the same point differently, that more efficient alternatives may be available. Fundamental tax reform proposals often contain provisions concerning foreign income that would simplify and render more efficient the incentives facing American taxpayers, though this is not universally the case.<sup>19</sup> In the category of somewhat more modest reforms, Alberto Giovannini and I consider the potential efficiency gains from implementing corporate taxation based on the

residence of shareholders rather than the source of income-generating activity within a community such as the European Union.<sup>20</sup> Yet another efficiency-enhancing alternative is for home countries to permit investors to receive deductions for capital outflows while fully taxing all capital inflows, a possibility that could be implemented even while imposing what is otherwise a traditional income tax.<sup>21</sup>

The current U.S. tax treatment of foreign income is often criticized by observers who feel that the combination of foreign tax credits and deferral encourages foreign investment by American companies at the expense of domestic investment. This criticism typically relies on a stylized conceptual framework in which a fixed supply of capital is allocated between countries based on tax considerations. A potentially important, though more subtle, variant of this argument notes that aspects of the tax system that encourage foreign investment may thereby reduce expected payoffs to bondholders in the event of default, making borrowing more expensive and indirectly discouraging domestic investment.<sup>22</sup> In order to evaluate the overall impact of international taxation on the efficiency of resource allocation, however, it is necessary to consider its interaction with other distortionary aspects of the tax system. In such a setting, tax provisions that might otherwise reduce efficiency, such as the ability to defer home-country taxation of unrepatriated foreign profits, actually can enhance efficiency.<sup>23</sup>

The interaction of taxation and inflation is responsible for a different kind of inefficiency. In an open economy with a nominal tax system, domestic inflation changes aftertax interest rates at home and abroad, thereby stimulating international capital movement and influencing domestic and foreign tax receipts, saving, and investment. Desai and I find

What the efficiency costs of inflation-induced international capital reallocations are typically much larger than those that accompany inflation in closed economies, even if capital is imperfectly mobile internationally.<sup>24</sup>

There is extensive evidence of the responsiveness of behavior to international tax rate differences, and this evidence carries important implications for the efficiency of foreign and domestic tax systems. This evidence also enlightens what were once purely domestic issues concerning the determinants of investment, corporate finance, R and D activity, and a host of other economic decisions. The ability to look across countries and firms with widely differing tax situations opens promising new avenues of investigation that may offer useful answers to what continue to be important and open questions.

<sup>1</sup> For recent reviews of this literature, along with expanded analysis of many of the studies surveyed here, see J. R. Hines Jr., "Tax Policy and the Activities of Multinational Corporations," in *Fiscal Policy: Lessons from Economic Research*, A. J. Auerbach, ed. Cambridge: MIT Press, 1997, pp. 401-45; and J. R. Hines Jr., "Lessons from Behavioral Responses to International Taxation," *National Tax Journal*, 53 (2) (June 1999), pp. 305-22.

<sup>2</sup> For evidence that FDI is concentrated in countries with low tax rates, see H. Grubert and J. Mutti, "Taxes, Tariffs, and Transfer Pricing in Multinational Corporate Decisionmaking," *Review of Economics and Statistics*, 73 (2) (May 1991), pp. 285-93; J. R. Hines Jr. and E. M. Rice, "Fiscal Paradise: Foreign Tax Havens and American Business," *Quarterly Journal of Economics*, 109 (1) (February 1994), pp. 149-82; and R. Altshuler, H. Grubert, and T. S. Newlon, "Has U.S. Investment Abroad Become More Sensitive to Tax Rates?" NBER Working Paper No. 6383, January 1998, also in *International Taxation and Multinational Activity*, J. R. Hines Jr. ed. Chicago: University of Chicago Press, forthcoming. For evidence that FDI is concentrated in years with low tax rates, see D. G. Hartman, "Tax Policy and Foreign Direct Investment in the United States," *National Tax Journal*, 37 (4) (December

1984), pp. 475-87; M. Boskin and W. G. Gale, "New Results on the Effects of Tax Policy on the International Location of Investment," in *The Effects of Taxation on Capital Accumulation*, M. Feldstein, ed. Chicago: University of Chicago Press, 1987, pp. 201-19; and J. Slemrod, "Tax Effects on Foreign Direct Investment in the United States: Evidence from a Cross-country Comparison," in *Taxation in the Global Economy*, A. Razin and J. Slemrod, eds. Chicago: University of Chicago Press, 1990, pp. 79-117.

<sup>3</sup> See, for example, the model presented in J. R. Hines Jr., "Credit and Deferral as International Investment Incentives," *Journal of Public Economics*, 55 (2) (October 1994), pp. 323-47.

<sup>4</sup> For firm-level evidence, see D. G. Harris, "The Impact of U.S. Tax Law Revision on Multinational Corporations' Capital Location and Income-shifting Decisions," *Journal of Accounting Research*, 31 (Supplement) (1993), pp. 111-40. For industry-level evidence, see D. L. Swenson, "The Impact of U.S. Tax Reform on Foreign Direct Investment in the United States," *Journal of Public Economics*, 54 (2) (June 1994), pp. 243-66; and also A. J. Auerbach and K. Hassett, "Taxation and Foreign Direct Investment in the United States: A Reconsideration of the Evidence," in *Studies in International Taxation*, A. Giovannini, R. G. Hubbard, and J. Slemrod, eds. Chicago: University of Chicago Press, 1993, pp. 119-44.

<sup>5</sup> See M. A. Desai and J. R. Hines Jr., "Basket' Cases: Tax Incentives and International Joint Venture Participation by American Multinational Firms," *Journal of Public Economics*, 71 (3) (March 1999), pp. 379-402.

<sup>6</sup> See J. R. Hines Jr., "Altered States: Taxes and the Location of Foreign Direct Investment in the United States," *American Economic Review*, 86 (5) (December 1996), pp. 1076-94.

<sup>7</sup> See J. R. Hines Jr., "'Tax Sparing' and Direct Investment in Developing Countries," NBER Working Paper No. 6728, September 1998, also in *International Taxation and Multinational Activity*, J. R. Hines Jr. ed. Chicago: University of Chicago Press, forthcoming.

<sup>8</sup> J. R. Hines Jr. and R. G. Hubbard, "Coming Home to America: Dividend Repatriations by U.S. Multinationals," in *Taxation in the Global Economy*, A. Razin and J. Slemrod, eds. Chicago: University of Chicago Press, 1990, pp. 161-200. This pattern appears not to

have changed significantly over time, according to evidence reported by H. Grubert, "Tax Planning by Companies and Tax Competition by Governments: Is There Evidence of Changes in Behavior?" in *International Taxation and Multinational Activity*, J. R. Hines Jr. ed. Chicago: University of Chicago Press, forthcoming. See also J. R. Hines Jr., "Credit and Deferral as International Investment Incentives," *Journal of Public Economics*, 55 (2) (October 1994), pp. 323-47; and H. Grubert, "Taxes and the Division of Foreign Operating Income Among Royalties, Interest, Dividends, and Retained Earnings," *Journal of Public Economics*, 68 (2) (May 1998), pp. 269-90.

<sup>9</sup> See K. A. Froot and J. R. Hines Jr., "Interest Allocation Rules, Financing Patterns, and the Operations of U.S. Multinationals," in *The Effects of Taxation on Multinational Corporations*, M. Feldstein, J. R. Hines Jr., and R. G. Hubbard, eds. Chicago: University of Chicago Press, 1995, pp. 277-307.

<sup>10</sup> See J. R. Hines Jr., "On the Sensitivity of R and D to Delicate Tax Changes: The Behavior of U.S. Multinationals in the 1980s," in *Studies in International Taxation*, A. Giovannini, R. G. Hubbard, and J. Slemrod, eds. Chicago: University of Chicago Press, 1993, pp. 149-87; J. R. Hines Jr., "No Place Like Home: Tax Incentives and the Location of R and D by American Multinationals," in *Tax Policy and the Economy*, 8, J. M. Poterba, ed. Cambridge: MIT Press, 1994, pp. 149-82; and J. R. Hines Jr., "International Taxation and Corporate R and D: Evidence and Implications," in *Borderline Case: International Tax Policy, Corporate R and D, and Investment*, J. M. Poterba, ed. Washington, DC: National Academy Press, 1997, pp. 39-52. Further evidence on the international sensitivity of R and D location to taxation is provided by J. R. Hines Jr., "Taxes, Technology Transfer, and the R and D Activities of Multinational Firms," in *The Effects of Taxation on Multinational Corporations*, M. Feldstein, J. R. Hines Jr., and R. G. Hubbard, eds. Chicago: University of Chicago Press, 1995, pp. 225-48; and J. R. Hines Jr. and A. B. Jaffe, "International Taxation and the Location of Inventive Activity," in *International Taxation and Multinational Activity*, J. R. Hines Jr., ed. Chicago: University of Chicago Press, forthcoming.

<sup>11</sup> See J. R. Hines Jr. and R. G. Hubbard, "Coming Home to America: Dividend Repatriations by U.S. Multinationals," in *Taxation in the Global Economy*,

A. Razin and J. Slemrod, eds. Chicago: University of Chicago Press, 1990, pp. 161-200; as well as R. Altsbuler and T. S. Newlon, "The Effects of U.S. Tax Policy on Income Repatriation Patterns of U.S. Multinational Corporations," in *Studies in International Taxation*, A. Giovannini, R. G. Hubbard, and J. Slemrod, eds. Chicago: University of Chicago Press, 1993, pp. 77-115; and R. Altsbuler, T. S. Newlon, and W. C. Randolph, "Do Repatriation Taxes Matter? Evidence from the Tax Returns of U.S. Multinationals," in *The Effects of Taxation on Multinational Corporations*, M. Feldstein, J. R. Hines Jr., and R. G. Hubbard, eds. Chicago: University of Chicago Press, 1995, pp. 253-72. For suggestive evidence that the stock market discounts the tax saving associated with contemporaneous deferral, see J. H. Collins, J. R. M. Hand, and D. A. Shackelford, "Valuing Deferral: The Effect of Permanently Reinvested Foreign Earnings on Stock Prices," in *International Taxation and Multinational Activity*, J. R. Hines Jr., ed. Chicago: University of Chicago Press, forthcoming.

<sup>12</sup> See J. R. Hines Jr., "Forbidden Payment: Foreign Bribery and American Business after 1977," NBER Working Paper No. 5266, September 1995; and J. R. Hines Jr., "Taxed Avoidance: American Participation in Unsanctioned International Boycotts," NBER Working Paper No. 6116, July 1997.

<sup>13</sup> See J. R. Hines Jr., "The Flight Paths of Migratory Corporations," *Journal of Accounting, Auditing, and Finance*, 6 (4) (Fall 1991), pp. 447-79; and J. H. Collins and D. A. Shackelford, "Corporate Domicile and Average Effective Tax Rates: The Cases of Canada, Japan, the United

Kingdom, and the United States," *International Tax and Public Finance*, 2 (1) (May 1995), pp. 55-83.

<sup>14</sup> See J. R. Hines Jr. and E. M. Rice, "Fiscal Paradise: Foreign Tax Havens and American Business," *Quarterly Journal of Economics*, 109 (1) (February 1994), pp. 149-82; H. Grubert and J. Mutti, "Taxes, Tariffs, and Transfer Pricing in Multinational Corporate Decision-making," *Review of Economics and Statistics*, 73 (2) (May 1991), pp. 285-93; and J. H. Collins, D. Kemsley, and M. Lang, "Cross-jurisdictional Income Shifting and Earnings Valuation," *Journal of Accounting Research*, 36 (2) (Autumn 1998), pp. 209-29.

<sup>15</sup> J. R. Hines Jr., "Taxes, Technology Transfer, and the R and D Activities of Multinational Firms," in *The Effects of Taxation on Multinational Corporations*, M. Feldstein, J. R. Hines Jr., and R. G. Hubbard, eds. Chicago: University of Chicago Press, 1995, pp. 225-48; and H. Grubert, "Taxes and the Division of Foreign Operating Income Among Royalties, Interest, Dividends, and Retained Earnings," *Journal of Public Economics*, 68 (2) (May 1998), pp. 269-90.

<sup>16</sup> D. Harris, R. Morck, J. Slemrod, and B. Yeung, "Income Shifting in U.S. Multinational Corporations," in *Studies in International Taxation*, A. Giovannini, R. G. Hubbard, and J. Slemrod eds. Chicago: University of Chicago Press, 1993, pp. 277-302.

<sup>17</sup> K. A. Clausing, "The Impact of Transfer Pricing on Intrafirm Trade," NBER Working Paper No. 6688, August 1998, also in *International Taxation and Multinational Activity*, J. R. Hines Jr., ed.

Chicago: University of Chicago Press, forthcoming.

<sup>18</sup> See the model developed in J. R. Hines Jr. and E. M. Rice, "Fiscal Paradise: Foreign Tax Havens and American Business," *Quarterly Journal of Economics*, 109 (1) (February 1994), pp. 149-82.

<sup>19</sup> See J. R. Hines Jr., "Fundamental Tax Reform in an International Setting," in *Economics Effects of Fundamental Tax Reforms*, H. J. Aaron and W. G. Gale, eds. Washington, DC: Brookings, 1996, pp. 465-502.

<sup>20</sup> A. Giovannini and J. R. Hines Jr., "Capital Flight and Tax Competition: Are There Viable Solutions to Both Problems?" in *European Financial Integration*, A. Giovannini and C. Mayer, eds. Cambridge: Cambridge University Press, 1991, pp. 172-210.

<sup>21</sup> See J. R. Hines Jr., "Border Cash-flow Taxation," mimeo, University of Michigan, 1999.

<sup>22</sup> See J. R. Hines Jr., "Investment Ramifications of Distortionary Tax Subsidies," NBER Working Paper No. 6615, June 1998.

<sup>23</sup> See J. R. Hines Jr., "The Case Against Deferral: A Deferential Reconsideration," *National Tax Journal*, 52 (3) (September 1999), pp. 385-404. In this connection, see also J. R. Hines Jr., "Dividends and Profits: Some Unsubtle Foreign Influences," *Journal of Finance*, 51 (2) (June 1996), pp. 661-89.

<sup>24</sup> M. A. Desai and J. R. Hines Jr., "Excess Capital Flows and the Burden of Inflation in Open Economies," in *The Costs and Benefits of Price Stability*, M. Feldstein, ed. Chicago: University of Chicago Press, 1999, pp. 235-68.

