

## Macro Roundup Article

**Headline:** [Globalization and Profitability of US Firms: The Role of Intangibles](#)

**Article Link:** <https://www.nber.org/papers/w32202>

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**Tweet:** During 2003-19, the mean EBIT margin of US public companies increased by 11.5% vs. 1984-2002, driven by a 47.4% increase in foreign profitability for S&P 500 firms, while domestic profitability remained flat.

**Summary:** We find that the overall profitability of US firms as measured by the ratio of aggregate Earnings Before Interest and Taxes to aggregate Sales (EBIT Margin, EBITM), increased significantly following increased globalization heralded by China's entry into WTO in December 2001. We find that the increase in EBITM is driven primarily by the increased foreign profitability of S&P 500 firms, which are larger and spend significantly more on R&D than firms not in S&P 500 index (ex-S&P 500) and have greater intangible intensity than ex-S&P 500 firms. Even among S&P 500 firms, those firms that had higher intangible intensities as measured by higher R&D/Sales and Intangible Assets/Sales ratios had higher increases in their foreign profitability. Neither S&P 500 nor ex-S&P 500 firms experienced any increase in their domestic EBITM following increased globalization, consistent with increased import competition. In the aggregate, the average annual profitability of US public firms in 2003-2019 increased by 11.5% of 1984-2002 profitability. This increase was primarily driven by foreign profitability increasing by 47.4% for firms in the S&P 500 index, which are larger and have more intangible assets created by R&D and SG&A expenditures. Related: The Curious Incident of the Elevated Profit Margins and End of an Era: The Coming Long-Run Slowdown in Corporate Profit Growth and Stock Returns and Corporate Profits in the Aftermath of COVID-19

**Primary Topic:** Intangibles

**Topics:** Academic paper, Database, Important!, Intangibles, Investment, Productivity, Weekly

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