

# Pollution Abatement Costs and Foreign Direct Investment Inflows to U.S. States

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## Abstract

This paper estimates the effect of changing environmental standards on patterns of international investment. The analysis advances the existing literature in three ways. First, we avoid comparing different countries by examining foreign direct investment in the United States and differences in pollution abatement costs among U.S. states. Data on environmental costs in U.S. states are more comparable than those for different countries, and U.S. states are more similar in other difficult-to-measure dimensions. Second, we allow for differences in states' industrial compositions, an acknowledged problem for earlier studies. Third, we employ an 18-year panel of relative abatement costs, allowing us to control for unobserved state characteristics. We find robust evidence that abatement costs have had moderate deterrent effects on foreign investment.

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