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## The cost of innovation: R&D and high cash holdings in U.S. firms

Zhaozhao He<sup>a,\*</sup> and M. Babajide Wintoki<sup>b</sup>

### Abstract

We show that R&D investment explains a significant portion of the increase in the average cash-to-assets ratio of U.S. firms, which more than doubled between 1980 and 2012. In 1980, an average firm held \$0.04 in cash for \$1.00 of R&D spending, but this had increased to \$0.60 by 2012. The increasing sensitivity of cash holdings to R&D investment and the increase in R&D spending of the typical firm explain over 20% of the increase in aggregate cash holdings. Intensified domestic and global competition appears to be an important explanation for the increased propensity of R&D-intensive firms to hoard cash.

*Keywords:* Cash Holdings, Competition, Financing Constraints, Financing Volatility, R&D Investment

*JEL Classifications:* G30, G32, O30

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