

The Dispersion in Profit Rates in Germany: A Result of Imperfect Competition?

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While the model of perfect competition proves to be a very practical benchmark for assessing existing economies, most economists agree that this ideal state is practically never reached. Observed dispersions in return rates on capital seem to prove that the existence of monopolistic profits is more the rule as an outlier. However, recent research on intangible capital has shown that at least part of the dispersion of return rates is caused by the insufficient coverage of capital input. In conventional accountancy frameworks - commercial as well as national - investment is defined by certain types of classified goods. Given the economic definition of investment as expenditures with expected future returns, this practice covers only parts of total investment and capital input in production. In this paper, it is argued that the observed return rates on capital at firm level have an upward bias if firms are producing with unobserved; mostly; intangible capital. Using a comprehensive firm level database for Germany, this theoretical preposition is confirmed empirically. Making unobserved intangible capital observable, the dispersion in return rates reduces dramatically. The results clearly support the assumption that a considerable part of the observed dispersion in return rates among firms can be contributed to unobserved capital formation in intangible capital and cannot be attributed to imperfect competition. Firms with a high input in intangibles also have an above average observed rate of return. Many firm level studies rely on readily available databases as COMPUSTAT, based on published balance sheets. While bigger firms are quite reliably described in this data set, small and medium sized firms (SMEs) are not covered, bearing the danger that the conclusions might be biased. To include SMEs into firm-level analysis, the EUKLEED data set for Germany is created. This is a comprehensive integrated micro data set on employment, investment, and output for about 1.6 million German establishments, with around 40 million employment cases per year. The data set is combining three sources. The main source (SIS) is a linked employer employee data set (LEED). It supplies firm level information with respect to employment, employment characteristics, labour compensation by type of labour, and establishment characteristics. The firm level LEED data have been calibrated on the aggregated data of the EU KLEMS industry data base.