

## **Price-cost Margins and Rent Sharing at the Firm Level in France: Does Innovation Matter?**

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The aim of this paper is to study cross-sectional heterogeneity in price-cost margins and in the extent of rent sharing across French manufacturing firms, asking the question whether firm innovation performance account for part of the estimated heterogeneity. To examine these important issues, we take advantage of a rich panel of French manufacturing firms over the period 1978-2001. The sample is obtained by merging firm current account and balance sheet data with information on Innovation and R&D (INSEE, SESSI, DEP). Keeping only firms for which we have at least 12 years of observations, we construct an unbalanced panel data sample of about 11,000 firms. Methodologically, we follow Crépon-Desplatz-Mairesse (1999, 2002) and Dobbelaere (2004). By embedding an efficient bargaining type model in a microeconomic version of Hall's (1988) framework, we derive a reduced-form equation. Estimating this equation allows the identification of the firm price-cost margin and the extent of rent sharing. In the first part of the paper, we analyse whether the observed dispersion in the two parameters is true or whether it is merely a reflection of sampling variability. We estimate the true dispersion or true heterogeneity in the firm price-cost margin and the extent of rent sharing using the Swamy (1970) methodology (i.e., correcting the observed heterogeneity for sampling heterogeneity). Being based on individual firm regression estimates, the Swamy estimates are robust to the possibility of correlated effects (see Mairesse- Griliches, 1990). In our preliminary results, the estimates of the average price-cost margin and average extent of rent sharing are respectively 1.38 and 0.76, while the corresponding estimates of their true dispersion are 0.56 and 0.19, which seems plausible given our prior expectation about a reasonable heterogeneity in both parameters. To investigate whether this heterogeneity is not an artefact of "outliers" and large sampling errors, we perform different cleaning experiments. These experiments confirm our previous conclusions.

In the second part of the paper, we will investigate whether firm-level R&D intensity and innovation performance can explain the observed heterogeneity in price-cost margins and the extent of rent sharing. Very preliminary results (using two different weighting procedures and controlling for relevant firm-level variables and sector fixed effects) tend to show a statistically significant positive effect of R&D intensity on the firm price-cost margin. We intend to take advantage of the information provided by the CIS1, CIS2 and CIS3 innovation surveys to confirm, deepen and enrich these first results.