

# PROFITS, VARIABILITY OF PROFITS, AND FIRM SIZE IN THE U. S. AND THE U. K.

DAVID R. KAMERSCHEN

IN a recent article Samuels and Smyth (SS) examined the behaviour of profit rates, industrial concentration, and size of firms using data for a cross-section of 186 United Kingdom companies for the period 1954 to 1963.<sup>1</sup>

The main conclusions of their paper were summarized as follows:

- (1) Profit rates and firm size are inversely related.
- (2) There was a pervasive tendency for profit rates to fall over the period covered, 1954-1963.
- (3) The time variability of profit rates and the intra-group variability of profits are both inversely related to firm size.
- (4) Firms operating in highly concentrated industries have less variable profit rates than firms operating in less highly concentrated industries.

My contribution in this note is quite a modest one. What I should like to do is point out the similarities and dissimilarities between the SS results and the empirical evidence for the U.S. economy. However, because of differences in the conceptual approaches and in the form of the data, our results cannot be said to constitute an exact comparison.

On SS's first finding that profits and firm size are negatively related, the U.S. data seem to differ. For instance, two recent studies find evidence of a positive or at least a non-negative relationship between size and profits. Furthermore, although SS did not discuss Baumol's work, it is certainly relevant in discussing the theoretical issues. Baumol hypothesizes that large firms should earn higher returns than small firms since large firms have all the options and opportunities available to small firms and, in addition, they can in-

<sup>1</sup> "Profits, Variability of Profits and Firm Size," *Economica*, Vol. XXXV, No. 138 (May, 1968), pp. 127-139.