

DIW Applied Micro Seminar

Industrial Espionage and Productivity

Albrecht Glitz (Humboldt University), joint with Erik Meyersson

Abstract:

In this paper, we investigate the economic returns to industrial espionage by linking information from East Germany's foreign intelligence service to sector-specific gaps in total factor productivity between West and East Germany. Based on a data set that comprises the entire flow of information provided by East German spies over the period 1969-1989, we document a significant narrowing of sectoral West-to-East TFP gaps as a result of East Germany's industrial espionage. This central finding holds across a wide range of specifications and is robust to the inclusion of several alternative proxies for technology transfer. We further demonstrate that the economic returns to industrial espionage are particularly strong in sectors that are closer to the West German technology frontier and in which constraints to the import of goods and services are particularly pronounced. Finally, our findings suggest that over the time period considered, industrial espionage crowded out standard overt R&D in East Germany.