

Comments on “Cartels, Price-Fixing, and Corporate Leniency Policy” by Ellis and Wilson

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Background

Change in Leniency Policy (1992) and Increase
in Detection and Prosecution of Cartels

Basic Question

Leniency Policy \Rightarrow ? Cartel Survival/Detection

Traditional 'running to courthouse' argument does not make sense

Take a Step Back: Cartels Generally

- Classic cartel game is repeated prisoner's dilemma
 - C = cartel/cooperative payoff
 - D = deviating/finking firm payoff (when others do C)
 - N = One-shot Nash outcome (e.g. Cournot)
- $\Delta_C = C - N, \Delta_D = D - C$
- Cartel happens if
 - $\Delta_C > (1 - \delta)\Delta_D$
- $\Delta_C \uparrow \Rightarrow$ cartel more likely
- $\Delta_D \uparrow \Rightarrow$ cartel less likely

The Paper

Effect of Leniency Rule

- Can now squeal: S
- Two effects, both indirect
- 1. Increase other firms costs/reduce revenues for a period
 - Affect behaviour N-C game after squealing: $S = N+$,
 $\Delta_S = N+ - C$
 - 'Mostly' (at relevant param level): $\Delta_S < \Delta_D$ – so not interesting
 - But if not, better outside option \Rightarrow cartel less likely
- 2. Squeal to punish deviations
 - $\Rightarrow D \downarrow \Rightarrow$ Cartel more likely (and higher profits)

Issues and Extensions

Are There More Direct Effects?

- Leniency impact is pretty indirect
- + would seem (usually) to strengthen cartels not weaken them ...
- What about external investigations?

External Investigations

- If fines are retrospective ...
- Cartel value C decreasing over time (if const. prob. of being caught)
- But so is N if no squealing $\Rightarrow \Delta_C$ unchanged
 - So no effect but ...
- With squealing: $\Rightarrow S = N+ \Rightarrow \Delta_C \downarrow \Rightarrow \text{cartel} \downarrow$
- Knowing that at END there will be a 'race to courthouse'
- \downarrow relative payoff today (w/ no cartel today no risk of someone squealing tomorrow)