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

Rufus Pollock
Emmanuel College
University of Cambridge
IIOC 2008-05-17
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: $\Rightarrow S = N + \Rightarrow \Delta C \downarrow \Rightarrow$ 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)