

# 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)