

### Does enforcement deter cartels? A tale of two tails

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**USEFUL LINKS:** [CCP Working Paper 14-6 \(v.2\)](#) (earlier draft) | [CCP blog post](#): 'The deterrence value of competition policy can and should be measured' (Davies S, 17 August 2017)

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#### BACKGROUND

- This paper contributes to the stream of research concerned with the deterrent effect of law with respect to cartels.

#### METHODOLOGY

- The authors investigate how anti-cartel enforcement deters consumer harm.
- A theoretical model of cartel formation is developed to establish the conditions under which deterrence is increasing or decreasing with the harm caused by cartels.
- The model draws on empirical cartel overcharges as a measure of harm, and on time periods when cartels were legal in order to capture a world without deterrence.

#### KEY FINDINGS

- The theoretical model illustrates the conditions under which deterrence increases with harm. The empirical evidence is consistent with low and high harm cases being more likely to be deterred than medium harm cases. In the applied theoretical model this means that the extra gain from colluding is higher/lower than the extra gain from deviating from small/high overcharge cases.
- Generally, a likely explanation is that low-harm cases cannot reduce harm further and will be deterred if anti-cartel laws are enforced (frequency deterrence). On the other hand, high-harm cases can reduce the overcharge to lessen the likelihood of detection (composition deterrence)

#### POLICY ISSUES

- Findings suggest that cartel harm data (e.g. overcharge) from across various countries, or over time, can be analysed in order to draw out the implications for the relative effectiveness of deterrence from a comparison of the tails.

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