Anti-trust and the 'Beckerian Proposition': the Effects of Investigation and Fines on Cartels

An ESRC Research Centre
CCP
CENTRE FOR COMPETITION POLICY

October 2013

Anti-trust and the 'Beckerian Proposition': the Effects of Investigation and Fines on Cartels

CCP Policy Briefing

BACKGROUND

- In order to deter collusion and punish the infringement of competition law, anti-trust authorities run costly investigations and levy fines on detected and convicted wrongdoers.
- The resources committed to anti-trust investigations and the fine level vary across countries.
- It is claimed that different combinations of magnitude of fine and likelihood of detection are substitutable in their deterrence effect: this is the Beckerian Proposition. Since detection depends on costly investigation, it is optimal to minimize detection efforts and impose high fines.
- Recently, the UK Office of Fair Trading faced a budget reduction that may affect detection efforts, while it simultaneously increased colluding firms' fines from 10% to 30% of annual turnover.
- Experimental support for the Beckerian Proposition is mixed in different contexts, and it is not known from a behavioural perspective how effective this type of policy design would be in a market.

METHODOLOGY

- The authors utilise a market experiment to study the effects of magnitude and likelihood of fines on cartel activity, prices and collusive stability.
- In the experiment, 180 participants play the role of a firm in a modified version of a cartel formation game where the probability of detection and the amount of anti-trust fines is varied.

KEY FINDINGS

- In the *absence* of a leniency programme, detection rates and fines are indeed substitutable with respect to deterrence, in compliance with the Beckerian Proposition.
- In the *presence* of a leniency programme, a regime that embodies low rates of detection and high fines reduces the propensity to collude and lowers the overall incidence of cartelized markets significantly more than a high detection and low fine regime.
- Consumer welfare is the highest for a higher fines and lower detection rates regime with leniency.
- There is no support for the claim that a tougher punishment regime may lead to more severe crime.
- Deviation (from cartel arrangements) and reporting rates do not differ significantly between different detection-fine combinations.

POLICY ISSUES

- Findings provide empirical support for the policy move orchestrated by the Office of Fair Trading: antitrust agencies can economize on enforcement costs and achieve a higher degree of deterrence by imposing a higher level of fines.

W: www.competitionpolicy.ac.uk
T: +44 (0)1603 593715
A: UEA, Norwich, NR4 7TJ

UEA University of East Anglia
E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (13-9) and more information about CCP and its research is available from our website: www.competitionpolicy.ac.uk

ABOUT THE AUTHORS

- Subhasish M. Chowdhury is a Lecturer in Economics at the Centre for Behavioural and Experimental Social Science, and ESRC Centre for Competition Policy, University of East Anglia
- Frederick Wandschneider is a PhD Student in the School of Economics.