

MEASURING THE EFFECTIVENESS OF ANTI-CARTEL INTERVENTIONS: A CONCEPTUAL FRAMEWORK

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December 2015

This paper develops a model of the birth and death of cartels in the presence of enforcement activities by a Competition Authority (CA). We distinguish three sets of interventions: (a) detecting, prosecuting and penalising cartels; (b) actions that aim to stop cartel activity in the short-term, immediately following successful prosecution; (c) actions that aim to prevent the re-emergence of prosecuted cartels in the longer term.

The last two intervention activities for tackling recidivism in both the short and longer term have not been analysed in the existing literature. In addition we take account of the structure and toughness of penalties. In this framework the disruptive enforcement activity of a CA causes industries in which cartels form to oscillate between periods of competitive pricing and periods of cartel pricing.

We determine the impact of CA activity on (i) the fraction of time in which a cartelised industry is forced to act competitively (i.e. cartel harm is impeded); (ii) the fraction of those industries in which cartels would have formed in the absence of a competition authority in which they do not form given this anticipated enforcement activity (so cartel harm is deterred); (iii) the price set by those cartels that do form. From this we derive measures of both the total and the marginal effects on welfare resulting from competition authority interventions and show how these break down into measures of the Direct Effect of interventions (i.e. the effect due to cartel activity being impeded) and two Indirect/Behavioural Effects— on Deterrence and Pricing.

We calculate (I) the fraction of potential harm that competition authorities remove and (II) the ratios of the unmeasured Indirect Effects to the Direct Effect that CAs can and do try to measure – though, as we show, what CAs measure does not equal the true Direct Effect. Knowing these ratios a CA could convert whatever measure it had of the Direct Effect of its interventions into an overall measure. We show that the Indirect Price Effect can be negative.

The full working paper can be found [here](#).