

Research Project “Cartel Formation”

Dr. Johannes Paha

The harm done to society by hardcore cartels, who engage in e.g. price fixing, market allocation or customer sharing, is immense. The European Commission estimates that the total harm which hardcore cartels impose on European consumers and other victims ranges from approximately EUR 13bn to over EUR 37bn annually. However, the knowledge to prosecute cartels effectively is often imperfect. In many cases the authorities (or customers) suspect that the cartel began earlier than the documented date, but there is insufficient evidence to substantiate this.

A better (theoretical) knowledge about the process of cartel formation helps to interpret the available evidence more effectively and determine the start date more accurately. Therefore, research on cartel formation is of great importance for practical competition policy. If such research allowed to decide just a single additional cartel case it would ease taxpayers' burden by on average EUR 300m, i.e. the fine collected by the European Commission. This project is designed to explore the features of the cartel formation process.

Researchers in economics typically assume that decisions are made by profit-maximizing firms. Other approaches depart from this assumption and focus on utility-maximizing managers as decision makers whose incentives need not necessarily coincide with those of the firms. Such principal-agent-models – despite being well-grounded in economic theory – have not frequently been applied in studies of collusion. Therefore, it is interesting to analyze in greater detail the incentives of managers to form a cartel. For example, the decisions of managers can be affected by non-monetary factors like experience and education, moral beliefs, and external factors like the business ethics of the firm or the peer group of a manager. More research is necessary how such aspects could be considered in economic models.

Such research creates the opportunity for interdisciplinary work with, e.g., criminologists, sociologists and psychologists in addition to legal scholars. I am looking forward to discuss these topics with you and explore opportunities for joint research.

Yours sincerely,

Johannes Paha