WHEN ARE CARTELS MORE LIKELY TO BE FORMED OR BROKEN? THE ROLE OF BUSINESS CYCLES

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Abstract

The literature presents mixed contributions about the economic conditions under which cartels form and collapse, and about how stable they are across firm-specific and industry-wide business cycles. The relationship between cartel life cycles and business cycles has not been sufficiently analyzed to date. In this paper, we study in depth whether collusion is pro-cyclical or counter-cyclical. We analyze the relationship between cartel startups/breakups and economic cycles using a dataset of sanctioned cartels by the European Commission that were active between 1997 and 2012, after the leniency program had already been introduced. We also double check whether this relationship has changed with respect to the pre-leniency period from 1991 to 1996. Our results show that cartels are more likely to be formed in upturns, but that cartels tend to breakup also in booms. Upturns in economic cycles appear to cause cartel turnovers: existing cartels die while new ones are set up. Collusion appears to be pro-cyclical with respect to cartel creation, while it seems to be counter-cyclical with regard to cartel demise.

Keywords: Cartels; Business Cycles; Business Expectations, Antitrust.

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