Cartels

Other Issues

• Predatory Pricing
• Refusal to Deal
• Tie-in
• Mergers
  • Cartels

A Cartel

• Acme Widgets and Baker Widgets are both sellers of widgets.
• It is tempting for them to get together and act as a cartel.

Economists stress the instability of cartels.
  • Incentives to cheat.
  • Entry

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• In the United States, a cartel is a per se violation of the Sherman Act.
If you have a cartel, don’t go through this analysis, just go here.

Cartels do exist in the United States: Both speeding and drugs are also illegal and continue to exist.

• It does complicate the problems of making the cartel work.

• You cannot use courts to enforce a cartel contract.

• If the contract sees the light of day, you can go to jail.

The Electrical Equipment Manufacturers Conspiracy

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  - Seven officials went to jail for 30 days each, and the companies paid damages of over $4 billion in current prices.
  - The arrangement grew out of a 1930’s arrangement set up by the federal government, under the theory that the Depression would end if prices increased.

  - The law authorizing that arrangement was held unconstitutional, but the firms continued to meet.

- The “phase of the moon” system.
  - Depending on the phase of the moon, one company was supposed to submit the winning bid.
  - Cheating was rampant.
  - GE was losing market share because the firms were undercutting the firm.

- The system came to a complete halt when a DOJ investigation began.

- What caused the breakdown?
  - Was government action necessary?
  - Would the cartel have collapsed on its own weight?
The Electrical Equipment Manufacturers Conspiracy

• The system came to a complete halt when a DOJ investigation began.
• What caused the breakdown?
  – Was government action necessary?
  – Would the cartel have collapsed on its own weight?
• We will never fully know, but the evidence suggests that the cartel was barely surviving.