When Will They Talk? Tacit Collusion vs. Overt Cartelisation in Laboratory Experiments

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In the competition-policy literature, the distinction between tacit and explicit collusion is central. Tacit collusion is a form of market conduct that enables firm to earn supra-competitive profits without communication. With tacit collusion, firms implicitly understand the common purpose of maintaining higher prices and avoiding price wars. Explicitly (or overtly) colluding firms, by contrast, constitute a cartel and talk about prices and quotas.

As fundamental as the distinction between tacit and explicit collusion is, our understanding of the impact explicit communication makes compared to tacit collusion is rather limited. One potential reason for this lack of knowledge is that economic theory (the repeated-game literature) does not carefully distinguish between the two forms of collusion and often gives the impression that one model fits all. Since explicit agreements are illegal and cannot be enforced, the incentives to adhere to collusive agreements are the same with and without communication. This suggests that both tacit and overt collusion can indeed be analysed within the same framework---but this would be at odds with usual distinction in policy.

The research we report is to shed light on these issues. It is about the effectiveness (the value added) of explicit communication. We run a series of laboratory experiments comparing markets with and without explicit (cartel-like) communication. We analyze when and to what extent communication effectively aids collusive practices compared to the baseline situation without the possibility to talk.

Our main treatment variable is the number of firms. We show that the incentives to talk are inversely u-shaped. For a “small” number of firms, the value-added of explicit communication is small; for “many” firms, cartel-like communication does not much improve profits either. In the medium range, the price increase due to explicit talks is biggest. These results suggest that the propensity to form a cartel depends non-monotonically on the number of firms (or concentration), and the usual presumption that fewer firms facilitating (explicit) may be wrong.