

Thoughts on Rational Cartelization Without Collusion

Let's say there's an emerging monopolizer A with price P_a which naturally must be less than or equal to his costs C_a pushing prices down, undercutting two other suppliers with prices P_b and P_c . Logically, C's price is greater than or equal to B's which is in turn greater than or equal to A's.

A has already bumped some number of competitive suppliers off the friction cliff. The only rational cause for A to raise his price before B and C succumb to the cliff is if it is more long-term beneficial for A if C and B to continue to exist. The only situation in which this makes sense would normally be caused by illegal collusion - the end result being A B and C not competing entirely.

However, what if A *does* raise his price, seemingly irrationally, without any communication between suppliers. Because B has not colluded, he does not know that A and C have not done so. In fact, B knows it would be irrational for A to raise his prices otherwise, and there are no regulatory/financial consequences to raising P_b because B has not colluded. (B might even assume A and C will be punished and their competitiveness relative to B may actually diminish).

This means B will happily raise P_b and be correct in doing so. But now C, having gone through a similar thought process, will be absolutely certain A and B have colluded. Up goes P_c .

C, as a member of the sadly fictional species *Homo Economicus*, knows all this because he has perfect information (can go down the theory of mind rabbit hole with A and B too). Therefore, raising P_c is in fact rational. This leads to effects of communication without any actually taking place.

I'll claim the induction is trivial for any number of would-be collusive suppliers with prices higher than or equal to P_c . As such, anti-collusive regulation only barring communication between parties in a perfectly rational economy is not functional.

This means that even if it were possible to prevent communication between nodes in a distributed economic network (such as Squire), blocking that communication would not eliminate cooperation.

In short: cooperation != communication.