

Cartels and Ownership Concentration

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Summary

- ▶ **Question:** study the relationship between cartels (low product market competition) and ownership concentration
- ▶ **Setting:** 63 listed firms in 32 European cartels between 1997-2010
- ▶ **Strategy:** Compare outcomes before, during, and after the cartel is dismantled
- ▶ **Results:**
 - ▶ Top shareholders gradually reduce stakes during a cartel's lifespan, with a significant drop post-breakup.
 - ▶ Among investors, only corporations significantly increase stakes at the cartel's start.
 - ▶ Reason: increased shares by industrial firms may facilitate cartel collaboration.

Summary

- ▶ Works seems to be very preliminary so I hope to be able to contribute
- ▶ Relationship between cartels and product market competition is very interesting!
 - ▶ Most of my comments will be on this.

Comment # 1: Contribution

- ▶ Difficult to see how the paper contributes over the rest of the literature.
- ▶ I propose two solutions
- ▶ First, make the literature review more concise, highlighting what is done differently from other papers. As of now, the literature review of the paper consists of **one third** of the paper.
- ▶ Second, write down explicitly what are the main hypothesis of the paper.
- ▶ For instance, what are the testable implications to determine whether concentrated ownership is positively or negatively correlated with product market competition?
- ▶ Is this relationship explained by agency costs? Then firms who are experiencing higher agency costs should be the ones where effects are stronger.
 - ▶ Measures for agency costs: higher operating expenses, capex, and/or low leverage

Comment # 2a: Empirical Strategy

- ▶ Question: paper compares the effects of firms in a cartel against firms who are not in a cartel.
- ▶ The data, however, only has firms that eventually will be in a cartel (63 listed European firms in 32 cartels)
- ▶ Thus, the who are the “control” firms? I believe they are firms that eventually will be in a cartel, but are not at the moment!
 - ▶ given the recent literature on difference-in-differences and staggered treatment, it would be best to compare cartel firms with firms that are not and will never be in a cartel during the sample
 - ▶ Solution: add non-cartel firms to the sample!

Comment # 2b: Empirical Strategy

- ▶ The paper has 3 main equations, even though only equations 2 and 3 are estimated.
- ▶ Equation 2 is as follows:

$$Top1_{it} = \alpha_i + \beta_1 PRECARTEL + \beta_2 CARTELTREND + \beta_3 POSTCARTEL + u_{it} \quad (1)$$

- ▶ The way this equation is β_2 does not reflect the overall effect on Top1 during the cartel.
- ▶ In fact, if top 1 increases significantly due to the cartel, but it has a downward trend β_2 would be negative.
- ▶ In truth, the average effect of the cartel was to increase concentration.
- ▶ Solution: Add a cartel dummy as well, this will control for the level effect.

Comment # 3: External Validity



- ▶ By looking at the effects of product market competition on ownership using cartels, there might be concerns of external validity
- ▶ Does this result apply more generally (even in firms that are not in a cartel, but in industries with different product market competition).
 - ▶ Firms in a still ongoing cartel (that were not caught)?
 - ▶ Common Ownership vs Product Market Competition

Minor comments

- ▶ The authors should clearly define the variables
- ▶ Equation (1) is not estimated in the paper, even though to me it seems to be the easier one to understand

$$Top1_{it} = \alpha_i + \beta_1 CARTEL + u_{it} \quad (2)$$

- ▶ In the table there is a coefficient for “Cartel*Firms”. It is unclear what this means from reading the paper. Is it number of firms?

Conclusion

- ▶ The paper is promising in its intent to provide further evidence on the relationship between ownership concentration and product market competition
- ▶ They use several datasets, which enriches the analysis
- ▶ Main suggestion: (i) be more clear and upfront about the contribution; (ii) develop the empirical analysis to be able to answer the channels behind the results
- ▶ I wish all the best to this paper and the authors!