Just Another Form of Market Governance

A Grounded Theory of Cartels

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Introduction

The history of capitalism is a history of cartels. The evolution of cooperation and collusion between firms can be traced back to the inception of capitalism. While the importance of cartels, the attitude of governments and economists towards them, and the specific forms they took has fluctuated across time and space, it is difficult to find a country or a time period where they have played no role, despite the increasingly hostile view of governments around the world to them.

Given the continuing importance of cartels in present-day capitalism, a complete heterodox theory of the economy as a whole must include a theory of cartels. This is all the more important because, as will be shown in more detail below, the neoclassical theory of cartels is severely deficient on many grounds. It is deficient because it assumes that cartels abolish competition, while they in reality merely rechannel it; because it assumes that cartels are profit-maximizing entities, while profit maximization has no role in heterodox theory because it bears no relation to the real world; because this assumption of profit maximization implies cartelization to be an aggressive business strategy, when in reality, cartels mostly arise under distressed business conditions in order to ensure a reasonable rate of profit; and because in their evaluation of cartels they compare it to completely fictionary market conditions like ‘perfect competition’ that have no resemblance to the real world and would in any case not depict sustainable situations for the economy.

In developing a heterodox theory of cartels, this paper attempts to answer three basic sets of questions:

1. What is a cartel? How can it be categorized? What are some of the relevant structures of a cartel?

2. Why do cartels exist? What makes them successful, what makes them fail?
3. How are cartels to be evaluated?

These questions are important, because they directly relate cartels to some of the key concepts in heterodox economics, namely social provisioning, the economy and the enterprise as a going concern, the ruling class, and the agency-structure paradigm. That is, in order for the economy to fulfil its role as a system of social provisioning, it must be a going concern, which means that it must have specific structures in place that allows it to produce the goods necessary to continually reproduce the current social structure through time. This also necessitates the enterprise as the most relevant institution involved in the production of goods to be a going concern. Not least because of conscious social agency in the form of decision making by the ruling class – the business and political elite – enterprises are faced with fundamental uncertainty, which makes it essential for the survival of the enterprise that they engage in various kinds of activities to control the internal workings of the company on the one hand, and control market outcomes on the other hand – that is, they have to develop some kind of market governance mechanism. Cartels are one particular set of structures and associated mechanisms that can be put in place by social agency to control the market. Without market governance, enterprises could not be a going concern; hence it is central for a heterodox theory of the social provisioning system to examine cartels as one such possibility and evaluate them regarding what makes them succeed or fail and what their effects are on the economy.

Structures and Mechanisms within Cartels

Cartels will be defined in this paper as any formal or informal, legal or illegal agreement between two or more companies aimed at controlling competition. While this definition incorporates other forms of cartels aside from the 'hard-core' ones (such as price, output or territorial cartels), subsequently the focus will be on the latter type, mostly for lack of empirical investigations of the other types (such as condition, patent, standards, import/export or marketing cartels; see Audretsch 1989 and Fear 2006 for further classifications).

Irrespective of the type of cartel, companies basically have three challenges (Levenstein and Suslow 2006: 44): (1) defining exactly what kinds of agreements (this includes rules and procedures for setting prices and output quotas) they want to have, (2) monitoring the behavior of involved firms to ensure that all members abide by the agreement and (3) dealing with non-members, such as competing firms, suppliers, distributors or governments. Additionally one might add that (4) for the case of illegal cartels, structures and mechanisms would have to be created that ensure that the cartel goes undetected; and that for the case of legally enforceable cartel agreements, the issue of monitoring and punishing cheating cartel members is significantly aided by the state. This makes it obvious that illegal cartels, while partially dealing with similar issues compared to legal ones, will be substantially different from them.

As to the first point, price and output agreements can take varieties of forms. One way to set prices – that is to determine collective prices administratively - is through the weighting of average firm costs and then adding of a common profit margin, such as in the British linoleum, metal window, rope and tire industries. Often these averages are not made over the whole set of costs, but only over a lower subset, which serves to keep low cost producers in the cartel.

Another possibility is price leadership within a cartel, whereby one dominant firm would set the prices and there would be a formal agreement that other firms follow, such as in the matches and electric lamps industry. Similarly, in international cartels, the domestic firm often has the control over prices, resulting in different prices in different markets. (Board of Trade [1944] 1993, Howe 1972/3, Reich 1992, Wilson 1962,)

With regard to output restrictions, one can differentiate between those that restrict sales and those that restrict output. Output restriction is commonly used if the limitation of output expansion is a goal such as has been the case for steel, for example (Barbezat 1989). In either case quotas are most often based on the market share in a certain base year or period (Board of Trade [1944] 1993, Wilson 1962)

Territorial cartels are most often found on international level, whereby markets are either solely or partially reserved for domestic companies while additional sales territories are frequently non-exclusive to any particular group or company. Often, these international cartels are considered vital for the functioning of domestic cartels, as, for example, in steel (Barbezat 1989). Sometimes these territorial divisions are also related to patent agreements, whereby the patent holder would grant the exclusive license for a country in exchange for a cut of the profits and the guarantee that the other company would not enter the patent holder's market (Board of Trade [1944] 1993, see for the electrical lamp industry, Reich 1992).

Various mechanisms have been used in different cartels to prevent cheating. One measure that could be found in a multitude of cartels has been the use of penalties for exceeding output. Often these penalties have then been used to pay companies who produced or sold below their quota; this also frequently involved the setting up of a legal system by the cartel to deal with these fines.

Examples of this procedure include the international steel cartel (Barbezat 1989) the British salt cartel (Iredale 1967), or the vitamin, citric acid and lysine cartels (Utton 2001: 46-53). An alternative form of this would be to make quotas transferable. An even more sophisticated version is to set up a centralized sales agency which collects orders and distributes them in accordance with quota allocations.

If the funds gathered through fines are not allotted to below-quota members, they are sometimes used for preventing entries, such as the creation of a 'fighting fund' by means of which prices can be reduced, without hurting companies' bottom line, to either keep competitors from entering or bankrupting already existing non-cartel competitors. These and other strategies like joint sales agencies have also been funded through member fees in some cases. (Board of Trade [1944] 1993)

Other strategies that could be used both to avoid cheating and to prevent new entry are the creation of excess capacity, which could then be used both as a threat and as an actual punishment mechanism (as has been found in the vitamins industry, see Utton 2011: 47-48); the granting of rebates to buyers if they only buy from cartel members as has been done for example in the citric acid industry (Utton 2011: 49) the hardware industry (Becker 1971) or the bromine industry (Levenstein 1997); or lobbying the government to institute restrictions like anti-dumping measures or tariffs – a strategy especially successful against foreign companies (see Iredale 1967 for salt, Utton 2011: 11-13, 50-51 for the chemicals, ferrosilicon and citric acid industry). Patents and industry standards can be further barriers to entry (see Reich 1989 for electrical lamps).

Finally, the issue of concealing cartels needs to be discussed as a further goal, towards which the structure and the mechanisms within a cartel must be adjusted to. Keeping cartels from being caught is a difficult exercise, not least because it directly intervenes with strategies to solve the other problems mentioned above. Coordination of activity and controlling the various members is benefitted by a centralized and dense structure with frequent interactions and communications, while the need for a successful 'secret society' would require just the opposite. How these conflicting goals are eventually resolved will differ from cartel to cartel. Baker and Faulkner (1993) find in their study of an electrical equipment cartel, for example, that the need for concealment dominates for cartels in standardized products, while non-standardized ones need a bigger amount of communication.

Having discussed the central problems cartels face that shape the structures of cartels, the next issue to be tackled is the question of explaining why companies, given the difficulties discussed above, invest so many resources into the creation of cartels.

Explaining the Existence of Cartels

The standard argument in neoclassical theory why companies engage in cartel behavior is well-known: acquiring monopoly profits. If, by colluding and raising the price above the perfect competition level, they can jointly maximize their profits, they will do so.

Theoretical arguments being put forward against this position include the assertion that perfect competition actually means the absence of competition, since any firm strategies commonly associated with competitive behavior like advertising, differentiating goods, or research and development, are excluded by definition (Moudud 2013) – thereby suggesting that oligopolistic or cartelized industries are in fact more competitive than perfectly competitive ones; further it can be argued that even if perfect competition were attainable, it probably would not be desirable or sustainable, because investment decisions could not be made (Richardson 1965) and market governance cannot be achieved (Jo 2013); and lastly, it must also be mentioned that in a fundamentally uncertain world, profit maximization ceases to have any meaning, since there is no probability distribution on which a maximizing decision could be based.

If cartels are neither profit-maximizing entities nor ones that intend to completely abolish competition, what are they then? Cartels are viewed as one way of controlling the market in order to ensure that companies can remain a going concern. Being a going concern requires a continuous cash flow, which in turn requires stability. In the face of fundamental uncertainty, this stability is absent and has to be consciously created through various control strategies internal as well as external to the firm. One such external strategy is market governance, and one particular variant of this is the creation of cartels (Jo 2013).

As is common with these kinds of things, there is disagreement in when cartels have first been developed. Certainly, collusive behavior among producers of goods could already be found in pre-capitalist times – most notably in guilds, but various authors associate the inception of the modern cartel with the early stage of industrial capitalism, as companies grew rapidly in number and size, thereby increasing instability and decreasing profitability (Fligstein 1990). As Jo (2013) argues, such intense competition can quickly become problematic and question the survival of firms, thereby giving them an incentive to come to terms with each other. The downturn of the 1870s can then be seen as one of the defining moments, when cartels first materialized on a significant scale. (Fischer and Wagenführ 1929: 101-2; Schröter 1996: 132).

For other cartels, the most significant impetus has been the role of the government though. After World War I, governments increasingly found cartels a useful instrument of public policy. Especially in preparation for World War II, countries forced companies into cartels in order to have an institution over which they can command a more direct control over production (Board of Trade [1944] 1993, Fear 2006, Feldman and Nocken 1975).

This implies that the creation of cartels is not an aggressive strategy aimed at maximizing profits, but rather a defensive strategy aimed at controlling production, either to ensure the survival of companies or to guarantee that industrial capacity for war efforts can be maintained. There is much empirical evidence for this notion: almost all the cartels investigated here have been preceded by periods of overproduction, price wars and cut-throat competition (see Aubanell 2004, Baker and Faulkner 1993, Becker 1971, Feldman and Nocken 1975, Iredale 1967, Libecap 1989, Reich 1992; see Utton 2011 for a discussion of 'codes of fair competition' under the National Industry Recovery Act after the Great Depression; see Connor 2001, Schroeter 1988, Casson 1985, Glimstedt 2001 for international cartels).Additionally, in an econometric investigation, Fligstein (1990, Appendix 1) finds that the creation of cartels is correlated with low profitability.

Further, the notion of market governance implies that, contrary to neoclassical theory, it is an impossibility to return to an unmanaged competition once a cartel breaks down or once cartels have been deemed illegal. Once a breakdown of market governance occurs, efforts are immediately undertaken to reestablish it in one form or another (Lee 2013: 168, fn.18). Once again, empirical support for this is easy to find. Freyer (1992), Symeonidis (2002), Fligstein (1990, Appendix 1), Lamoreaux (1985) Hueschelrath and Smuda (2013) and Grand and Thille (2001) all find that industry concentration increased after cartels were either made illegal or found unfit for the purpose of stabilizing the industry. In other studies, one finds that cartel agreements that have broken down are often immediately followed by new cartel agreements (Levenstein and Suslow 2006: 54-55).

Finally, in both the cases of cartels as well as mergers, executive testimonies show that they were not concerned with creating monopoly profits – they argued that something like that would not be possible since it would bring in new competitors. Instead the purpose was to control production to insure a reasonable rate of profit (Fligstein 1990).[1]

While this is true, one should recognize that, while enterprises are not profit-maximizing, they are nevertheless profit-seeking – so if market conditions they themselves created through the active formation of entry barriers allow them to earn profits above and beyond what would be necessary to be a going concern, they will do so. As Stockton and Watkins (1946: 8) note: "Every cartel is defensive to the extent that it need be. Most cartels probably are as aggressive as opportunity permits." However, studies (Board of Trade [1944] 1993, Wilson 1962) show that often cartels that push prices too high break down because of new entries, which implies that prevention of new competition is actually not an easy thing to achieve, thereby lending credence to the testimonies referred to above.

Success and Failure of Cartels

The above analysis of control as the major incentive for companies to engage in collusive behavior suggests a quite significant degree of stability. If it is the objective of both groups making up the ruling class – the political as well as the business elite – to control the market and cartels are an effective way of doing just that, then this suggests that their strategic behavior will ensure that cartel agreements remain in place for a significant length of time.

On the other hand, Stigler's analysis (1964) suggests that cartel agreements are bound to be unstable, because, once a price above marginal costs has been fixed, then the profit-maximizing strategy will be to decrease the price in order to get a larger share of the market.

The available evidence suggests a considerable amount of stability. Levenstein and Suslow (2006) report cartel agreements lasting between 3.7 and 10 years in the cross-sectional evaluations they are considering, with case study evidence implying a somewhat higher duration. A comparable average duration (8.5 years) is found in Hueschelrath and Smuda's (2013) study of 73 EC cartel cases.

In literature on cartels, a multitude of structural factors have been proposed that supposedly affect the stability of cartels. This section serves to empirically evaluate these relations.

Maybe the factor that is mentioned most often is the supposedly beneficial effect that concentration within an industry has on cartel success, since this alleviates the problem of cheating (since it is easier to control a smaller amount of companies) as well as the problem of new entry (since concentration is associated with the possibility of engaging in price wars lethal to new entries).

The evidence for this is rather mixed, however. While several general empirical studies imply that cartels are mostly to be found in capital intensive and hence heavily concentrated industries (Board of Trade [1944] 1993, Fligstein 1990, Appendix I, Hay and Kelley 1974, Mirow and Maurer 1982), others show the opposite relation (Dick 1996, Posner 1970). While several of the specific case studies considered in this paper are about industries with heavy concentration

(Aubanell 2004 for electricity, Barbezat 1989 and Feldman and Nocken 1975 for steel, at least in Germany; Howe 1972 for ropes), one can also find studies of cartels with a multitude of participating companies (Peters 1989 for coal, Iredale 1967 for salt, Baker and Faulkner 1993 for electrical equipment, Audretsch 1989 for food, textiles, stone and clay). It has been argued that this ambiguity might be due to the fact that (a) collusion allows more firms to survive, (b) that industries with a small number of firms can collude without specific agreements and (c) with respect to illegal cartels, that cartels with a multitude of participating firms are more easily detected. (Utton 2011)

The available evidence suggests that while there might be a tendency for industries with high fixed cost and hence high concentration to collude more often, this relation is far from being clear cut. Especially in countries with a more favorable stance towards collusion, low-concentration collusion is often found to be a promising strategy to provide a market for everyone and make even the smallest firms viable (Fligstein 1990: 23). While illegal cartels might indeed have to constrain the number of participants in order to avoid being detected, this is obviously no problem for legal ones.

Similar ambiguity can be found with regards to the question of product homogeneity. It has been proposed that homogenous products help collusion efforts since it is invariably easier to arrive at a common price and to detect cheating when products are similar. While Hay and Kelley (1974) find this proposed relation, the case studies considered include cartels that covered a multitude of different products (Howe 1972, Peters 1989) and still managed to survive for several years. As long as firms can find mechanisms to deal with product heterogeneity, such as joint consultation before tendering (Board of Trade [1944] 1993) it need not be a constraining factor. Once again, the question of legality seems to be important though: as reported by Baker and Faulkner (1993), the steam turbine generator industry had a highly dense and central conspiracy structure due to the need for joint consultation, which was needed because of the heterogeneity of the product. As this increases the likelihood of being detected, product homogeneity seems to be more important for illegal cartels.

Two further factors commonly mentioned are demand fluctuations in an industry and the existence of large customers. Both are supposed to be detrimental to cartel stability by incentivizing cheating (Stigler 1964). Once again, the evidence is inconclusive (Levenstein and Suslow 2006: 61-67). With respect to business cycles, it should be noted that it is, as argued above, exactly times of distress that bring cartels about, because a price war is perceived to be potentially existence-threatening for businesses. So while the incentive to cheat might be higher during a depression, the higher likelihood of retaliation by competitors (a price war) will serve as a disincentive. With respect to large customers, it has already been noted above that one strategy to prevent new entry and keep firms from cheating is to negotiate exclusive selling rights at given prices in exchange for rebates with large customers.

The structural factor seemingly having the biggest impact on the durability of cartels is the ease of entry. Although various strategies have been discussed for this problem as well, it seems to be the hardest to deal with, as both Levenstein and Suslow (2006: 75-79) in their comprehensive review paper as well as case studies considered here (Iredale 1967; Jones 1973; Reich 1992, for the European electrical lamps cartel) report new entries as the most significant destabilizing factor.

The evidence on these structural factors is hence hardly convincing. Apart from barriers to entry, none of these seem to be a really important factor in determining cartel success; most of them can be dealt with through specific strategies that have been discussed in the second section of this paper. However, if these structural factors appear together with a government hostile to collusive efforts, they seem to become much more significant. Government-backed cartels on the other hand are much more stable than illegal ones. For example, Audretsch (1989) reports a multitude of legalized cartels in West Germany existing for several decades; Lopez-Merell and Segreto (2013) discuss the government-backed international mercury cartel which lasted for 35 years; Peters (1989) describes the coal cartel in Germany which went on for 20 years and Libecap (1989) evaluates the government-enforced prorationing of output in the US oil industry that lasted 39 years.

Hence the most important factor external to the cartel seems to be the legality of the cartel and, associated with this, the particular values of the political elite. If cartels play somewhat less of a role in today's time compared to the 1940s, then it certainly is related to the fact that governments around the world have adopted a much more hostile attitude towards cartels. As Fligstein (1990) points out, while the relationship between the state and large firms generally has been to serve the interests of the firms, antitrust laws certainly have been an exception to this rule. This is one area where it is important that one ought not to forget that there are significant conflicts *within* the ruling class.

The other one that needs to be discussed here are conflicts within the business elite. The notion of cartels as a form of market governance implies cooperative action, which is

> "highly contentious since it suggests that going enterprises and the business leaders are collectivists, cooperators at heart, and not the aggressive individualists concerned about nothing else than their own narrow self-interests." (Lee 2013: 168, fn. 14)

From this perspective, it seems much clearer why cartels last, but do not last indefinitely. Breakups of a cartels are often associated with a recartelization soon afterwards (Levenstein and Suslow 2006: 55). Uncartelized periods are frequently used to increase one's market share, in order to be in a position to demand favorable quotas once the cartel is being set up again. By a similar token, expansion into other products or greater geographical diversification can enhance the bargaining clout within cartels. (Board of Trade [1944] 1993, Fear 2006)

It should be emphasized here that this form of competition is different to 'cheating' a la Stigler (1964). Behind Stigler's notion of cheating lies the implicit assumption that a non-regulated competition is a viable option. While companies do seem to renege on their agreements, they do so knowing that the ensuing phase of intense competition can only be a temporary strategy to increase the control over the actions a future cartel will take.

The discussion of the previous section goes to show that what is important for cartel success does not seem to be so much the structural factors, as businessmen have found ingenious ways to deal with issues that might appear detrimental to the stability of a cartel; it is much more the conscious agency of the ruling class, businessmen and politicians alike, that defines how long cartels last. Where politicians are in favor of cartels, and where a cartel culture has been historically developed, reneging on agreements for greater bargaining clout is less of an option and cartels will be much more stable than where cartels are illegal and there are no cultural norms to support them. Hence the most significant determinant of cartel success seems to be, as Tschierschky (1903) calls it, the 'ethnological' or 'personal moment', suggesting once again that an asocial analysis of economic concepts is problematic.

Evaluating the Impact of Cartels

Two basic channels have been proposed through which cartels supposedly have an impact on the economy: through the price and through innovation. Dealing with innovation first, the argument against cartels has been that, by increasing the price and hence the profits of companies, there is less of an incentive to improve the companies' efficiency because there is less of a threat of going out of business. Against this the Schumpeterian argument can be brought up that even if there is only one company in a given market, it feels the pressure of its potential competitors, giving the company an incentive to constantly innovate. Apart from that, it has been argued that innovation requires a lot of resources, which individual firms might not have, making some sort of pooling of resources – as for example through research joint ventures, a good idea. Additionally, information is partly a free good, so that the optimal amount of investment might not be forthcoming (Utton 2011). Also, the sharing of trade secrets might make firms more efficient (Wilson 1962). Price cartels can be justified along similar lines by arguing that "by stabilizing prices at levels that cover average total costs, cartels encourage investment and productivity growth" (Levenstein and Suslow 2003: 85).

Empirical evidence for this is mixed. While Broadberry and Crafts (1992) and Fine (1990) find a negative association between investment and the existence of cartels, Webb (1980) finds a positive one, with Symeonidis (2002) finding no change in innovation. As for case study evidence, the experience of British radio and telephone associations suggest that innovation might be associated positively with cartels, as squeezed profit margins due to the introduction of antitrust laws led to decreased funding of innovations (Lipartito 2000). Similar things can be said of the British electrical engineering industry (Glimstedt 2001). Further, evidence in case studies suggests that cartels actually do not protect high cost firms from having negative profit margins (e.g. for the rope industry Howe 1972, for international cartels Wilson 1962).

With respect to prices, there can be no doubt that cartels lead to increasing prices as compared to the depressed state from which cartels often emerge. It is highly questionable though whether these prices would have been sustainable in the first place. As has been discussed above already, many industries, whose cartel agreements were deemed illegal, subsequently experienced mergers within the industry, also causing an upward effect on prices compared to the unsustainable cut-throat competition situation. Similarly comparing prices during cartels to periods after the breakup of a cartel are problematic because, as has been noted above, firms might engage in short-term price wars in the expectation that a new cartel agreement will soon be found. Comparing prices to prices of different countries has the problem that one would need to control for all the factors that might cause differences in the prices between those countries apart from the existence of cartels. Despite these problems, several studies have carried out estimations of these 'but for' or country-wise price comparisons. In a database of 700 cartel episodes, Connor (2007) comes up with an average of a 25 percent price increase, other studies (see, for an overview, Levenstein and Suslow 2006: 79-81) find similar increases for the specific industries they are investigating. The case studies considered here unsurprisingly also found price increases, but more interestingly from a heterodox perspective, several studies also reported a stabilization of prices under the cartel agreement – stable prices being needed by the company in order to ensure a continuous cash flow that makes the company a going concern. (Peters 1989, Becker 1971, Libecap 1989, Connor 2001, Levenstein 1997)

The evidence suggests that there is not much reason to believe that cartels are any more or less detrimental to the wellbeing of the general public than what would otherwise have been. The effect of cartels on innovation is ambiguous, and while prices increased pretty much always after the introduction of a cartel, it seems likely that without the formation of cartels, industry concentration would have occurred, whereby it is unclear whether oligopoly prices would have been that much different. Market governance in one form or another has to exist for companies to be a going concern; the effects of different arrangements of market governance are probably not too far apart from each other.

So, from a heterodox perspective, the anti-trust focus on cartels seems unwarranted, but at the same time every extension of power to ruling class is problematic. So the conundrum is that market governance is necessary for a capitalist social provisioning system, but at the same time it is problematic for the general public as

> "a managed competition may be the legitimating social mechanism to concentrate ownership of wealth, and control over the social provisioning process, into a smaller capitalist class and corresponding political elite." (Lee 2013: 170)

Conclusion

This paper provided an attempt at an empirically grounded theory of cartels. Starting out from a discussion of the various forms cartels can be shown to take in the empirical literature, the findings of the next three sections are the following:

First, the purpose of cartels is not to jointly maximize profits; it is rather, as the title of this paper suggests, just another form of market governance. Cartels are all about controlling the market in one way or another; this is necessary for the business enterprise to be a going concern and it has also been found to be useful for governments, especially for extending the control over a country's productive capacity in preparation for a war. This insight suggests that absent cartels, other mechanisms providing market governance will be found to control the market.

Secondly, the success or failure of cartels does not seem to depend so much on the structure of the market as on the attitudes of businessmen and politicians towards cartels. Structural factors can be dealt with by adjusting the specific form the cartel takes. Where historically a 'cartel culture' has developed among the ruling class and cartel agreements are not only legalized but also legally enforceable, cartels exhibit an impressive degree of stability; the opposite is true where the attitude towards cartels is hostile.

Finally, given the fact that, without cartels, companies would employ a different type of market governance, it is unlikely that cartels have a particularly bad influence on the economy through too little innovation or too high prices. This argument is amplified by the always existing threat of new entries into the market, which seems to be one of the most important factors leading to cartel breakdowns.

All this leads to an important conundrum: if market governance is necessary for the capitalist social provisioning system to function, but it at the same time concentrates wealth and power in the hands of the ruling class, how is one supposed to evaluate this? One might very well come to the conclusion that one can have capitalist production dominated by the ruling class; or one can try to crush all forms of market governance, but one will thereby make the capitalist social provisioning system an impossibility. This seems to imply that, from a socially progressive perspective, objecting to the various forms of market governance (such as cartels) without calling the whole system of capitalist social provisioning into question is short-sighted.

Notes

1. An interesting question not answered in this paper is why one form of market governance is preferred over another. In line with the main thrust of this paper it might be argued that cartels are preferred over mergers because companies are 'coupled more loosely' (Grabher 1993) that way, which allows the individual businessmen in charge a higher degree of autonomy and hence control. For lack of evidence, this notion could not be verified though.

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