SHOULD CHEAP TALK MESSAGES MAKE ANTITRUST AUTHORITIES UNEASY?

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Antitrust authorities have long frowned upon the exchange of price information between companies, even if such communication is non-binding “cheap talk,” since communication can facilitate collusion.

The theoretical literature, however, makes contradictory predictions on the ability of cheap talk to facilitate collusion between players. On the one hand, market outcomes can potentially be improved when non-binding messages are transmitted, especially in the case of self-committing messages. On the other hand, the non-binding nature of cheap talk lends itself to a situation where messages dissipate into noise; when the receiver knows that the message is not binding on the sender, the tendency to disregard such messages leads to uncommunicative equilibria, which foils the emergence of any collusive outcomes.

Similarly, prior experimental literature does not fully support the misgivings about non-binding messages harbored by antitrust authorities. Reviews of experimental research on cheap-talk games too report mixed results on the effects of cheap talk.

With this background in mind, we explore the effect of non-binding signals in an experimental design deliberately meant to facilitate collusion. Using a demand schedule that supports the emergence of collusive equilibria, we implement experimental markets with and without cheap talk, and compare the market outcomes under these two conditions.

We find that when sellers are given the opportunity to engage in non-binding cheap talk before they set prices, the contract prices are in fact lower than in control-condition markets where sellers do not have the opportunity to talk cheap. These findings provide preliminary evidence that the wariness with which antitrust authorities view non-binding communications between companies may not be fully warranted.