

# Advances in the Economics of Law Enforcement: Antitrust, Corruption, Financial Fraud, Organized Crime

GIANCARLO SPAGNOLO\*

Stockholm School of Economics, November 2006  
PRELIMINARY PROGRAM

## Abstract

The modern, formal economic literature on the optimal enforcement of the law developed rapidly in the decades following the seminal analysis of Gary Becker (1960). However, as its seminal paper, this literature focused almost exclusively on single agents committing isolated crimes. Optimal law enforcement against organized crime, i.e. multiple wrongdoers collaborating repeatedly on criminal activities, was therefore not dealt with in proper depth. Organized crime includes, among other crimes, cartels, corruption and financial fraud, three among the forms of crime most relevant to economists. Only very recently economists from other traditions (mainly industrial organization) started analyzing optimal policies against these kinds of crimes with the appropriate dynamic modelling tools, also pushed by the many, large international cartels discovered in the nineties, and by the large financial scandals of the last years. This minicourse will deal with this new literature, and with related literatures on the optimal design and enforcement of the law. Microeconomics I and II and Game Theory are the only courses necessary to properly follow the minicourse.

---

\*Stockholm School of Economics, Consip Research Unit, and CEPR. E-mail: *giancarlo.spagnolo@tesoro.it*, *giancaspagnolo@yahoo.com*.

# **1 Introduction (2 lectures)**

## **1.1 The economics of law enforcement**

1. Aims of Law Enforcement: Deterrence, Desistance, Prosecution, Welfare
2. Analogies with private contract enforcement: private versus social contract, law as an incentive scheme, preventing everyday's hold ups
3. Traditional Economics of Law Enforcement: the main trade offs
4. Self-reporting in this literature

## **1.2 Novel issues with organized crime**

1. Definition and features of OC, like corporate fraud or cartels or corruption
  - ICs,
  - Information available
2. Novel kind of constraints and deterrence
3. Novel modeling instruments needed

# **2 Fines, Leniency, Rewards: Theory and Evidence (2-4 lectures)**

## **2.1 Theories of leniency and whistleblowers in antitrust**

- Motta-Polo, Spagnolo, Aubert-Kovacic-Rey etc.

## **2.2 Experimental and econometric evidence**

- Experiments: Apesteguja-Dufwenber-Selten, Hinloopen-Soetevent, etc...
- Empirical: Brenner, etc.; Empirical methodology: Harrington
- Natural Experiment

## **2.3 Related literatures**

- Collusion in organization and its deterrence: From Tirole 1986 to Leppamaki 1997
- Whistleblowers in corporate crime and sport
- The False Claim Act

## **2.4 Implication for optimal sanctions and open issues**

- Buccirossi-Spagnolo vs Connor
- Soft information, Probability of detection

### 3 Closely related issues

#### 3.1 Governance, managers and corporate crime

- ABA Buccirossi Spagnolo (2006b), Mullin-Schnyder (2005), Friebe-Guriev (2005),
- Financial Fraud and Auditing, Immordino-Pagano (2006), Peyrac-Quesada (2005)
- Arlen (1999) and liability regimes...

#### 3.2 The problem of judgement-proofness

- Shavell (Rand 2005), Che-Spier (2006), Hiriart-Martimort (2006)
- Spagnolo (2006) on Debt and Collusion,
- Evidence and open issues

#### 3.3 More endogenous design of organized crime

- Bar-Isaac and Baccara (2006)
- Zenou et al. (Econometrica 2006), etc.

#### 3.4 Corruption

- Intro from Jakob Svensson's JEP (2006)
- Fresh reflections on what is special about corruption and how to fight it

#### 3.5 If we have time: contract law enforcement

- Anderlini-Felli-Postelwhite (2005, 2006), Gennaioli & co. (2005, 6), McLeod (2005)

## References

- [1] Beccaria, Cesare, (1763), *Dei Delitti e Delle Pene*, available at <http://www.filosofico.net/index024.htm>, available in English as *On Crimes and Punishments and other Writings*, edited by Richard Bellamy, New York: Cambridge University Press, 1995.
- [2] Buccirossi, P., and G., Spagnolo, (2006), "Corporate Governance and Collusive Behavior", forthcoming in W.D. Collins (Ed.), *Issues in Competition Law and Policy*, American Bar Association, Antitrust Section.
- [3] Hammond, Scott D., (2005), "An Overview Of Recent Developments In The antitrust Division's Criminal Enforcement Program," available for download from <http://www.usdoj.gov>

- [4] Hammond, Scott D., (2004), "Cornerstones of An Effective Leniency Program", U.S. Department of Justice, available for download from <http://www.usdoj.gov>
- [5] Howse, Robert Loyd, and Daniels, Ronald, (1995), "Rewarding Whistleblowers: Costs and Benefits of an Incentive-Based Compliance Strategy", in R. Daniels and R. Morck, eds., *Corporate Decisionmaking in Canada* (Calgary: University of Calgary Press, 1995) (Industry Canada Research Series)
- [6] Polinsky, Mitchell, and Shavell, Steven, (2000), "The Economic Theory of Public Enforcement of Law," (1988), *Journal of Economic Literature*, March, 45-76.
- [7] Polo, Michele, (1995), "Internal Cohesion and Competition Among Criminal Organisations ", in Gianluca Fiorentini and Sam Peltzman (Eds.) *The Economics of Organised Crime* (Cambridge: Cambridge University Press).
- [8] Spagnolo, G., (2006), "Leniency and Whistleblowers in Antitrust," forthcoming in Bucicossi P. (Ed.), *Handbook of Antitrust Economics*, MIT Press, Cambridge, MA.
- [9] Rey, P., (2003), "Towards a Theory of Competition Policy," in Dewatripont, M., Hansen, L.P., Turnovsky, S.J., (Eds.), *Advances in Economics and Econometrics: Theory and Applications - Eight World Congress*, Vol. II, No. 36, Cambridge University Press, 82-132.
- [10] Werden, G.J., Simon, M.J., 1987. Why Price Fixers Should Go to Prison. *The Antitrust Bulletin* 32, 917-937

**NB: All these are non technical background readings highly relevant to the various lectures. References to the recent models we will discuss and to further material will be added within one week from the beginning of the minicourse.**