

Regulation of Government Contracts

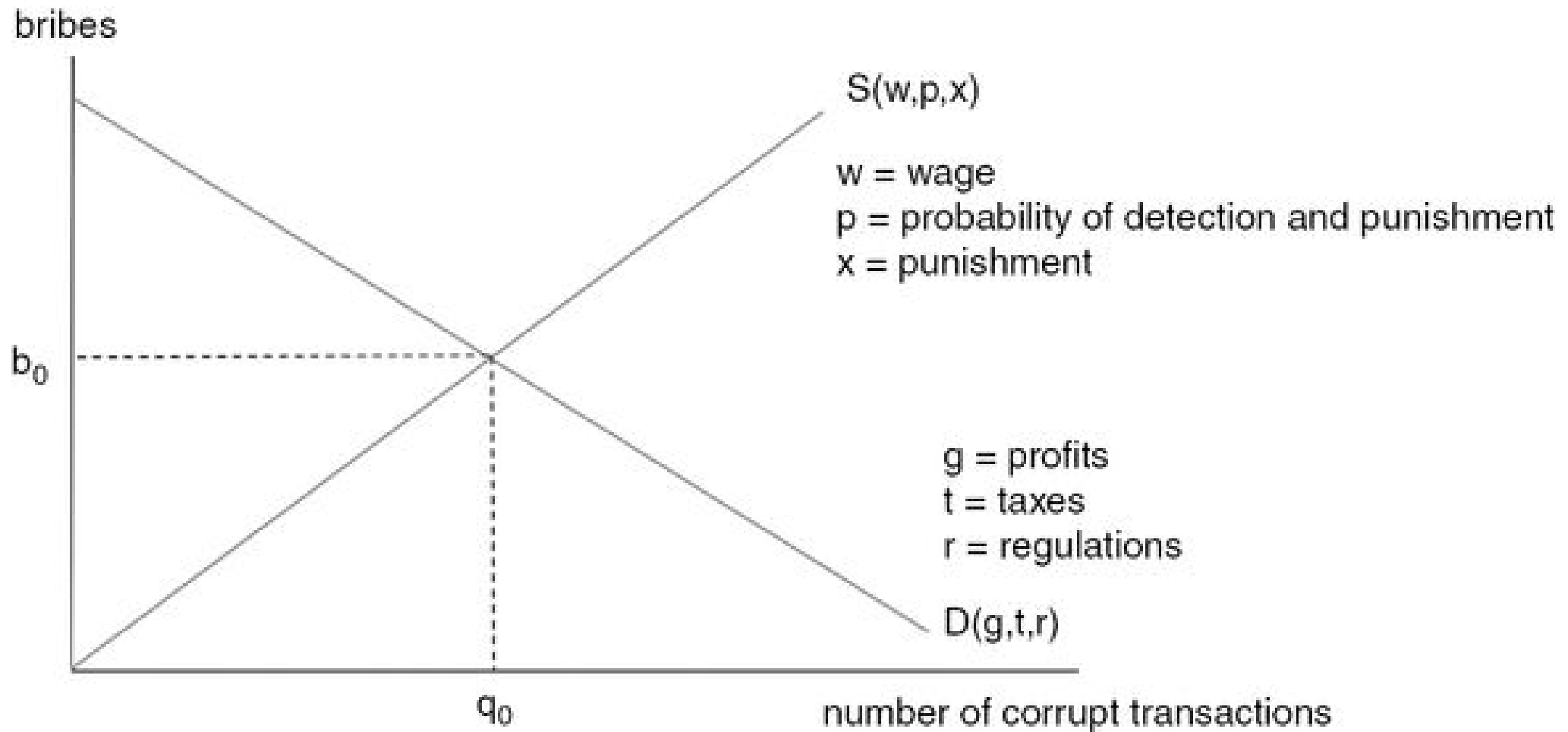
Regulation of Public Contracts

Economics of Government Contracts

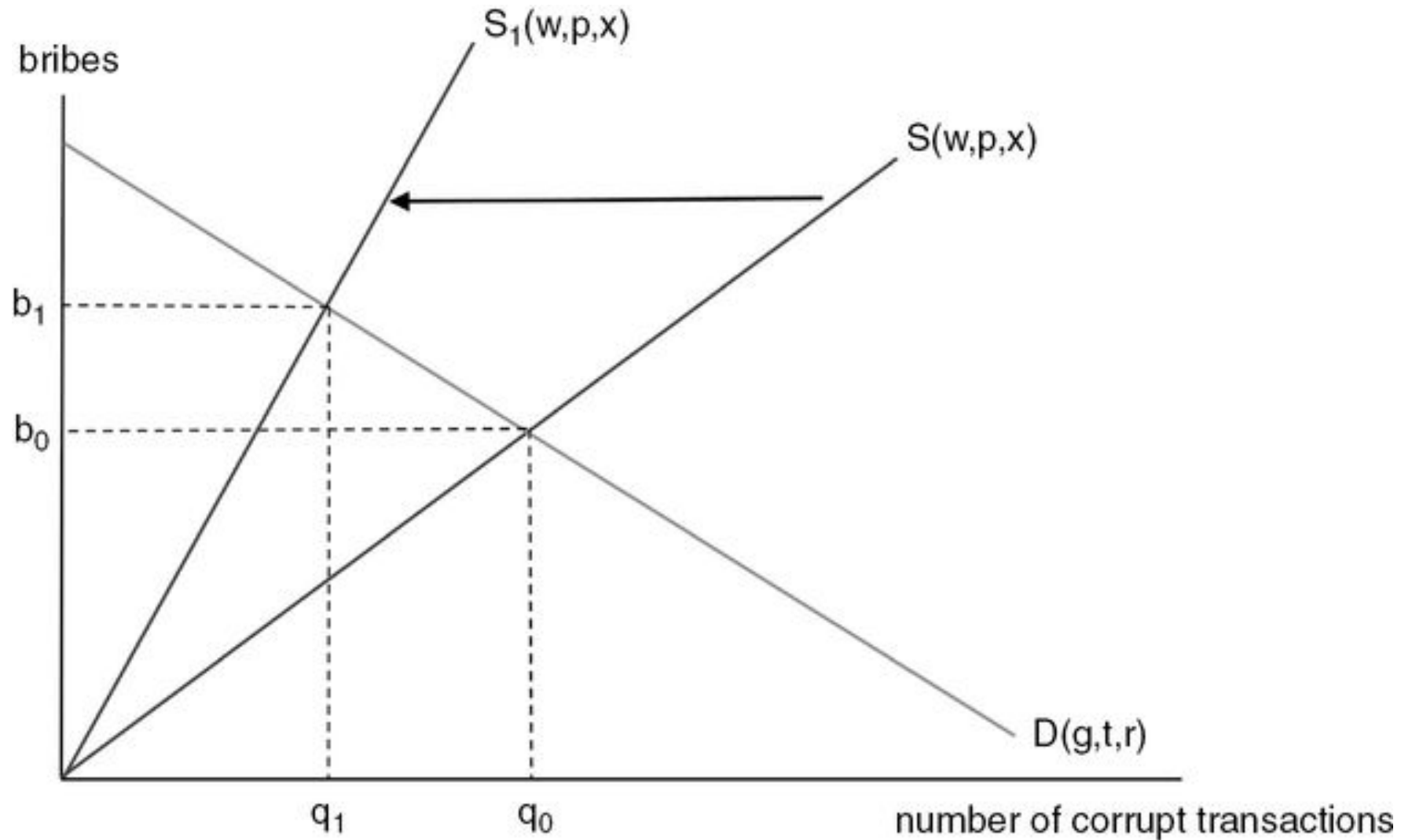
# Agenda

- Introduction
  - Incentives of corruption
  - Different approaches and remedies
- ...

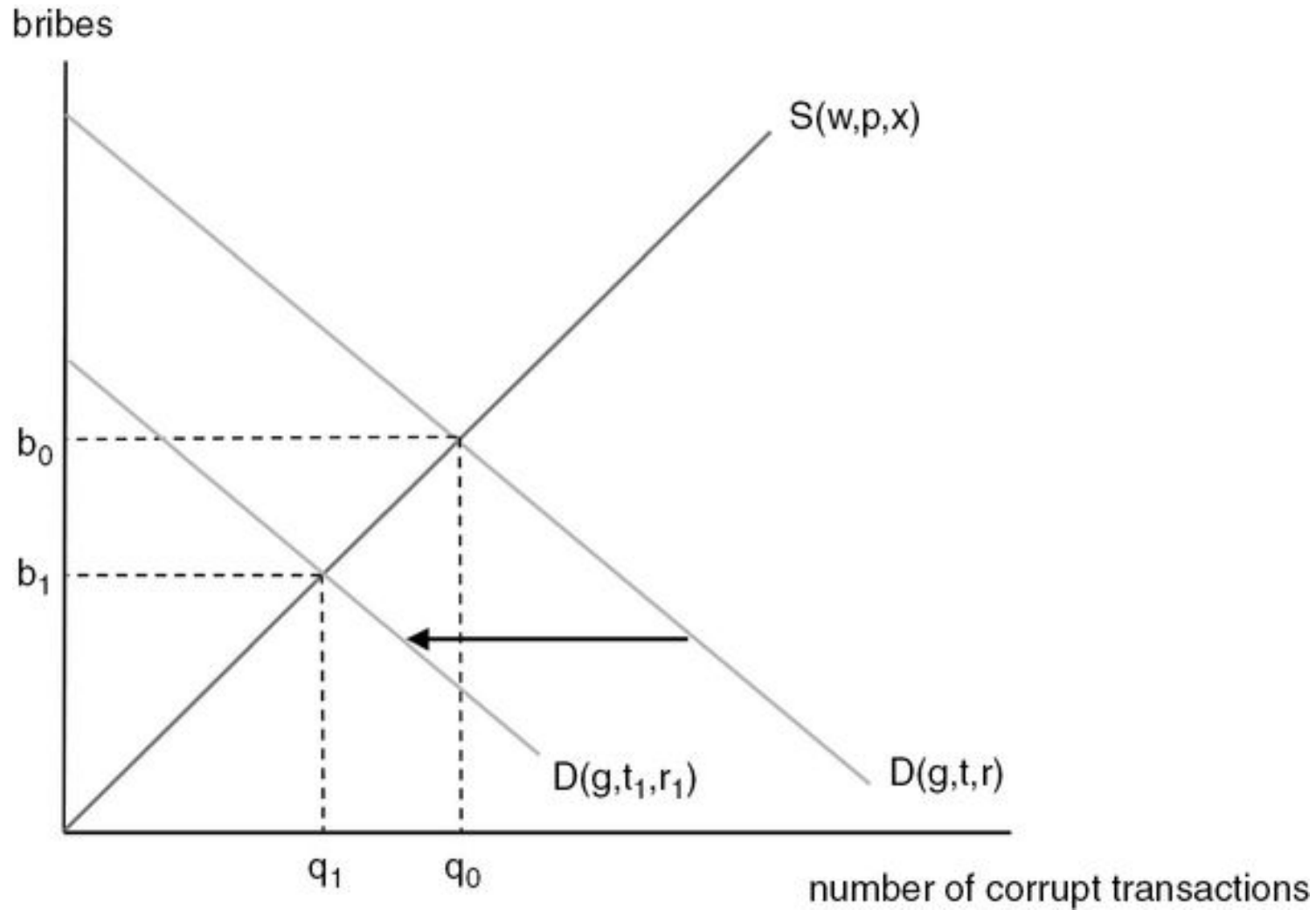
# Bureaucratic Reform or Deregulation



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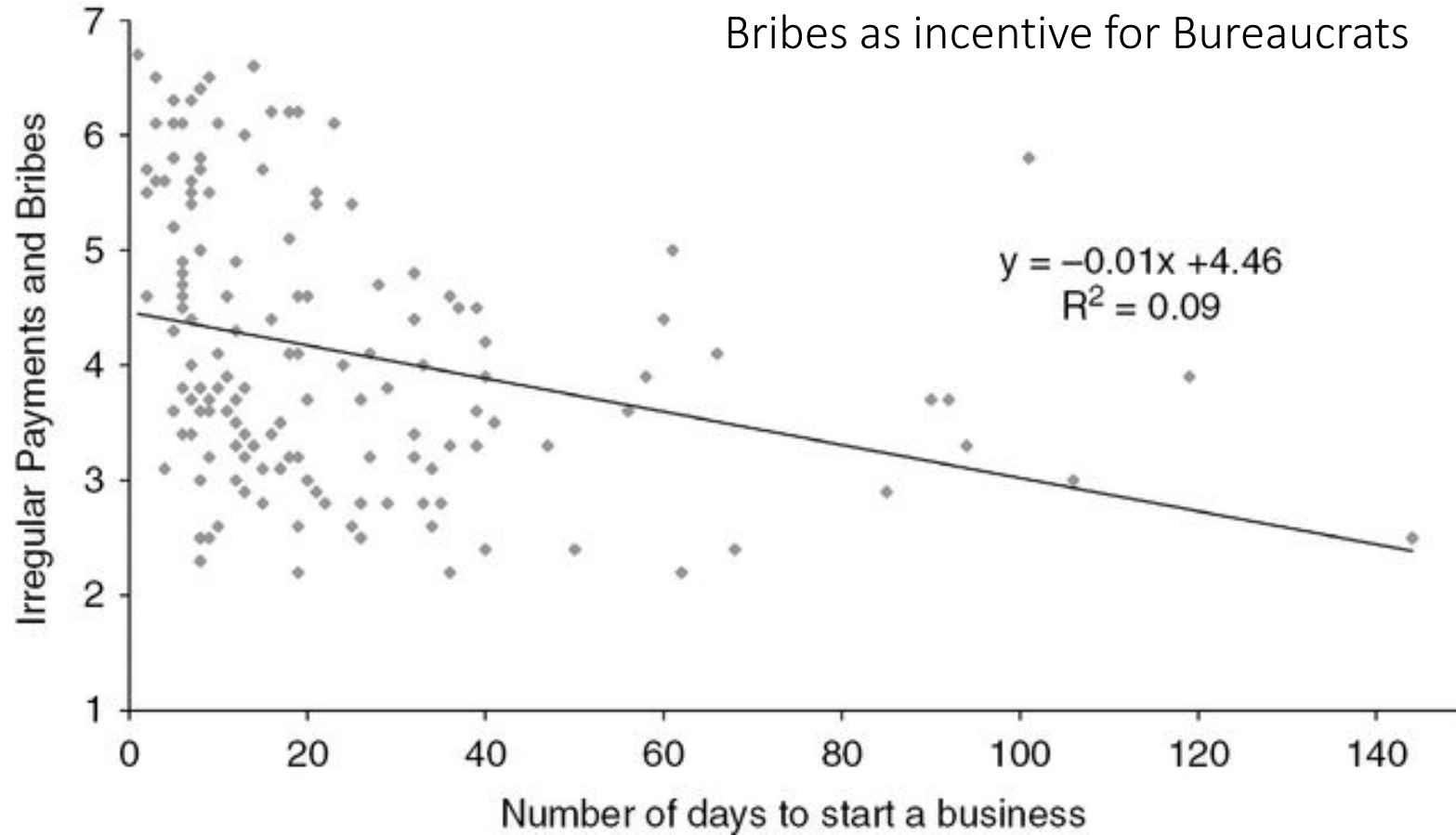
# Bureaucratic Reform or Deregulation



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No bribery

Frequent bribery



# Bureaucratic Reform or Deregulation

Deregulation  $\supseteq$  Bureaucratic Reform

- Eliminate subsidy program  $\rightarrow$  the bribes that accompanied it will disappear
- Decriminalization of drugs proved useful (drug wars)
- E.g. Germany and New Zealand, among others, have legalized

# Bureaucratic Reform or Deregulation

Deregulation works? Not always

- Pollution of the air and the water, market tests and efficiency may imply regulation, not deregulation
  - Deregulation of the drug market in Colombia → widespread fraud (Husmann and Rivillas 2014)
  - When Intense control necessary
  - When equity matters too much
- regulatory redesign that can permit the more cost-effective achievement of statutory goals

# Corruption Disequilibrium or Suboptimal

Bad rule is not efficient

Bad rule  $\succcurlyeq$  No rule

Why we join?

		<b>Player A</b>	
		<b>Bribe</b>	<b>No bribe</b>
<b>Player B</b>	<b>Bribe</b>	5 5	4 7
	<b>No bribe</b>	4 7	6 6

# Libertarian Approach

corruption → symptom of an intrusive, meddling state that systematically reins in the free market and undermines entrepreneurial activity and competition.

Solution → reduce the state to its bare bones so that it does little more than protect private property and provide security

Gary Becker → “To Root Out Corruption, Boot Out Big Government,”

# Other Approaches

Ethnographic → There is no corruption, instead:

Informal, friendly social contacts are conducting

Bribes assure a friendly judge

Sympathy with caught person based on bribery → Dynamic culture

Grand corruption → Confront corruption at the top of the state hierarchy

# Remedies & Caveats

- **Contractarian versus command and control**

- ✓ Dana (2018)

- Contractarian ↔ traditional command-and-control approach to environmental regulation
- contractarian approach, has potential costs as well: decreased participation in the regulatory process
- Congress must address
  - any shortcomings of the contractarian approach and
  - strike a balance between the approach's enhancement of localized environmental regulation, on the one hand,
  - and its potential to cause regulatory entrenchment and decreased public participation, on the other.

- **PPP not always socially efficient**

- ✓ Nobel Laureates Oliver Hart and Bengt Holmström describe why:

- it is not efficient to privatize schools or prison!, though it is for building a hospital
- PPP is good if the quality of the service can be well specified in the initial contract

- ✓ Greco (2015)

- the scope for PPPs → overrated (or underrated) if
- the social benefits of infrastructure quality are large (or small)
- may be optimal for the government to restrict the admissible governance of private consortia.

# Remedies & Caveats

- **Investigative Reporting**

- Media → Fines and imprisonment if the “insult” political elites
- International watch → are unlikely to welcome investigative reporting and whistle-blowing from any source
- The role of Norms

- **International Institutions**

- Critics → Outside meddlers seeking undermine sovereignty

# Remedies & Caveats

- **Contract and mechanism design**

- An optimal contract → Information technology
- Flexibility → Renegotiation clause

- **Caveats**

- Not always work and needs research and practice!
- Auditing → Learning by doing if politically stable
  - Aggregated audit may have no effect on incentives

# References

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