More than one fifth of all public procurement contracts in the European Union are awarded to the only firm that submitted a bid. This means that there is no competition for public procurement contracts worth about 2.5% of the European GDP. Given that we know that competition is important to ensure that tax-payers do not pay unfairly high prices and the quality of delivered work is up to the market standards, this is an important issue for the whole Europe.

My estimates from the Czech Republic show that these contracts with no competition are overpriced by 10%. Similar results are obtained for procurement markets of homogenous goods. This suggests that the high prices are unlikely to be driven by quality differences. These estimates are obtained from an analysis that exploits a reform that made public procurement contracts with just one bid submitted illegal.

This brings immediate policy implications. A simple reform that makes the award of such procurement contracts illegal can lead to direct savings. The mechanism behind the decline in prices is that when public procurement officers know they need to attract more than one bidder, they start to provide longer time-spans for firms to prepare a bid and more comprehensive descriptions of public procurement contracts such that firms have an easier time preparing their bids. More firms bid and prices decline.

Interestingly, firms with political connection and anonymously owned firms appear to be able to charge the same prices despite the reform – i.e. despite the requirement of the minimum two bidders. This suggests that the procurement market still suffers from significant favouritism towards particular firms. Further research is needed to understand how these (adverse) effects can be eliminated.

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