

Discussion of 'Implicit Contracts and Flexibility in Public Procurement'

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Really nice paper!

Amongst other things, paper shows:

- Explicit contract clauses can be left unenforced to sustain implicit contract
- Rigid contracts are an efficient way of doing this

Particularly relevant for PPPs since:

- Contracts are very long-term
- Discretionary transfers difficult

Do we need Bureacratic Control?

Wasteful tasks / rigid contracts work well as enforcement mechanisms since costless not to enforce

- ⇒ Rigid contracts better at enforcement than discretionary payments?
- ⇒ Do you need to assume 'Bureacratic Control'?

Does this suggest the best rigid contracts are those that are potentially valueless rather than those that are potentially 'less valuable'?

Why do we have Bureacratic Control?

Is it good policy to ban discretionary payments but allow contract non-enforcement?

- Are discretionary payments more corruptable than contract non-enforcement?
- Are there restrictions we can place on contract non-enforcement that reduce corruption?

Optimal 'haggling' costs?

In the paper, 'haggling costs' (z) are exogenous

- To a certain extent, z can be influenced by policy
- Increasing z increases the potential of implicit contracts but also increases the cost of spot contracts
- What is the optimal level of z ?