

Konkurrens, kvalitet och favorisering i tillhandahållandet av offentlig service

Competition, Quality and Favoritism in the provision of public services

We had our main funding from the Swedish Research Council and complementary founding from the Swedish Competition Authority.

The project aimed to analyze theoretical and empirical aspects of the provision of public services by means of public procurement, in order to increase the efficiency of the Swedish and the European procurement systems. We compared in-house provision, traditional procurement and voucher systems, with empirical applications to care of elderly, other welfare services and e.g. cleaning services. A main focus has been hard-to-quantify quality, which is essential for welfare services and also for many other products.

Procurement results in strong ex-ante competition in measurable dimensions; voucher systems give better ex-post competition in quality dimensions; in-house production gives more control. Recent legal reforms emphasize transparency in procurement, giving procurers less scope to rely on reputation, past performance and other soft criteria. We have relied on quality indicators at the establishment level collected by the National Board of Health and Welfare (Socialstyrelsen), public age-specific mortality data at municipality level and data on the model of provision collect by ourselves to empirically assess quality in care of elderly.

We have extended Lundberg's existing dataset on cleaning procurement, which pre-dates reforms of the Public Procurement Act, to the post-reform period. The extended dataset will allow us to assess the impact of the reforms and to test two rival explanations for selection of non-low bidders as the winner: favoritism and quality preferences.

Bergman, Johansson, Lundberg & Spagnolo: Find that, contrary to expectations, quality slightly increases following the introduction of competitive procurement and outsourcing of elderly-care services, as measured by mortality. The cost does not increase, suggesting that private provision is more efficient also for this type of service.

Bergman & Lundberg (2012, 2013, 2014): The 2013 paper uses a simple analytical framework to analyze scoring rules used in practice, propose efficient scoring rules and find, in an empirical sample, that logically inconsistent rules are often used in practice. The 2012 paper reports preliminary results from a survey directed to procuring authorities; the 2014 paper provides a more complete analysis of the survey. A main finding is that procuring authorities appear to respond according to theoretical expectations when facing quality uncertainty (moral hazard) and cost uncertainty, although the influence of local traditions on the choice of bidder-selection method is strong.

Hyytinen, Lundberg & Toivonen: Find that new and stricture procurement rules resulted in the lowest bidder winning more often and in a smaller average price premium for the winning bidder, relative to the lowest bidder. However, prices did not change.

Bigoni, Spagnolo & Valbonesi: Address the use of bonuses and penalties to maintain contractible and non-contractible quality in an experimental setting, finding that both mechanisms boost efficiency in contractible dimensions with only mild crowding-out of non-contractible quality, but that penalties work better, contrary to what is observed in employment environments, which justify their dominance in procurement.

Iossa, Spagnolo & Vellez: Discuss the crucial role of the public sector in designing and imposing standardized contracts, monitoring their compliance, disclosing contractual information to the general public, and transferring risks to the private sector in order to reduce the likelihood of PPP performance failure.

Iossa & Spagnolo: Explain the surprising and rather common practice of not applying deductions and other contractual penalties present in procurement contracts as a second-best form of adaptation to non-contractible quality needs or changes in needs. (Partially funded by this project.)

Calzolari & Spagnolo: Addresses the issue of non-contractible procurement quality and the trade offs between its enforcement, requiring discretion and under some circumstances restricted competition, the needs to competitive screen suppliers, and the ability of supplier to restrict competition through bid rigging. Several new results emerge, including the identification of an additional trade off between reputation and collusion in procurement. (Partially funded by this project.)

During this project, we have begun working on a new dataset that contains detailed information extracted from the call-for-tender documents for procurements of the management of nursing homes. The information includes i.a. what scoring rules were used, the length of the contract and what mechanisms are used to enforce compliance with the contractual terms. We plan to expand the available dataset and complement it with telephone interviews to the municipalities' managers of elderly-care procurement and quality management units, possibly in cooperation with researchers from the field of caring sciences.

Another possibility is to apply panel-data econometrics to the National Board of Health and Welfare's (Socialstyrelsens) annual surveys of patient/customer satisfaction. Only since the 2013 survey is this data available at the production-unit level; it is available at the municipal level since 2008. This data can be used to analyze the effect of introducing user-choice systems.

As documented below, six papers have either been submitted or are very close to submission. Hence we expect that the number of peer-reviewed journal publications resulting from this project will have increased significantly within a year.

Books:

Bergman, Tobias Indén, Sofia Lundberg & Tom Madell, *Offentlig upphandling. På rätt sätt och till rätt pris*, 2011, Studentlitteratur, ISBN 978-91-44-06840-4

Articles:

Bergman & Lundberg, Tender Evaluation and Supplier Selection Methods in Public Procurement, *Journal of Purchasing and Supply Management*, 2013, 19(2): 73-83.

M. Bigoni, P. Valbonesi & Spagnolo, Sticks and Carrots in Procurement, accepted for publication, the *B.E. Journal of Economic Analysis and Policy*.

Contribution to anthology

Bergman & Lundberg, Sourcing for government goods and services: Theory and evidence from Swedish Cities and Municipalities, in *Charting a Course in Public Procurement Innovation and Knowledge Sharing*, 2012, (Eds. Gian Luigi Albano, Keith F. Snider and Khi V. Thai), PrAcademics Press, Boca Raton, Florida. ISBN 0-9668864-7-X

Spagnolo, E. Iossa & M. Vellez, The Risks and Tricks in Public-Private Partnerships, in Analysis of Competition Policy and Sectoral Regulation (Eds. M Peitz & Y Spiegel), 2014, NOW publishers

Submitted

Bergman, Per Johansson, Lundberg & Spagnolo, Privatization and Quality: Evidence from Elderly Care in Sweden

Bergman & Lundberg, Tendering Design when Price and Quality Are Uncertain. Theory and Evidence from Public Procurement

Ari Hyytinen, Lundberg & Otto Toivanen, Integrity in Public Procurement: Evidence from Cleaning Contracts