

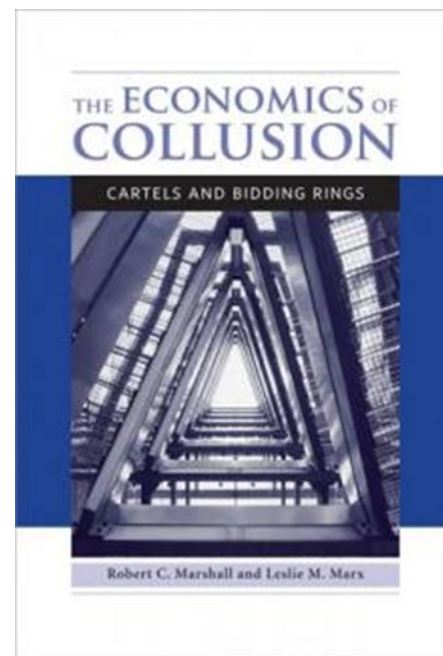
# Collusion in Government Procurements

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# *The Economics of Collusion: Cartels and Bidding Rings*

- Part III concerns bidding rings
- Part IV, Chapter 12 – detection of collusion at auctions and procurements
- Overview
  - Basics of Economics of Collusion
  - Anti-collusive Procurement Design
  - Detecting Collusion



# Basics of Economics of Collusion

- Explicit collusion
- Central problem – secret deviations by members
  - Structures needed to avert secret deviations
  - Monitoring of one another is part of averting secret deviations
  - Transparency helps cartel implement structures and avert secret deviations

# Transparency in Procurement

- Transparency in government procurements is a mandate. Why?
  - Unjust favoritism for specific vendors (arises for a number of reasons)
  - Informing losing bidders, who often invest quite a bit to formulate a bid, why they lost, is “fair”
  - Reaction to idiosyncratic scandals by higher level appointees and elected officials is greater transparency
    - Lack of transparency is “unfair” , and gov’t officials are held responsible
    - Collusion by bidders is viewed as the bidders’ responsibility
    - But isn’t the government responsible for a procurement design that facilitates collusion?

# Transparency facilitates collusion

- Transparency regarding bids and outcomes is the ally of collusion
- Compared to a lack of transparency
  - Solves many difficult monitoring problems for a cartel
  - Secret deviations by cartel members are more visible
- If bidders are dominantly informed about characteristics of item being sold/procured, then secret reserves may be better

# Anti-collusive Procurement Design

- Use first price
- Do not reveal bids after the auction/procurement
- Do not reveal outcomes after the auction/procurement
- If bidders are better informed about item, then use secret reserves
- Allow for multiple bids with disguised identities, if possible
- Hold auctions/procurement at long irregular intervals

# Detecting Collusion

- Plus factors
  - economic actions and outcomes, above and beyond parallel pricing by oligopolistic firms, that are largely inconsistent with unilateral conduct but largely consistent with explicitly coordinated action
- Super plus factors
  - strong inference of explicit collusion

# Detecting Collusion

- Some plus factors are super plus factors, such as
  - Interfirm transfers (such as “knockouts”, subcontracting)
  - High bids and high profits in an industry with excess capacity
  - Sharing of sensitive competitive information
  - Changes in sales force incentives to “price before tonnage”
  - Dominant firm conduct in an industry without a dominant firm (for example, a non-ring firm cannot bid because it was denied access to a critical factor input)
  - Actual price significantly exceeding but-for price



# Summary

- Procurement design that focuses on transparency has the unintended consequence of facilitating collusion
- There are conducts and outcomes that lead to the strong inference of collusion – there should be greater attention paid to these