Discussion of “Renegotiations and Contract Renewals in Public Private Agreements. An Empirical Analysis”

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Contract renegotiations can take place because:

- efficient adaptation to new/unforeseen conditions
- rent-seeking

Idea of the paper:
Can test the role of renegotiations by looking at the relation between such renegotiations and contract renewal

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The authors find:

- For concessions:
  - no evidence that avoiding renegotiation leads to more renewals
  - renegotiating early is related to fewer renewals, but renegotiating at the end leads to more renewals
  - more renegotiations per year is related to more renewals
  - renegotiation of quality is positive, but renegotiation of tariffs, investment, or financial equilibrium is negative
  - the number of dimensions renegotiated is also positively related with renewals
  - having multiple contracts also impacts positively the probability of renewals

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Contributions

- New interesting data set
- First attempt to identify empirically the motivations for renegotiation
- This evidence is consistent with the interpretation of renegotiations as being efficiency-enhancing
  - important for our understanding of contracting practices
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- Omitted variables:
  renegotiation may be a proxy for the complexity of the project (and hence, the degree of competition in the allocation of such contracts).

- Corruption:
  bribe for politician (improve service to help them win an election)

- Endogeneity / reverse causality:
  contractors foresee the probability of renewal, and renegotiate accordingly
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  - exploit time series
  - do we see more renegotiation after a change in local government?
  - what type of renegotiation?
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Comments (3)

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