

# Winning by Default: Why is There So Little Competition in Government Procurement?

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Abstract. Government procurement contracts generally garner a small number of bids, and it is not uncommon for only one bid to be considered. This paper quantifies multiple factors determining the extent of competition observed in the United States federal procurement data for commercially unavailable IT and telecommunications service contracts. We develop, identify, and estimate a principal-agent model of procurement where a buyer exerts costly effort to attract a more competitive field of sellers, after which she negotiates contract terms and selects a winner. Our theory predicts that negotiations lower the benefits of extra bids, and the estimated decrease in the average number of bids from negotiations is between 0.6 and 2. Although removing discretion from procurement agencies reduces the scope for corruption, we estimate expected payments would rise up to 3 percent.