

## **The auction tilt in public procurement through the prism of the transaction cost economics**

In addition to the ongoing purposeful changes that the public procurement system<sup>1</sup> of the Russian Federation has undergone since its inception, it has faced a multitude of external shocks in recent years<sup>2</sup>. Along with the development and implementation of operational anti-crisis measures to support the public procurement system under current conditions, fundamental economic analysis of the interrelations and long-term consequences of decisions made in this area — including those caused by the accompanying change in the structure of incentives and transaction costs — is acquiring particular importance. One of the features of Russian procurement practice that requires additional understanding is the auction tilt that has formed and persists in this sector, which runs counter to modern trends in global public procurement practices<sup>3</sup>.

In the theoretical research presented for the report<sup>4</sup>, we tried to answer mainly two questions: why is the theoretical superiority of auction forms in terms of budget efficiency not confirmed in the realities of public procurement; why, despite numerous evidence of the non-optimal nature of auction forms for a wide range of goods (works, services)<sup>5</sup>, the auction tilt still persists in a number of jurisdictions, including Russia? Continuing to develop an institutional approach to studying the problems of regulated procurement<sup>6</sup>, we examined this phenomenon from the

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<sup>1</sup> In relation to Russia, public procurement will be understood as all purchases carried out within the framework of the current federal laws № 44-FZ dated 04/05/2013 and №223-FZ dated 07/20/2011, or their predecessor №94-FZ dated 07/21/2005.

<sup>2</sup> Including those related to the fragmentation of production and supply chains that began due to the COVID 19 pandemic and intensified due to increased geopolitical tensions after February 2022.

<sup>3</sup> For instance: Directive 2014/24/EU recommended that EU member states limit or prohibit the use of auction form procedures in order to form procurement practices that are more focused on the quality of purchased products (EUR-Lex. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1522846869238&uri=CELEX:32014L0024>); the Korean authorities announced, in the process of creating and developing the electronic procurement system KONEPS (Korea Online E-Procurement System), a complete rejection of auctions in public procurement as a vicious practice due to its negative impact on establishing the quality level of purchased products. (Public Procurement Service. <https://www.pps.go.kr/kor/index.do>).

<sup>4</sup> See: (Plekhanova, 2024)

<sup>5</sup> See, for example: (Goldberg, 1977; Leffler et al., 2007; Bajari et al., 2009; Asker and Cantillon, 2010; Avdasheva et al., 2020; Plekhanova, 2022).

<sup>6</sup> The authors (Volchik and Nechaev, 2015) note that the difficulty of finding ways to further develop the procurement system is related, among other things, to the prevalence of neoclassical approaches to the study of this area, which, at the same time, necessitates alternative approaches using the tools of the new institutional economics in general and the transaction cost economics in particular.

mechanisms of governance concept<sup>7</sup> point of view of, which allowed us to see some of its features that usually elude researchers adhering to traditional neoclassical approaches.

The study, based on fundamental works in the field of the transaction cost economics, literature and world practice in the public procurement area, identified the mechanisms of transaction governance features in this area, and revealed the specifics of making a choice (at the state level) between structural alternatives of procurement procedures. Using a modification of O. Williamson's heuristic model for choosing coordination mechanisms<sup>8</sup>, it is shown that active participation of the state in the mechanisms of transaction governance formation in combination with an underdeveloped methodology for assessing the effectiveness of public procurement leads to the emergence of distorted incentives and a shift in the switching point between the alternatives considered, which contributes the stability of the auction tilt.

The study results may be useful for developing the regulatory framework and/or designing meso-institutions that contribute to the procurement system improvement, as well as used in developing training materials for courses in institutional economics, industry markets, etc. In addition, they allow us to conclude that the forming and establishing coordination mechanisms principles require a deeper theoretical understanding with the operationalization of the relevant concepts in relation to modern economic systems. The identified «gray zone» opens a field for future research in terms of developing the theory of transaction costs.

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<sup>7</sup> See: (Williamson, 1996; Shastitko, 2010)

<sup>8</sup> See: (Williamson, 1996).

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