

# The Permeability of Public Contracts: Empirical Evidence from Renegotiations in the French Car Park Sector

Zoé Le Squeren\*      John Moore†

May 26, 2015

## Abstract

Recent research suggests that public and private agreements are inherently different. Public contracts should indeed be more permeable to the external (and, more specifically, the political) environment. This paper studies empirically the intrinsic differences between these two types of contracting. We focus in particular on the different impact local elections have on the execution of public and of private agreements. In order to do so, we investigate the occurrence of renegotiations of each type of contract prior to local elections. We believe that, as public contracts belong to the public sphere, their renegotiations should be affected by the electoral calendar, while renegotiations of private contracts should not. To test this, we use an original dataset comprising every renegotiation of the exhaustive set of public-private and private-private contracts signed by the French car park leader between 1968 and 2008. We use a difference-in-difference methodology to show that, compared with private contract renegotiations, public contract renegotiations significantly increase before local elections. In particular, renegotiations aiming at modifying the end-user fees or the financial side of the contract (*i.e.* the remuneration of one of the parties) increase before an election, whereas all other types of renegotiation do not.

**Keywords:** *Public-private agreements, Contracts, Renegotiations, Political cycle, Local government, Car parks.*

---

\*Corresponding Author. Sorbonne Business School / Chair “Economics of Public-Private Partnerships”. 21 rue Broca, 75013 Paris, France. <[zoe.le-squeren@univ-paris1.fr](mailto:zoe.le-squeren@univ-paris1.fr)>

†EDDEN, UPMF, CNRS, BP 47, 38040 Grenoble Cedex 9, France. <[jrj.moore@gmail.com](mailto:jrj.moore@gmail.com)>

# 1 Introduction

Reading the French press just before municipal elections provides useful lessons about the salience of the parking policy for voters. For instance, the daily newspaper “Le Figaro” published an article “*The top list of cities which like cars*”,<sup>1</sup> one week before the latest municipal elections in France. Likewise, the newspaper “Libération” printed “*Is Nantes the most expansive city to park in France?*”<sup>2</sup> one week earlier. The price of parking is therefore one of the front-page topics before local elections in France. Furthermore, local governments often choose to delegate the construction and/or exploitation of parking infrastructures to the private sector: in 2011, more than 70% of French car parks were operated by semi-public companies or private operators.<sup>3</sup> The parking policy decisions of politicians thus often induce renegotiations with the private sector.

The aim of this paper is to compare public car park contracts, which are concluded between mayors and private companies, to private contracts, which are concluded between two private parties. We believe that renegotiation patterns of public contracts should be affected by the conduct of local elections, whereas renegotiation of private contracts shall not. This study is in line with a strand of literature in strategic management which argues that organizations which are characterized by high degrees of “publicness” differ from “private” organizations because they are more permeable to the external environment, and notably the political environment (Ring and Perry, 1985; Meier and O’Toole, 2011). Similarly, Spiller (2008) argues that public contracts differ from private contracts because of their public nature, and thus public contracting is generally perceived as less flexible and “*requiring more frequent formal renegotiation*” (Spiller, 2008, page 1). We propose to empirically test this permeability, focusing in particular on the political cycle of contractual renegotiations. This paper thus also relates to two wide literature strands on renegotiation and on political cycles.

Susarla (2012) notes that research on contract renegotiations has been hampered by the lack of appropriate data. Our study relies upon an original and exhaustive dataset comprising every renegotiation from the entire set of contracts (public and private) signed by the French car park leader between 1968 and 2008. Our set of public contracts consists

---

<sup>1</sup>“Le palmarès des villes qui aiment la voiture”, Le Figaro.fr, March 17, 2014.

<sup>2</sup>“Nantes est-elle la ville la plus chère de France pour se garer?”, Libération.fr, February 25, 2014.

<sup>3</sup>Data from the French National Federation of Parking Activities.

of every contract signed by this firm with a municipality, while we exploit the fact that this firm also concludes agreements for similar services (*i.e.* construction, exploitation or renovation of car parks) with private parties (for instance shopping centers, private pool complexes, or amusement parks) to constitute our set of private contracts. For each contract and for every year, we have information on the total number of renegotiations, and we know for each amendment which aspect of the contract was renegotiated (price, work, finance and others).

We use a difference-in-difference methodology to show that public and private contracts are differently affected by electoral periods. Indeed, we find that compared with private contract renegotiations, public renegotiations significantly increase before local elections. In particular, public renegotiations aiming at modifying end-user fees or the financial dimensions of the contracts (*i.e.* the remuneration of one of the parties) increase before an election, whereas all other renegotiations do not.

Our study offers several innovations and advantages compared with previous work. We are among the first to empirically study the differences between public and private contracts. We thus believe that our results contribute to the growing literature studying these differences. Moreover, to our knowledge, the impact of local political cycles on contract renegotiations has never been considered. We believe this investigation is all the more relevant given that most of public investment is made at the local level, often through public-private agreements. Third, we circumvent the issue of the lack of available data on renegotiations by using an exhaustive dataset consisting of 650 public-private and private-private contracts with 1,110 amendments over a 50 years period. Finally, we test our results using a range of robustness checks including the use of placebo elections to confer credibility to the common trend assumption.

We believe that this paper contributes to a small but growing literature that compares public and private agreements. Moszoro et al. (2013) use data on firms in the United States to show that public contracts are more rigid than private contracts. Beuve et al. (2014) also explore this question using a similar dataset than ours, consisting of contracts signed by the leader of the French car park sector. They find that public contracts are more rigid than private contracts, and their renegotiation is formalized more frequently in amendments. Our paper differs from these two studies, because we propose not only

to investigate the contractual differences between public and private agreements, but also the different impact local political cycles can have on the two types of contracting.

Section 2 presents the three strands of literature on public-private differences, renegotiations and political cycles; Section 3 provides details about the French car park sector and the data we use. This section also depicts the variables used in the empirical investigation. Section 4 presents the empirical methodology and our results. A last section discusses these results.

## **2 Related Literature and Testable Propositions**

### **2.1 The Differences between Public and Private Organizations**

The differences between the public and the private sectors have been largely studied in the past decades. While the literature in New Public Management asserts that the public sector should import management rules from the private sector to solve its inefficiencies, a more recent strand of literature in strategic management investigates the differences between the two sectors. Indeed, Ring and Perry (1985) argued that the public sector cannot be judged against normative models developed in the private sector, because public and private organizations are inherently different.

Before exploring the differences between those two sectors, it is worth providing a definition of what shall be referred as “public organizations” as opposed to “private organizations”. There is no clear-cut answer to that question. “Publicness” has first been defined as the extent to which an organization is affected by political authority (Bozeman, 1987). Nonetheless, Bozeman (1987) highlights that, under this definition, every organization is public: even a private firm operates under a set of rules established by a government. The degree of publicness being difficult to determine on the basis of this definition, authors in strategic management have relied on three criteria to distinguish between public and private organizations: ownership, funding and control (Perry and Rainey, 1988). As a matter of fact, when a government judges that a sector serves a public purpose, it can decide either to own the organizations of the sector, or to contract with private companies, or to establish a regulatory governance system (Meier and O’Toole, 2011). Meier

and O’Toole (2011) recommend to adopt a unique operational definition of publicness in a given study, as none of the three criteria fully enfold the concept of publicness, and each of them leads to measurement errors. In this paper, as our observation unit is the contractual agreement, we will define “public contracts” as contracts concluded between the private operator and a public authority (a municipality), and “private contracts” as agreements concluded between two private entities.

Meier and O’Toole (2011) expect the organizations which are located closer to the “publicness” pole of any chosen metrics to differ from those locate less close to that pole. One should now understand why these organizations differ. Ring and Perry (1985) explain that the differences between public and private sectors arise from the fact that they operate in highly different environments. The authors notably argue that public organizations are much more permeable to the external environment: they must cope with the scrutiny of media and of constituents. Moreover, public managers are subject to more artificial time constraints (*e.g.* elections) than private managers. More recently, authors in contract theory (Spiller, 2008; Moszoro and Spiller, 2012) put forward the same type of argument: public-private contracts differ from private-private contracts because the contracting partners are subject to an additional type of opportunism, namely third-party opportunism. This notion of third-party opportunism is very close to the one of permeability to the external environment: interested external groups (*e.g.* political competitors) have incentives to challenge public contracts, and have the means to do so.

These different environments lead to intrinsic differences between the two sectors. Publicness will, for example, theoretically impact organizational structures (public organizations suffer from more bureaucracy and red tape), and organizational goals (public organizations are characterized by multiple, complex, and vague goals) (Rainey and Bozeman, 2000; Boyne, 2002). Several empirical studies have tested these organizational differences<sup>4</sup>, and found mixed evidence of the impact of publicness on organizations. In the same vein, Moszoro et al. (2013) are the first to empirically investigate the difference between public and private contracts, and find that public contracts are less “flexible” than private agreements.

---

<sup>4</sup>See Rainey and Bozeman (2000) and Boyne (2002) for a review and a discussion of the empirical literature on goal complexity and ambiguity, organizational structure, and work-related attitudes and values; and Rainey and Jung (2015) for further evidence on goal ambiguity.

This literature in strategic management and in contract theory strongly justifies further studies on the public-private differences. The aim of this paper is to demonstrate that public contracts are indeed different from private contracts. In that sense, we follow the work of Moszoro et al. (2013). We believe the study of contracts and their amendments is of primary importance, because, as argued by Cooper (2003), “*ironies of modern public management [research] is that little attention is paid to the contract itself despite the fact that it is the core of the relationship and is legally enforceable against both parties*” (Cooper, 2003, page 95). Malatesta and Smith (2011) also calls for future research that “*compare[s] contracts involving government to contracts with for-profit organizations*” (Malatesta and Smith, 2011, page 615). More specifically, we chose to focus on the political cycle of contractual renegotiations. We believe this choice is all the more relevant because it permits to directly measure the permeability of public contracts to the external environment, and in particular to elections. Rather than focusing on the observed or perceived organizational differences themselves (Boyne, 2002), we aspire to demonstrate the direct impact the political environment has on the conduct of relationships characterized by high degrees of publicness.

## 2.2 Contractual Renegotiation

In this paper, amendments will be used to evaluate the different impact elections have on public and on private contracts. Previous section indeed suggests that something should be different about public contracts. Renegotiations are our “tool” to measure these differences. This choice is motivated by the fact that contractual renegotiation is an observable dimension of the execution phase of contracts, but it is also one of the key determinants of the efficiency of transactions. This section thus briefly presents the now substantial literature on renegotiations, in order to provide a comprehensive view of their sources and consequences. Indeed, the literature on renegotiations, which has been conducted in various sectors and transaction types, sheds light on some crucial questions: why are contracts renegotiated? Do renegotiations harm the relationship between the contractors? Under which conditions can renegotiations improve the efficiency of transactions?

Renegotiations arise because contracts are incomplete, yet the transaction cost the-

ory (Williamson, 1979) and the incomplete contract theory<sup>5</sup> differ on their analysis of the sources of this incompleteness. Nonetheless, regardless of the theoretical framework, parties have to revise the terms of the initial agreement as the states of nature realize.

Previous work has shown that the link between amendments and efficiency is double-edged. On the one hand, renegotiations can be costly for the parties, both because of the direct adaptation costs<sup>6</sup> and the indirect costs in terms of underinvestment in relation-specific assets<sup>7</sup> they induce. On the other hand, renegotiations can be Pareto-improving as they make up for the inherently incompleteness of the contracts. They can indeed permit to adapt the terms of a contract to a changing environment and thus be mutually advantageous (Masten and Saussier, 2000; Susarla, 2012). Guasch (2004) summarizes this equivocal nature of renegotiations, arguing they are desirable when they address the incomplete nature of contracts, but can jeopardize the arrangement when they indicate opportunistic behaviors.

Since renegotiations are at the core of the success of transactions, it is essential to study their determinants. This is especially true concerning public contracting, where the efficiency of the transaction does not only affect the parties, but society as a whole. Thus, in the past decade, detailed work has been provided on the determinants of renegotiations between a public and a private partner, using Latin America data. Engel et al. (2009) use Chilean data to show the government uses renegotiations in order to increase spendings and shift the burden of payments to future administrations. Guasch et al. (2003, 2008) use Latin America data and find that firm-led renegotiations of concession contracts are impacted by the regulatory policy, institutional features, economic shocks, and the characteristics of the contracts. They also found some relevant differences between the determinants of firm-led and government-led renegotiations (Guasch et al., 2007). For instance, the presence of investment requirements from the concessionaire in initial agreements, or the fact that the project is entirely financed by private funds have negative impacts on government-led renegotiations but positive impacts on firm-led renegotiations. These variables indeed affect the *statu quo* payoffs of the parties. Guasch and Straub (2009) find that corruption has a positive impact on firm-led renegotiations,

---

<sup>5</sup>See *e.g.* the seminal studies of Grossman and Hart (1986), Hart and Moore (1988), Hart (1988), Hart (1995), Tirole (1999) and Fares and Saussier (2002) on incomplete contract theory.

<sup>6</sup>See Bajari and Tadelis (2001) and Bajari et al. (2014).

<sup>7</sup>See Klein et al. (1978), Williamson (1979) and Hart and Moore (1988) for alternative explanations of the underinvestment issue.

but a negative impact on government-led renegotiations. They argue that government-led renegotiations are less frequent in more corrupt environments where governments are able to strike *ex ante* agreements: they are then less eager to renegotiate these agreements *ex post*. The authors also find a significant impact of the national political cycle on firm-led renegotiations (Guasch et al., 2003) and government-led renegotiations (Guasch et al., 2007): they both significantly increase after national elections. Indeed, changes of political majority are considered as shocks for concessionaires, and freshly elected governments may offer to renegotiate past agreements.

This last strand of literature therefore establishes evidence that public contract renegotiations are subject to political cycles. This study will focus on that question, looking at the different impact local elections have on public and on private contracts. To our knowledge, the impact of municipal elections on renegotiations has not been considered yet, despite the fact that most of the national investment is undertaken by local authorities: in France, municipalities are the first public investor, carrying out about 70% of total public investment, which represents 3% of French GDP<sup>8</sup>. We thus believe it is relevant concentrate on the impact of municipal elections on public contract renegotiations. The question of the efficiency of these renegotiations, stimulated by the proximity of local elections, will not be formally addressed in this paper, but leaves room for future research.

## 2.3 Political Cycles

We argued in Section 2.1 that the political environment should impact public organizations. In this paper, we specifically assert that the proximity of elections affect the conduct of public contracts: their renegotiations should be subject to political cycles. These cycles have been extensively studied in the literature, both from a theoretical and an empirical point of view. The theoretical research showed that politicians have incentives to manipulate economic variables in order to enhance their reelection perspectives. Several empirical studies confirmed these predictions, both at the national and the local level.

The theoretical literature on political budget cycles has built upon different sets of

---

<sup>8</sup>Source: OECD



assumptions to establish that policy makers have incentives to use economic policy in order to increase their reelection chances. The idea is that voters will base their electoral choice on recently observed economic outcomes. First, the seminal work of Nordhaus (1975) shows that the political trade-off between inflation and unemployment is impacted by policy makers' electoral concerns, if voters' expectations are backward looking. Rogoff and Sibert (1988) and Rogoff (1990) then build an adverse selection model to argue that efficient incumbent governments use taxes, spendings and money growth to signal their type to voters before elections. Persson and Tabellini (2002) and Shi and Svensson (2006) use the same assumptions within a moral hazard framework and show that incumbents still engage in pre-electoral policy manipulations before elections<sup>9</sup>. Martinez (2009) introduces politicians' reputation concerns in his model to explain why politicians have stronger incentives to influence election results when elections get closer. Finally, Baleiras and da Silva Costa (2004) construct a model of public budget cycles with ultra-rational agents and full symmetric information<sup>10</sup>.

A large number of empirical studies has attempted to test these theoretical predictions. A first strand of literature supported these forecasts at the national level in industrialized countries<sup>11</sup>, as well as in developing economies<sup>12</sup>. Nevertheless, this paper rather focuses on political cycles at the local level. In that vein, Blais and Nadeau (1992) and Petry et al. (1999) find that electoral cycles impact the spendings of Canadian provinces. Blais and Nadeau (1992) thus measure an increase in total provincial spending in election years of a magnitude of 1%, resulting in higher deficits rather than tax increases. On the same subject, Baleiras and da Silva Costa (2004), and Veiga and Veiga (2007), assess the presence of pre-electoral increases in local expenditures before Portuguese municipal elections. Veiga and Veiga (2007) not only show that total municipal expenditure increases before elections, but also that its composition changes, favoring items that are highly visible. Likewise, several studies have been conducted on French municipal data. Binet and Pentecôte (2004) and Foucault et al. (2008) find that French local governments increase their spendings prior to municipal elections.

---

<sup>9</sup>These moral hazard models contrast with the adverse selection ones in the sense that all governments (*i.e.* high and low competence level) manipulate the budgets before elections

<sup>10</sup>In this model, political cycles still arise when policy makers maximize a utility function which takes into account the income they could earn in the private sector in case of electoral defeat.

<sup>11</sup>See for example Tufte (1980) and Alesina et al. (1992).

<sup>12</sup>See Schuknecht (1996), Schuknecht (2000), Kraemer (1997), Gonzalez (2002), Brender and Drazen (2005), Shi and Svensson (2006).

We can thus establish that the existence of political cycles relies on solid theoretical ground, and has been empirically found both at the national and the local levels: expenditure, tax and budget decisions of (local) governments are partly determined by their re-election prospectives. These economic variables are manipulated to convince the constituents prior either to national or to local elections. But the budget is not the only variable that governments are prone to influence. Hence, Mayer (1995) finds that before presidential elections, contract awards significantly increase in the United States. In France, Chong et al. (2014) show that electoral considerations of mayors influence the timing of public procurement. Importantly, Chong et al. (2014) find that electoral cycles are stronger for projects that are highly visible to the voters, following the assessment of Veiga and Veiga (2007).

Local political cycles are then proved to impact several variables at the local level. The decisions of local governments in matter of budget, expenditure, investment, and even public contracting are affected by the proximity of elections. However, the impact of elections on the “life” of the contracts, and on the relationships between the contracting parties, has not been studied so far.

## 2.4 Testable Propositions

The first part of this literature review suggests that public contracts should differ from private contracts, and in particular that they should be more permeable to the external environment. Moreover, the literature on renegotiation suggests that the occurrence of amendments of public contracts could be impacted by elections. Finally, the literature on political cycles suggests that when elections get close, politicians try to impact visible economic outcomes in order to influence the electorate.

This literature review then suggests two propositions, that we propose to test empirically in this paper. Our first proposition is that public contract renegotiations should increase when elections get close whereas private renegotiation should not, and our second proposition is that these renegotiations should relate to items that are visible to voters.

**Proposition 1.** *The number of public contract renegotiations should increase before local elections, while the number of private contract renegotiations shall not.*

**Proposition 2.** *The renegotiations of public contracts caused by the proximity of elections should relate to items that are visible to voters, in particular the end-user fees.*

## 3 Sector and Data

In order to test these two propositions, we have collected data about amendments of both public and private contracts in the French car park sector. As our concern is to compare public and private agreements, we will present in the following subsection the specificities of the public and the private sides of the sector. We will then give some details about the data in a second subsection.

### 3.1 The French Car Park Sector

**Publics car parks.** In France and in most European countries, the public parking policy is a responsibility of local authorities. French jurisprudence considers parking as an “*industrial and commercial public service*”: it is under the responsibility of local governments to administer both off-street and on-street parking. Municipalities can choose either to directly manage this service, or to contract it out. Local governments can then conclude contracts with private operators for the construction and/or the exploitation phases, but also only for works or renovations. The contribution of the private sector is far from being anecdotal: since the first car park concession, which was awarded to a private company in 1962, the outsourcing of car park services has been continuously increasing. Between 1960 and 1980, thousands of car parks were constructed by private operators under public contracts which generally included the right of exploitation. In 2011, more than 70 % of French car parks were operated by semi-public companies or private operators.<sup>13</sup> Moreover, Baffray and Gattet (2009) describe the car park market as a mature and competitive one, which faces an increasing competitive pressure from both national and international companies.

Furthermore, car parks are highly visible infrastructures which partly determine the satisfaction of the constituents. First, it must be emphasized that an adequate parking

---

<sup>13</sup>In 2011, 55% of the car parks were operated by private operators and 18% by semi-public companies (data from the French national federation of parking activities (FNMS, “Fédération Nationale des Métiers de Stationnement”).

policy has many valuable implications. A sufficient number of car parks, placed in judicious locations and with adapted pricing, spares drivers from cruising for parking spaces in crowded areas, which reduces traffic congestion. This does not only impact the ease of the drivers but also of all the citizens, since it reduces air pollution. Moreover, car parks also have economic externalities in the sense that they contribute to the development of commercial activities. In each city, car parks have to exist in sufficient number, be placed in judicious locations, present appropriate prices, but also have to be secure, clean, and accessible to all (in particular to disabled people). In other respects, the contribution of the parking sector to the economic and social development is undeniable. In 2010, it was estimated that the parking sector employed a total of 17,500 persons, creating revenues estimated at 1.3 billion euros.<sup>14</sup>

As discussed in Section 1, the electorate asks for cheap parking.<sup>15</sup> Despite the fact that it may not be optimal to maintain low prices,<sup>16</sup> the increase of press publications about the presumed high price of public parking in election periods is striking. We thus assume that the fees charged to end-users will be an important variable in our analysis.

Since car parks are highly visible structures, which are under the responsibility of municipalities, and whose management directly impacts the satisfaction of voters, we believe that it is relevant to study car park contracts to test for the existence of political cycles upon renegotiations.

**Private car parks.** Private car park operators do not only conclude contracts with public authorities. They are also led to conclude agreements for similar services (*i.e.* construction, exploitation, or renovation) with private parties. These private parties can for instance be shopping centers, private pool complexes, amusement parks, and so forth. Private car parks share strong similarities with public car parks. In particular, it is worth noting that private car parks also constitute a strategic resource for private contractors as the number of parking spaces as well as their location, quality, and price will contribute to the satisfaction of customers. These similarities comfort us in the fact that public and private contracts are comparable and thus validate our approach which empirically compares of these two types of contracts.

---

<sup>14</sup>Data from the FNMS.

<sup>15</sup>See the press articles mentioned in the introduction.

<sup>16</sup>See Pierce and Shoup (2013) for a discussion about the optimal pricing of car parks.

## 3.2 The Data

Our analysis requires highly precise data about the renegotiations of car park contracts. This type of data is yet very difficult to collect. We thus take advantage of having access to every contract – and their amendments – signed by the French leader of the sector between 1968 and 2008. This private operator holds 42% of market shares among private operators, corresponding to 30,6% of total market shares. Moreover, our database has a considerable advantage: it is exhaustive. Thus, we study *every* contract renegotiation of this operator, referring to public as well as private contracts.

We exploit the opportunity of having an exhaustive database in our empirical methodology. We will indeed use a difference in difference (DiD) methodology and compare renegotiations of contracts signed with municipalities (treatment group) to renegotiations of contracts signed with private parties (control group).

[INSERT TABLE 1 HERE]

Table 1 presents some general descriptive statistics about our database (number of contracts of each type and number of contracts renegotiated at least once). It is important to note that we consider all public contracts signed with municipalities in our analysis. We do not distinguish between traditional procurement contracts and concession contracts, despite the fact that these types of contracts may present different characteristics.<sup>17</sup> Nonetheless, we will include fixed effects by contract later in our analysis to absorb the specificities of these different types of contracting. In addition, we will exclude concession contracts of the dataset as a robustness check. The following section will describe our dependent and independent variables.

### 3.2.1 Dependant variables

To test for the differentiated impact of local political cycles on public-private and private-private renegotiations, we constructed several renegotiation variables. Indeed, we do not only seek to show how the overall number of renegotiations of public contracts will change before elections compared to private renegotiations, but we also want to explore which contractual dimensions are more renegotiated. We thus studied the 1,110 amendments of

---

<sup>17</sup>For instance, we expect public procurement contracts to be shorter and to relate to less complex transactions.

our database to determine which dimensions of the contracts were renegotiated.

We distinguished between (i) renegotiations on the financial aspects of the contracts, (ii) renegotiations on construction or renovation work and (iii) other renegotiations. Financial renegotiations include amendments aiming at modifying the remuneration of one of the parties, amendments that modify the fees charged to end-users, and changes of the duration of the contracts. Amendments are coded as work renegotiations as soon as additional work, which was not foreseen by the initial contract, is required. This work can consist in quality improvements (*e.g.* building an elevator shaft, building an access ramp for disabled, or the installation of new parking meters for on-street car parks), renovations (*e.g.* painting), or increases of the size of parks. Finally, other renegotiations concern changes of the name of our private operator.<sup>18</sup> We computed the number of each type of renegotiation per year and per contract. We also derived the total number of amendments per year and per contract; in our sample, contracts are renegotiated from 0 to 5 times per year.

It is essential to notice that it is not unusual for amendments to modify several dimensions of the initial contract at the same time. In other words, one unique amendment can include a “financial” renegotiation, as well as “work” and “other” modifications. Finally, our categories are exhaustive: all amendments were coded as one (or several) of the 3 renegotiation categories. Table 2 presents summary statistics on the total number of each type of renegotiation per year, for public and private contracts. These statistics show that public contracts are on average more frequently renegotiated than private contracts, and on all dimensions, which suggests a first visible difference between the two types of agreements.

[INSERT TABLE 2 HERE]

### 3.2.2 Independent variables

**Political cycle variables.** We now have to define the political cycle variables, in order to investigate the different impact elections can have on the two groups of contracts. Most of the studies on local political cycles define the pre-election period as the election year

---

<sup>18</sup>Every time the name of the operator changes, an amendment called “changement de dénomination sociale” has to be drawn up.

and the year before (Baleiras and da Silva Costa, 2004; Binet and Pentecôte, 2004; Chong et al., 2014). By contrast, we opt for pre-electoral periods of three years. The reason is that we coded the dates of amendments as the dates of signature. Nonetheless, the amendments most often do not apply immediately. To test for the impact of political cycles on renegotiations, it would then be more relevant to consider their implementation date. As this information is sometimes missing and quite difficult to extract, we chose to keep the date of signature in our analysis, and to include an extra year in our pre-electoral periods. Indeed, amendments concluded two years before local elections can be implemented just the year before elections in order to influence the voters' decisions.

Between 1968 and 2008, seven municipal elections took place in France. As all elections except one were held in March, we consider the “election years” to be the calendar years preceding the elections. The “pre-election years” are then defined as the calendar years before the “election years”, etc. Table 3 sums up all the years of the dataset, considered as “pre” or “post” elections, knowing that elections took place in March 1971, 1977, 1983, 1989, June 1995, and March 2001 and 2008.<sup>19</sup>

[INSERT TABLE 3 HERE]

**Control variables.** Our empirical strategy includes four control variables. The first set of control variables is used to control for “contract cycles”. The first variable, *Ct\_Cycle* is defined as the ratio between the current year and the total duration of the contract. The second variable, *Ct\_Cycle2* is the square of *Ct\_Cycle*. These two variables allow us to control for the linear and non linear effects of the period of the contract life on renegotiations. Indeed, we expect contracts to be differently renegotiated at the beginning or at the end of their life. A second set of control variables is defined in order to test for *partisan* effects, *i.e.* the fact that the ideology of incumbent governments could impact the conduct of renegotiations. We thus define *Right* as a dummy variable which equals 1 if current mayor belongs to a right-wing party, and 0 otherwise. In addition, *Right \* Public* is a crossed variable indicating whether the mayor is right-wing and the contract is a public agreement. This last variable will allow us to investigate whether right-wing parties are more prone to renegotiate public (compared to private) contracts. Table 4 presents some summary statistics for these control variables.

---

<sup>19</sup>The municipal elections of 2008 were initially programmed in 2007. However, in reason of an overloaded electoral calendar, this election was deferred in 2008. Therefore, we take 2004 as a post-electoral year of the 2001 election.

[INSERT TABLE 4 HERE]

In the following, the empirical methodology and results will be exposed.

## 4 Methodology, Results, and Robustness Checks

### 4.1 Empirical Methodology

As discussed in the previous sections, we want to empirically investigate the inherent differences between public and private contracts, and we expect in particular these two types of agreements to be differently impacted by electoral cycles. We thus need to compare our two sets of contracts, and to determine whether the proximity of elections differently impacts the conduct of their renegotiations. To do so, we use a difference-in-difference (DiD) method where we compare public contracts (treatment group) to private contracts (control group) before and after municipal elections (treatment).

Despite the fact that public contracts apply in the area of administrative law whereas private contracts are governed by private law, we claim that our two groups are comparable, and especially as regards their executive phase and renegotiation process. We rely upon Seube (2006) who argues that regardless their legal regimes, these arrangements share the same notion of contract, and tend to adopt the same modification rules.<sup>20</sup> We thus consider the pre-election periods to estimate the following equation:

$$Type\_Reneg_{it} = \beta_1 Pre_t + \beta_2 (Pre_t * Public_i) + Controls_{it}Z + \alpha_i + \gamma_t + \epsilon_{it} \quad (1)$$

Where  $Type\_Reneg_{it}$  is alternatively  $Tot\_Reneg_{it}$ ,  $Financial\_Reneg_{it}$ ,  $Work\_Reneg_{it}$ , and  $Other\_Reneg_{it}$ , *i.e.* the number of *total*, *financial*, *work*, or *other* renegotiations that contract  $i$  occurred in year  $t$ .<sup>21</sup> Political cycles are identified by the variable  $Pre_t$ , which is a dummy that equals 1 for the three years preceding municipal elections. Our variable of interest is  $Pre_t * Public_i$ , which is the interaction term of  $Pre_t$  with a binary variable

---

<sup>20</sup>The main difference between public-private and private-private renegotiation is the extent to which the initial contract can be modified. Public-private renegotiation is indeed allowed when it does not substantially modify the initial contract (see Beuve et al. (2015) for a discussion on public contract renegotiation).

<sup>21</sup>Note that as a first robustness check, we also include regressions of  $Dum\_Tot\_Reneg_{it}$ ,  $Dum\_Financial\_Reneg_{it}$ ,  $Dum\_Work\_Reneg_{it}$ , or  $Dum\_Other\_Reneg_{it}$ , dummy variables indicating whether or not *total*, *financial*, *work*, or *other* renegotiations occurred for contract  $i$  in year  $t$ .



indicating whether the contract is a public contract (=1) or a private contract (=0). The coefficient  $\beta_2$  will then indicate whether public contracts exhibit different renegotiation patterns (than private contracts) before local elections.

$Controls_{it}$  is a matrix of control variables related to contract  $i$  and to year  $t$ . This matrix includes four variables:  $Ct\_Cycle$ ,  $Ct\_Cycle2$ ,  $Right$ , and the interaction term ( $Right * Public$ ). As described in previous section, the first two variables are meant to account for a potential renegotiation cycle in the life of contracts (*e.g.* there may be more renegotiations when reaching the end of a contract), while  $Right$  and the interaction term  $Right * Public$  are meant to determine whether there exists a partisan effect for renegotiations.

$\alpha_i$  corresponds to contract fixed effects. These fixed effects are used to absorb the specificities of each contract. For instance, the statistics on contract duration in Table 5 indicate that public contracts last on average longer (17.91 years) than private contracts (10.05 years). If these contracts differ on observable factors such as duration, they are also likely to differ on unobservable factors. Thus, to account for observed and unobserved heterogeneity between contracts and, in particular, between public and private contracts, we use contract fixed effects.<sup>22</sup> Moreover, because there may also be unobserved heterogeneity in time, we include the variable  $\gamma_t$  to our specification, which is a set of dummies identifying each political cycle. These variable are equal to one for the three years preceding and the three years following municipal elections (see Table 3). Finally,  $\epsilon_{jt}$  is the error term.

Bertrand et al. (2004) argue that DiD estimations with a substantial number of years such as ours may be plagued with serially correlated outcomes and thus inconsistent standard errors. We report the results of Wooldridge (2002)’s test for serial correlation in our specifications. Two of Bertrand et al. (2004)’s suggested corrections are applied. First, all our regressions are computed using cluster robust standard errors at the contract level to allow for within contract error correlation and heteroscedasticity. Second, we collapse our data into a “pre” and “post” period and re-estimate equation 1.

This aggregation of our dataset was made in the following way. First, to avoid over (or under) representing any observation, we eliminated all years that could not be associated

---

<sup>22</sup>Note that these contract fixed effects absorb the dummy  $Public_i$  that does not vary within contracts.

with two other years to form a complete pre- or post-election period. This resulted in eliminating the years 2004 (because of the 7 years between the 2001 and 2008 elections) and 2008 (because we lack data from 2009 and 2010 to form a complete “post” period for the 2008 election).<sup>23</sup> Second, for each contract, we averaged all variables over one “pre” and one “post” period.<sup>24</sup> Aggregating our data in such a way has a second advantage as we can now consider “sub-sub” categories of renegotiations. In other words, rather than limiting our disaggregation of data to financial renegotiations, we can now distinguish between *Price\_Reneg* and *Remun\_Reneg*. *Price\_Reneg* represents the mean number of renegotiations on the fees charged to end-users, and *Remun\_Reneg* compiles all other financial renegotiations (*i.e.* renegotiations aiming at modifying the remuneration of one of the parties or the duration of the contract). These sub-categories could not been considered at the disaggregated level because of their relative rare occurrence. The descriptive statistics for this aggregated dataset are displayed in Table 6.

[INSERT TABLE 6 HERE]

Our hypothesis of strategic manipulation of public contracts before elections leads us to expect an increase in “visible” renegotiations before elections. That is, compared with private contracts, public contracts are suspected to be significantly more renegotiated in the years preceding municipal elections (**Proposition 1**), and on aspects that will be visible to voters (**Proposition 2**). We thus expect a positive and significant coefficient associated with our interaction term  $Pre * Public$  for *financial* renegotiations, since this category includes renegotiations of end-user fees. Moreover, we suppose that the total number of renegotiations of public contracts will also increase before elections. Indeed, *work* and *other* renegotiations are not expected to exhibit particular renegotiation patterns before elections for public contracts, and Table 2 shows that about 67% of renegotiations relate to *financial* ones. The coefficient associated with  $Pre * Public$  for the total number of renegotiations should then also be positive. Finally, it is important to note that since *other* renegotiations are not visible at all by the constituents, these latter could not be subject to political manipulations before elections. Our regressions on the number of *other* renegotiations may then be seen as placebo tests, where significant coef-

---

<sup>23</sup>See Table 3.

<sup>24</sup>This type of aggregation has a drawback. Indeed, whether the initial contract covered one or more “pre” (or “post”) periods, the aggregation always yields one “pre” (and one “post”) period. This is likely to put relatively more weight on observations from contracts with few periods. To avoid this bias, our regressions will be weighted by the number of “pre” and “post” periods covered by the contract in our initial dataset.

ficients associated with  $Pre * Public$  would shed doubt on our empirical strategy. Table 7 summarizes our expected results.

[INSERT TABLE 7 HERE]

## 4.2 Results and Robustness Checks

The OLS regressions on our initial sample are shown in the first four models of Table 8. In line with our predictions, we find a positive and significant coefficient associated with the interaction term  $Pre * Public$  when considering the number of financial renegotiations (Model 2). As expected, this leads to an increase in the total number of renegotiations: the coefficient of  $Pre * Public$  is also positive and significant for Model 1. In other words, public contracts are significantly more renegotiated than private contracts overall and on financial aspects in pre-election periods, compared with post-election years. The coefficient associated with our interaction term is found not to be statistically different from zero for the number of work renegotiations (Model 3) and our placebo test shown in Model 4 holds, yielding support to our empirical methodology. Finally, we find some differences in renegotiation patterns in right wing municipalities, yet these patterns are not found to be different in public contracts. As a robustness check, we reported in Models 5 to 8 regressions of dummies indicating whether a type of renegotiation occurred in the period (=1) or not (=0), using a linear probability model. These results are qualitatively similar to that of Models 1 to 4. We also reported the p-values of Wooldridge (2002)'s test for serial correlation in the table. As feared, the outcomes of the regressions appear to be serially correlated (see Models 2 and 6). This justifies aggregating our data into one “pre” and one “post” period.

[INSERT TABLE 8 HERE]

We report the regressions using our aggregated sample, which was constructed by averaging all variables into one “pre” and one “post” period for each contract, in Table 9.<sup>25</sup> Our results are qualitatively similar to that of the previous table. Indeed, we find that compared with post-election periods, public contracts are significantly more renegotiated than private contracts in pre-election periods, overall and when looking only at financial

---

<sup>25</sup>Note that these regressions do not include the set of control variables as these latter lose their meaning at this aggregated level.

renegotiations. Again, our placebo test displayed in Model 4 holds. As discussed in the previous subsection, this level of aggregation enables us to further investigate this result by looking at sub-types of financial renegotiations. The results from these regressions are reported in Table 10. We find positive and significant coefficients for the interaction terms when analyzing the two sub-types of financial renegotiations, indicating that both the remuneration of the parties and end-user fees are statistically more renegotiated in public contracts in pre-election periods.

[INSERT TABLE 9 HERE]

[INSERT TABLE 10 HERE]

A common robustness check after performing a DiD is to focus on the common trend assumption. This assumption postulates that after controlling for covariates included in equation (1), no other force should differently affect our control and treatment groups in pre- and post-treatment periods. Here, we believe that including both contract fixed effects and time dummies helps satisfying this assumption by removing the effects of time invariant and time variant characteristics. In addition, the fact that our placebo test always holds is reassuring. Nonetheless, we conducted two additional robustness checks. First, we performed placebo elections in  $t-2$  and  $t+2$ .<sup>26</sup> Results from these placebo elections are reported in Table 11. These specifications exactly reproduce those of Table 9. In all our specifications, we find that the coefficients associated with the interaction term are not statistically different from zero. These placebo tests thus lend further credibility to our fulfillment of the common trend assumption.

[INSERT TABLE 11 HERE]

As a second robustness check, we ran the initial regressions on a restricted dataset which excludes concession contracts. Indeed, as argued before, the DiD methodology relies on the assumption that the treatment and control groups share a common trend. A mean to meet this assumption could then be to assure that the contracts of our two groups are similar *ex ante*. As concession contracts are over represented among public contracts (they represent 144 public contracts and 1 private contract), we decide to exclude them from the analysis. This could help satisfying the common trend assumption as concession contracts

---

<sup>26</sup>Since we perform these robustness check on an average number of renegotiations over three years (for our pre and post periods), delaying the elections by a sole year may not be enough to perform a satisfying robustness check. We thus choose a delay of two years.

last on average longer and relate to more complex transactions. Table 5 supports this argument as when we exclude concessions, the average duration of public (11.49 years) and private (10.08 years) agreements are much more comparable. A Student test confirms that these average durations are not statistically different. Table 12 presents the results of the regressions on the restricted dataset. These results are again similar than the ones of Table 9, except that the coefficient associated with the crossed variable  $Pre*Public$  is not significant anymore for the total number of renegotiations. This result confers additional support to our **Proposition 2**. Indeed, even when the increase of renegotiations is not observable on the total number of renegotiations, visible renegotiations (*i.e.* *financial* ones) still increase in pre-election periods for public contracts.

[INSERT TABLE 12 HERE]

As argued in section 3.2.2, because we use the signature dates instead of the application dates of amendments, we rely on a three year pre-electoral period (y-2, y-1 and y) where most previous studies on local political cycles opt for a two year period (y-1 and y). To show that our results are in line with these studies and to confer more credibility to the fact that our results attest of a political cycle, we now consider a two year pre-electoral period. Yet, to take into account the delay between signature dates and application dates, we define our pre-electoral period as years y-2 and y-1. The years coded as pre- and post-election periods are listed in Table 13. Results from this robustness check are reported in Table 14. Again, these results are qualitatively similar to that of Table 9.

## 5 Concluding remarks

Our results show that elections differently affect public-private and private-private relationships. Indeed, public contracts are statistically more renegotiated than private contracts in pre-election periods compared with other periods. Among the dimensions that can be renegotiated, financial renegotiations appear to be the main drivers of this difference. Moreover, our investigation of a potential partisan effect in the conduct of renegotiations in public contracts did not uncover significant differences between right and left wing municipalities.

We believe that our results show that having a public entity among the contracting parties changes the contractual relationship. In particular, we provide support to the hypothesis that public organizations differ from private organizations, in the sense that they are more permeable to the external environment. Indeed, politicians and may be looking to enhance their electoral perspectives before elections. Public contracts thus differ from private contracts as the former are subject to political cycles. Private managers taking part in public arrangements, as well as public managers, should then approach them differently from private contracting by anticipating that pre-electoral periods are likely to be subject to different renegotiation patterns.

As of today, we are unable to assess whether these opportunistic renegotiations negatively impact social surplus and/or the quality of the relationship between the parties. Our future research will try to tackle these issues. Nevertheless, our work is among the first empirical studies to consider the differences between public and public contracting. As argued by Spiller (2008), there remains a great number of studies to be conducted to grasp the extent of the singularity of public contracting. Our future research will also try to tackle these issues.

## References

- Alesina, A., Cohen, G. D., and Roubini, N. 1992. Macroeconomic policy and elections in oecd democracies\*. *Economics & Politics*, 4(1):1–30.
- Baffray, L. and Gattet, P. 2009. Gestion des parcs de stationnement, perspectives de marché en 2009, forces en présence et stratégie de croissance.
- Bajari, P., Houghton, S., and Tadelis, S. 2014. Bidding for incomplete contracts: An empirical analysis of adaptation costs. *The American Economic Review*, 104(4):1288–1319.
- Bajari, P. and Tadelis, S. 2001. Incentives versus transaction costs: A theory of procurement contracts. *RAND Journal of Economics*, pages 387–407.
- Baleiras, R. N. and da Silva Costa, J. 2004. To be or not to be in office again: an empirical test of a local political business cycle rationale. *European Journal of Political Economy*, 20(3):655–671.
- Bertrand, M., Duflo, E., and Mullainathan, S. 2004. How much should we trust differences-in-differences estimates? *The Quarterly Journal of Economics*, 119(1):249–275.
- Beuve, J., Le Lannier, A., and Le Squeren, Z. 2015. Renégociation des contrats de PPPs: Risques et opportunités. In *Économie des Partenariats Public-Privé*. de Boeck.

- Beuve, J., Moszoro, M. W., and Saussier, S. 2014. Political contestability and contract rigidity: An analysis of procurement contracts. *Available at SSRN 2475164*.
- Binet, M.-E. and Pentecôte, J.-S. 2004. Tax degression and the political budget cycle in french municipalities. *Applied Economics Letters*, 11(14):905–908.
- Blais, A. and Nadeau, R. 1992. The electoral budget cycle. *public choice*, 74(4):389–403.
- Boyne, G. A. 2002. Public and private management: what’s the difference? *Journal of management studies*, 39(1):97–122.
- Bozeman, B. 1987. *All organizations are public: Bridging public and private organizational theories*. Jossey-Bass San Francisco.
- Brender, A. and Drazen, A. 2005. Political budget cycles in new versus established democracies. *Journal of monetary Economics*, 52(7):1271–1295.
- Chong, E., Klien, M., and Moore, J. 2014. Elections and project delivery in public work procurement: A red ribbon effect? *Working Paper*.
- Cooper, P. J. 2003. *Governing by contract: Challenges and opportunities for public managers*. CQ Press Washington, DC.
- Engel, E., Fischer, R., and Galetovic, A. 2009. Soft budgets and renegotiations in public-private partnerships. Technical report, National Bureau of Economic Research.
- Fares, M. and Saussier, S. 2002. Coûts de transaction et contrats incomplets. *Revue française d’économie*, 16(3):193–230.
- Foucault, M., Madies, T., and Paty, S. 2008. Public spending interactions and local politics. empirical evidence from french municipalities. *Public Choice*, 137(1-2):57–80.
- Gonzalez, M. d. l. A. 2002. Do changes in democracy affect the political budget cycle? evidence from mexico. *Review of Development Economics*, 6(2):204–224.
- Grossman, S. J. and Hart, O. D. 1986. The costs and benefits of ownership: A theory of vertical and lateral integration. *The Journal of Political Economy*, pages 691–719.
- Guasch, J. L. 2004. *Granting and renegotiating infrastructure concessions: doing it right*. World Bank Publications.
- Guasch, J. L., Laffont, J.-J., and Straub, S. 2003. *Renegotiation of concession contracts in Latin America*, volume 3011. World Bank Publications.
- Guasch, J. L., Laffont, J.-J., and Straub, S. 2007. Concessions of infrastructure in latin america: Government-led renegotiation. *Journal of Applied Econometrics*, 22(7):1267–1294.
- Guasch, J. L., Laffont, J.-J., and Straub, S. 2008. Renegotiation of concession contracts in latin america: Evidence from the water and transport sectors. *International Journal of Industrial Organization*, 26(2):421–442.
- Guasch, J. L. and Straub, S. 2009. Corruption and concession renegotiations.: Evidence from the water and transport sectors in latin america. *Utilities Policy*, 17(2):185–190.

- Hart, O. 1988. Incomplete contracts and the theory of the firm. *Journal of Law, Economics, & Organization*, pages 119–139.
- Hart, O. 1995. *Firms, contracts, and financial structure*. Oxford university press.
- Hart, O. and Moore, J. 1988. Incomplete contracts and renegotiation. *Econometrica: Journal of the Econometric Society*, pages 755–785.
- Klein, B., Crawford, R. G., and Alchian, A. A. 1978. Vertical integration, appropriable rents, and the competitive contracting process. *Journal of law and economics*, pages 297–326.
- Kraemer, M. 1997. Electoral budget cycles in latin america and the caribbean: incidence, causes, and political futility. Technical report, Working Paper, Inter-American Development Bank, Office of the Chief Economist.
- Malatesta, D. and Smith, C. R. 2011. Resource dependence, alternative supply sources, and the design of formal contracts. *Public Administration Review*, 71(4):608–617.
- Martinez, L. 2009. A theory of political cycles. *Journal of Economic Theory*, 144(3):1166–1186.
- Masten, S. E. and Saussier, S. 2000. Econometrics of contracts: an assessment of developments in the empirical literature on contracting. *Revue d'économie industrielle*, 92(1):215–236.
- Mayer, K. R. 1995. Electoral cycles in federal government prime contract awards: State-level evidence from the 1988 and 1992 presidential elections. *American Journal of Political Science*, pages 162–185.
- Meier, K. J. and O'Toole, L. J. 2011. Comparing public and private management: Theoretical expectations. *Journal of Public Administration Research and Theory*, page mur027.
- Moszoro, M., Spiller, P. T., and Stolorz, S. 2013. Rigidity of public contracts.
- Moszoro, M. W. and Spiller, P. T. 2012. Third-party opportunism and the nature of public contracts. Technical report, National Bureau of Economic Research.
- Muller, D. C. 1989. Public choice ii. *Public Choice II*.
- Nordhaus, W. D. 1975. The political business cycle. *The Review of Economic Studies*, pages 169–190.
- Perry, J. L. and Rainey, H. G. 1988. The public-private distinction in organization theory: A critique and research strategy. *Academy of management review*, 13(2):182–201.
- Persson, T. and Tabellini, G. E. 2002. *Political economics: explaining economic policy*. MIT press.
- Petry, F., Imbeau, L. M., Crête, J., and Clavet, M. 1999. Electoral and partisan cycles in the canadian provinces. *Canadian Journal of Political Science*, 32(02):273–292.



- Pierce, G. and Shoup, D. 2013. Getting the prices right: an evaluation of pricing parking by demand in san francisco. *Journal of the American Planning Association*, 79(1):67–81.
- Rainey, H. G. and Bozeman, B. 2000. Comparing public and private organizations: Empirical research and the power of the a priori. *Journal of public administration research and theory*, 10(2):447–470.
- Rainey, H. G. and Jung, C. S. 2015. A conceptual framework for analysis of goal ambiguity in public organizations. *Journal of Public Administration Research and Theory*, 25(1):71–99.
- Ring, P. S. and Perry, J. L. 1985. Strategic management in public and private organizations: Implications of distinctive contexts and constraints. *Academy of Management Review*, 10(2):276–286.
- Rogoff, K. and Sibert, A. 1988. Elections and macroeconomic policy cycles. *The Review of Economic Studies*, 55(1):1–16.
- Rogoff, K. S. 1990. Equilibrium political budget cycles.
- Schuknecht, L. 1996. Political business cycles and fiscal policies in developing countries. *kyklos*, 49(2):155–170.
- Schuknecht, L. 2000. Fiscal policy cycles and public expenditure in developing countries. *Public Choice*, 102(1-2):113–128.
- Seube, J.-B. 2005-2006. Contrats de droit privé et contrats administratifs: Points de convergence? *RJIO*, (6):39.
- Shi, M. and Svensson, J. 2006. Political budget cycles: Do they differ across countries and why? *Journal of public economics*, 90(8):1367–1389.
- Spiller, P. T. 2008. An institutional theory of public contracts: Regulatory implications. Technical report, National Bureau of Economic Research.
- Susarla, A. 2012. Contractual flexibility, rent seeking, and renegotiation design: An empirical analysis of information technology outsourcing contracts. *Management Science*, 58(7):1388–1407.
- Tirole, J. 1999. Incomplete contracts: Where do we stand? *Econometrica*, 67(4):741–781.
- Tufte, E. R. 1980. *Political control of the economy*. Princeton University Press.
- Veiga, L. G. and Veiga, F. J. 2007. Political business cycles at the municipal level. *Public Choice*, 131(1-2):45–64.
- Williamson, O. E. 1979. Transaction-cost economics: the governance of contractual relations. *Journal of law and economics*, pages 233–261.
- Wooldridge, J. M. 2002. *Econometric Analysis of Cross Section and Panel Data*. The MIT Press.

## 6 Appendix

Table 1: Types of contract and renegotiations

| Co-contracting partner | Number of contracts | Number of contracts renegotiated at least once |
|------------------------|---------------------|--|
| Municipalities         | 557/676 (82,4%)     | 438/557 (78,6%)                                |
| Private                | 119/676 (17,6%)     | 88/119 (73,9%)                                 |

Table 2: Types of Renegotiations per Year

| Variable        | Public Contracts (N = 6672) |           |      |      | Private Contracts (N = 834) |           |      |      |
|-----------------|-----------------------------|-----------|------|------|-----------------------------|-----------|------|------|
|                 | Mean                        | Std. Dev. | Min. | Max. | Mean                        | Std. Dev. | Min. | Max. |
| Tot_Reneg       | 0.193                       | 0.471     | 0    | 5    | 0.107                       | 0.317     | 0    | 2    |
| Financial_Reneg | 0.131                       | 0.387     | 0    | 4    | 0.071                       | 0.261     | 0    | 2    |
| Work_Reneg      | 0.031                       | 0.185     | 0    | 3    | 0.013                       | 0.114     | 0    | 1    |
| Other_Reneg     | 0.033                       | 0.183     | 0    | 2    | 0.012                       | 0.109     | 0    | 1    |

Table 3: Election Cycles

|      |     |      |      |      |      |      |      |      |
|------|-----|------|------|------|------|------|------|------|
| Pre  | y-2 | 1968 | 1974 | 1980 | 1986 | 1992 | 1998 | 2005 |
|      | y-1 | 1969 | 1975 | 1981 | 1987 | 1993 | 1999 | 2006 |
|      | y   | 1970 | 1976 | 1982 | 1988 | 1994 | 2000 | 2007 |
| Post | y+1 | 1971 | 1977 | 1983 | 1989 | 1995 | 2001 | 2008 |
|      | y+2 | 1972 | 1978 | 1984 | 1990 | 1996 | 2002 | -    |
|      | y+3 | 1973 | 1979 | 1985 | 1991 | 1997 | 2003 | -    |
|      | y+4 | -    | -    | -    | -    | -    | 2004 | -    |

Table 4: Summary statistics for control variables

| Variable    | Public Contracts (N = 6672) |           |       |      | Private Contracts (N = 834) |           |       |      |
|-------------|-----------------------------|-----------|-------|------|-----------------------------|-----------|-------|------|
|             | Mean                        | Std. Dev. | Min.  | Max. | Mean                        | Std. Dev. | Min.  | Max. |
| Ct_Cycle    | 0.449                       | 0.322     | 0.011 | 2    | 0.541                       | 0.377     | 0.013 | 2    |
| Ct_Cycle2   | 0.305                       | 0.458     | 0     | 4    | 0.435                       | 0.595     | 0     | 4    |
| Right       | 0.618                       | 0.486     | 0     | 1    | 0.415                       | 0.493     | 0     | 1    |
| Right * Pub | 0.618                       | 0.486     | 0     | 1    | 0                           | 0         | 0     | 0    |

Table 5: Statistics for duration; with and without concession contracts

| Type of contract               | Nb Obs | Mean  | Min. | Max. |
|--------------------------------|--------|-------|------|------|
| Public                         | 557    | 17.91 | 0    | 91   |
| Private                        | 119    | 10.05 | 0    | 78   |
| Public (concessions excluded)  | 413    | 11.49 | 0    | 76   |
| Private (concessions excluded) | 118    | 10.08 | 0    | 78   |

Table 6: Summary statistics, aggregated

| Variable                          | Mean  | Std. Dev. | Min. | Max.  | N    |
|-----------------------------------|-------|-----------|------|-------|------|
| Pre                               | 0.562 | 0.496     | 0    | 1     | 1052 |
| Public                            | 0.835 | 0.372     | 0    | 1     | 1052 |
| Pre * Public                      | 0.466 | 0.499     | 0    | 1     | 1052 |
| Tot_Reneg                         | 0.182 | 0.287     | 0    | 2.333 | 1052 |
| Financial_Reneg                   | 0.124 | 0.236     | 0    | 2     | 1052 |
| Work_Reneg                        | 0.057 | 0.141     | 0    | 1     | 1052 |
| Other_Reneg                       | 0.033 | 0.112     | 0    | 1     | 1052 |
| Types of <i>Financial_Reneg</i> : |       |           |      |       |      |
| Remun_Reneg                       | 0.089 | 0.204     | 0    | 2     | 1052 |
| Price_Reneg                       | 0.052 | 0.129     | 0    | 1.111 | 1052 |

Table 7: Expected impact of *Pre \* Public*

|                 | Tot_Reneg | Financial_Reneg | Work_Reneg | Other_Reneg |
|-----------------|-----------|-----------------|------------|-------------|
| Expected impact | +         | +               | 0          | 0           |

Table 8: Regressions of the number of renegotiations, non aggregated

|                | Model 1             | Model 2             | Model 3             | Model 4             | Model 5             | Model 6             | Model 7             | Model 8             |
|----------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                | Tot_Reneg           | Financial_Reneg     | Work_Reneg          | Other_Reneg         | Dum_Tot_Reneg       | Dum_Financial_Reneg | Dum_Work_Reneg      | Dum_Other_Reneg     |
|                | OLS FE              | OLS FE              | OLS FE              | OLS FE              | LPM FE              | LPM FE              | LPM FE              | LPM FE              |
| Pre            | -0.043<br>(0.027)   | -0.033<br>(0.021)   | -0.003<br>(0.019)   | -0.001<br>(0.009)   | -0.044*<br>(0.026)  | -0.030<br>(0.020)   | -0.005<br>(0.018)   | -0.002<br>(0.009)   |
| Pre * Public   | 0.077***<br>(0.028) | 0.066***<br>(0.022) | 0.014<br>(0.020)    | 0.002<br>(0.010)    | 0.069**<br>(0.027)  | 0.059***<br>(0.021) | 0.013<br>(0.020)    | 0.000<br>(0.010)    |
| Right          | 0.061*<br>(0.034)   | 0.052*<br>(0.028)   | 0.011<br>(0.010)    | -0.016*<br>(0.009)  | 0.058*<br>(0.032)   | 0.043<br>(0.027)    | 0.013<br>(0.010)    | -0.015*<br>(0.009)  |
| Right * Public | -0.036<br>(0.037)   | -0.032<br>(0.030)   | 0.007<br>(0.013)    | 0.014<br>(0.010)    | -0.038<br>(0.034)   | -0.025<br>(0.029)   | 0.005<br>(0.012)    | 0.014<br>(0.010)    |
| Ct_Cycle       | 0.030<br>(0.096)    | 0.103<br>(0.081)    | -0.028<br>(0.043)   | -0.042<br>(0.030)   | -0.017<br>(0.068)   | 0.056<br>(0.057)    | -0.021<br>(0.040)   | -0.041<br>(0.029)   |
| Ct_Cycle2      | 0.044<br>(0.053)    | 0.013<br>(0.047)    | 0.024<br>(0.021)    | 0.018<br>(0.016)    | 0.060*<br>(0.036)   | 0.031<br>(0.030)    | 0.015<br>(0.019)    | 0.018<br>(0.015)    |
| Constant       | 0.211***<br>(0.042) | 0.114***<br>(0.032) | 0.095***<br>(0.022) | 0.037***<br>(0.013) | 0.183***<br>(0.029) | 0.100***<br>(0.024) | 0.086***<br>(0.020) | 0.037***<br>(0.013) |
| Nb Obs         | 7506                | 7506                | 7506                | 7506                | 7506                | 7506                | 7506                | 7506                |
| Adj. R2        | 0.125               | 0.108               | 0.070               | 0.029               | 0.108               | 0.095               | 0.062               | 0.028               |
| AC tests       | 0.895               | 0.021               | 0.989               | 0.357               | 0.392               | 0.008               | 0.651               | 0.320               |

Note: Cluster robust standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Under AC tests, we report the p-values of the Wooldridge tests for autocorrelation in panel data (H0: no first-order autocorrelation).

Table 9: Regressions of the mean number of renegotiations, aggregated

|              | Model 1             | Model 2             | Model 3             | Model 4             |
|--------------|---------------------|---------------------|---------------------|---------------------|
|              | Tot_Reneg           | Financial_Reneg     | Work_Reneg          | Other_Reneg         |
|              | OLS FE              | OLS FE              | OLS FE              | OLS FE              |
| Pre          | -0.028<br>(0.034)   | -0.022<br>(0.023)   | -0.008<br>(0.021)   | -0.003<br>(0.016)   |
| Pre * Public | 0.063*<br>(0.037)   | 0.058**<br>(0.026)  | 0.017<br>(0.023)    | 0.001<br>(0.017)    |
| Constant     | 0.165***<br>(0.007) | 0.104***<br>(0.006) | 0.059***<br>(0.004) | 0.033***<br>(0.003) |
| Nb Obs       | 2508                | 2508                | 2508                | 2508                |
| Adj. R2      | 0.709               | 0.686               | 0.620               | 0.545               |

Note: Cluster robust standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Our regressions are weighted by the number of election periods represented by each observation.

Table 10: Regressions of the types of financial renegotiations, aggregated

|              | Model 1             | Model 2             |
|--------------|---------------------|---------------------|
|              | Remun_Reneg         | Price_Reneg         |
|              | OLS FE              | OLS FE              |
| Pre          | -0.025<br>(0.024)   | -0.008<br>(0.010)   |
| Pre * Public | 0.051**<br>(0.026)  | 0.030**<br>(0.013)  |
| Constant     | 0.075***<br>(0.005) | 0.046***<br>(0.004) |
| Nb Obs       | 2508                | 2508                |
| Adj. R2      | 0.660               | 0.675               |

Note: Cluster robust standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Our regressions are weighted by the number of election periods represented by each observation.

Table 11: Robustness check 1: Different election dates (t+/-2)

|              | Model 1                      | Model 2                      | Model 3                            | Model 4                            | Model 5                       | Model 6                       | Model 7                        | Model 8                        |
|--------------|------------------------------|------------------------------|------------------------------------|------------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
|              | Tot_Reneg<br>OLS FE<br>t - 2 | Tot_Reneg<br>OLS FE<br>t + 2 | Financial_Reneg<br>OLS FE<br>t - 2 | Financial_Reneg<br>OLS FE<br>t + 2 | Work_Reneg<br>OLS FE<br>t - 2 | Work_Reneg<br>OLS FE<br>t + 2 | Other_Reneg<br>OLS FE<br>t - 2 | Other_Reneg<br>OLS FE<br>t + 2 |
| Pre          | 0.028<br>(0.030)             | 0.019<br>(0.027)             | 0.018<br>(0.026)                   | 0.028<br>(0.024)                   | -0.013<br>(0.011)             | 0.018*<br>(0.009)             | 0.008<br>(0.008)               | -0.006<br>(0.010)              |
| Pre * Public | -0.041<br>(0.033)            | -0.042<br>(0.029)            | -0.029<br>(0.028)                  | -0.041<br>(0.027)                  | 0.008<br>(0.014)              | -0.018<br>(0.012)             | -0.004<br>(0.010)              | -0.011<br>(0.011)              |
| Constant     | 0.187***<br>(0.006)          | 0.188***<br>(0.006)          | 0.129***<br>(0.005)                | 0.123***<br>(0.005)                | 0.066***<br>(0.004)           | 0.062***<br>(0.003)           | 0.028***<br>(0.002)            | 0.039***<br>(0.002)            |
| Nb Obs       | 2994                         | 3041                         | 2994                               | 3041                               | 2994                          | 3041                          | 2994                           | 3041                           |
| Adj. R2      | 0.692                        | 0.666                        | 0.676                              | 0.631                              | 0.613                         | 0.627                         | 0.625                          | 0.567                          |

Note: Cluster robust standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Our regressions are weighted by the number of election periods represented by each observation.

Table 12: Robustness check 2: Concession contracts excluded

|              | Model 1             | Model 2             | Model 3             | Model 4             |
|--------------|---------------------|---------------------|---------------------|---------------------|
|              | Tot_Reneg           | Financial_Reneg     | Work_Reneg          | Other_Reneg         |
|              | OLS FE              | OLS FE              | OLS FE              | OLS FE              |
| Pre          | -0.028<br>(0.037)   | -0.022<br>(0.025)   | -0.008<br>(0.023)   | -0.003<br>(0.017)   |
| Pre * Public | 0.071<br>(0.044)    | 0.082***<br>(0.031) | 0.034<br>(0.027)    | -0.020<br>(0.020)   |
| Constant     | 0.167***<br>(0.011) | 0.100***<br>(0.009) | 0.046***<br>(0.007) | 0.042***<br>(0.005) |
| Nb Obs       | 1402                | 1402                | 1402                | 1402                |
| Adj. R2      | 0.664               | 0.668               | 0.584               | 0.507               |

Note: Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table 13: Election Cycles with 2-year pre-election period

|      |     |      |      |      |      |      |      |      |
|------|-----|------|------|------|------|------|------|------|
| Pre  | y-2 | 1968 | 1974 | 1980 | 1986 | 1992 | 1998 | 2005 |
|      | y-1 | 1969 | 1975 | 1981 | 1987 | 1993 | 1999 | 2006 |
| Post | y   | 1970 | 1976 | 1982 | 1988 | 1994 | 2000 | 2007 |
|      | y+1 | 1971 | 1977 | 1983 | 1989 | 1995 | 2001 | 2008 |
|      | y+2 | 1972 | 1978 | 1984 | 1990 | 1996 | 2002 | -    |
|      | y+3 | 1973 | 1979 | 1985 | 1991 | 1997 | 2003 | -    |
|      | y+4 | -    | -    | -    | -    | -    | 2004 | -    |

Table 14: Robustness check 3: Two-year pre-election period

|              | Model 1   | Model 2         | Model 3    | Model 4     |
|--------------|-----------|-----------------|------------|-------------|
|              | Tot_Reneg | Financial_Reneg | Work_Reneg | Other_Reneg |
|              | OLS FE    | OLS FE          | OLS FE     | OLS FE      |
| Pre          | -0.034*   | -0.033**        | -0.019     | 0.005       |
|              | (0.021)   | (0.017)         | (0.018)    | (0.011)     |
| Pre * Public | 0.075***  | 0.076***        | 0.021      | 0.001       |
|              | (0.025)   | (0.021)         | (0.020)    | (0.013)     |
| Constant     | 0.170***  | 0.109***        | 0.067***   | 0.029***    |
|              | (0.006)   | (0.005)         | (0.004)    | (0.002)     |
| Nb Obs       | 2813      | 2813            | 2813       | 2813        |
| Adj. R2      | 0.683     | 0.647           | 0.557      | 0.541       |

Note: Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .