

Research Group: *Industrial Organization*

*September, 2010*

# The Cost of Contract Renegotiation: Evidence from the Local Public Sector

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# The Cost of Contract Renegotiation: Evidence from the Local Public Sector<sup>1</sup>

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September 14, 2010

The renegotiation of regulatory contracts is known to prevent regulators from achieving the full commitment efficient outcome in dynamic contexts. However, assessing the cost of such renegotiation remains an open issue from an empirical viewpoint. To address this question, we fit a structural principal-agent model with renegotiation on a set of urban transport service contracts. The model captures two important features of the industry. First, only two types of contracts are used in practice (fixed-price and cost-plus). Second, subsidies increase over time. We compare a scenario with renegotiation and a hypothetical situation with full commitment. We conclude that the welfare gains from improving commitment would be significant but would accrue mostly to operators.

**JEL Codes:** D86, L51.

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<sup>1</sup>We thank seminar participants at IDEI-Toulouse, EARIE 2008, CEPR 2009 Applied IO Workshop, ESEM 2009 at Barcelona, Jornadas de Economía Industrial 2009, Copenhagen, LSE, Cergy-Pontoise, Frankfurt, Zurich, Pedro Albarran, Malin Arve, Michele Goere, Jordi Jaumandreu, Emile Quinet, Armin Schmutzler and Quang Vuong for comments and helpful discussions. We are also grateful to the Centre d'Etude et de Recherche sur le Transport Urbain (CERTU, Lyon, France) for providing the data. Gagnepain thanks Ministerio de Educación y Ciencia (SEJ2004-00670 and SEJ2007-66268), as well as Fundación BBVA for financial assistance. Ivaldi and Martimort thank the Agence Nationale pour la Recherche for its financial support. All errors are ours.

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