

Public procurement and supplier job creation: Insights from auctions *

Stjepan Srhoj[†]& Melko Dragojević[‡]

This draft October 5, 2021

Abstract

Public procurement contracts (PPCs) of goods, services and works is about one tenth of global gross domestic product. Much research has been conducted on government spending and its aggregate effects, but evidence is scarce at the micro-level. This study exploits sealed-bid PPC auctions of construction works, discontinuity in bidders' win margin and firms' daily employment variation to provide a causal estimate of winning a PPC on firms' employment. Winning a PPC has a small positive impact on a firm's short-run employment. The study investigates mechanisms and heterogeneity that can explain the initial small magnitudes. No compelling evidence is found in favour of political connections, an information leakage channel or PPC size as explanations for the small magnitude. A investigation of longer period shows the impact phases out in less than a year. The lack of a long-term impact is due to runners-up winning more PPCs and runners-up substituting towards more market revenue in the year after closely losing a PPC. Finally, the impacts are concentrated in construction firms that conduct the majority of contracted work *in-house*. The final estimation shows the effect is about four new employees per PPC with a public cost per job created at €45,200 [€34,200 - €66,200].

JEL: H57; D44; D22; M51

Keywords: public procurement; auction; firms; jobs; employment

*The authors would like to express gratitude for comments received from Janette Walde, Alex Coad, Jurica Zrnc, Vuk Vuković, Dejan Kovač, Ivan Žilić, Vedrana Pribičević, Marko Turudić, Marko Družić, Vanja Vitezić, Željko Mrnjavac, Vinko Muštra, Bruno Čorić, Paško Burnač, Josipa Višić and Maja Pervan. The authors are very grateful to Nikola Kleut and Dinko Matković for expert help with data structuring and web scrape coding, and to the research team of Marino Stanković, Ivan Potrebica, and Ivan Lučić for their help with data collection. The authors are thankful for comments received by the participants of the conference '*Economic meetings in the memory of Branko Horvat*' organised by the *Scientific Society of Economists - Zagreb* in Cres (Croatia), 9-10 September 2021, and to Gray Krueger for editorial support. Lastly, the authors acknowledge colleagues from *Institute of Public Finance* for encouraging words and motivation.

[†]Assistant Professor, Department of Economics and Business, University of Dubrovnik (Croatia); CERGE-EI Career Integration Fellow (Czech Republic); Global Labor Organization Fellow (Germany), e-mail: ssrhoj@unidu.hr

[‡]Research Assistant, Department of Economics and Business, University of Dubrovnik