

Abstract to Dina Pomeranz presentation at the DENeB seminar series on Oct. 18th, 2018

"Can audits backfire? Evidence from Public Procurement in Chile"
with Maria Paula Gerardino and Stephan Litschig

No state can successfully execute its functions without a reliable way of monitoring rule compliance. Effective public audits are therefore a key foundation of state capacity. Economists have usually considered audits as neutral tools of information extraction. We look into the black box of the audit process and investigate its effects on public procurement practices in Chile. Our results show that audits can create unintended incentives. Using a regression discontinuity design, we find that audits lead a reduction in the use of public auctions for the selection of suppliers and an increase in the less transparent and less competitive use of direct contracting. Analyzing the details of the auditing process reveals that the use of auctions leads to more scrutiny during the audit for otherwise similar purchases. Since auctions are significantly more complex, the audit protocol mechanically leads to about 2.5 times more checks and about twice as many detected infractions. More generally, rather than neutrally monitoring rule compliance, audits can inadvertently discourage the use of more complex administrative procedures and therefore undermine the very goals the regulation aims to promote.