

Kamikazes in Public Procurement*

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Abstract

Using granular auction data on 15 million item purchases in Brazilian public procurements between 2005-2021, we document a widespread pattern that the lowest bidder (“kamikaze”) does not satisfy required formalities after the auction is concluded, which allows the second-lowest bid to win the auction. Such a pattern can be observed in up to 15-20% of procurement auctions and results in 15-17% higher procurement prices as compared to similar auctions procuring the same product or service items, organized by the same government institutions, and even having the same winning firm. Kamikaze firms are smaller, younger, and tend to be co-owned by the same ultimate owner as the winning firm. Using observed kamikaze behaviour as a marker, we aim to measure how higher procured prices contribute to real outcomes by public service providers by reducing the budget available for sourcing other items. Taking the case of hospital mortality data, we see an increased number of deaths in the four quarters after an increased fraction of procurement auctions involving kamikazes.

Keywords: procurement auctions, bid-rigging, shared ownership, non-market collusion outcomes

JEL Classification: G34, G38, L22, L41

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