Title: Sources of Variation in State Effectiveness and Consequences for Policy Design

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Abstract: Why do some government entities achieve better outcomes than others, even when performing the same task? And what does this imply for the design of policy? Using the universe of public procurement purchases in a large, heterogeneous country---Russia---we show that individual bureaucrats and the organizations they work for together account for half the variation in prices paid for the same goods, and study the correlates of bureaucrat and organization quality. We then study the implications of this heterogeneity for the impact of a ubiquitous procurement policy: granting bidding preferences to groups of bidders---here suppliers of domestically produced goods. We find that while the policy uniformly increases the probability that preferred bidders win contracts, the effects on prices paid and the competitiveness of the auction depend on the quality of the bureaucrat and organization implementing the purchase. Low ability government entities have low baseline entry rates, making the pro-competitive effects of the policy on entry by preferred bidders strong enough to outweigh the anti-competitive effects of tilting the playing field against the most efficient providers. These results suggest that distorting competition in procurement purchases can become second-best optimal when state capacity is low.