

Understanding Home Bias in Procurement: Evidence from National and Subnational Governments

Marta Santamaria and Manuel García-Santana

Abstract :

Are governments locally biased when buying goods and services from private firms? And if so, to what extent can this home bias explain the lack of integration in procurement markets across regions and countries? Using more than one million public procurement contracts awarded by 30,000 government agencies in French and Spanish regions, we explore the hypothesis that a government's home bias depends on the geographical level at which the government operates. To test our hypothesis, we classify agencies into national agencies (i.e., the central or federal administration) and subnational agencies (i.e., an individual region or territory within the country). We then identify the relative home bias across governments with a novel identification strategy that relies on observing the same establishment selling the same product to national and subnational governments located in the same destination, controlling for firm and origin-destination characteristics. Our results show that the government's home bias, especially that of subnational agencies, explains a big part of the high levels of local concentration in government procurement across regions and countries. Our findings point towards significant inefficiencies in the allocation of government procurement expenditure across firms, regions, and countries within the European Union.