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***“The Cost of Contract
Renegotiation: Evidence from the
Local Public Sector”***

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and David MARTIMORT***

The Cost of Contract Renegotiation: Evidence from the Local Public Sector ¹

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The renegotiation of regulatory contracts is known to prevent regulators from achieving the full commitment efficient outcome in dynamic contexts. However, assessing the cost of such renegotiation remains an open issue from an empirical viewpoint. To address this question, we fit a structural principal-agent model with renegotiation on a set of urban transport service contracts. The model captures two important features of the industry. First, only two types of contracts are used in practice (fixed-price and cost-plus). Second, subsidies increase over time. We compare a scenario with renegotiation and a hypothetical situation with full commitment. We conclude that the welfare gains from improving commitment would be significant but would accrue mostly to operators.

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