

**Public-Private Partnerships:
What Contractual Choices for What Performances?**

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Abstract: There has been a growing interest in economics with regard to alternative organizational arrangements in order to provide public interest services. More precisely, the optimal involvement of private operators in relation to market failures has been questioned. Following the UK privatization program in the 80's, one might look for a model to transfer ownership of infrastructure utilities from the public to the private sector. This transfer of ownership is based on the idea that market forces and private ownership can lead to better performances, for instance by insulating management by way of political interference (See Boyco-Shleifer 1995 for a specific model and Vickers-Yarrow 1991 and Vining-Boardman 1992 for a more general discussion on this issue). This increased control would favour reduction of costs (and prices if competition exists) improvement in quality and innovativeness of these activities. Solutions other than full privatization are also proposed, such as public-private partnerships.

This debate is well illustrated by contract theories. Such approaches try to answer one general question: under what conditions may public goods be provided through competition (for the field or / and in the market) at price levels acceptable to consumers while maintaining a minimum level of quality.

In this paper, using an original database concerning 5000 choices made by French local public authorities we explore the relationships between contractual choices and prices and quality of service. Using recent theoretical developments of the incomplete contract theory (Hart-Shleifer-Vishny 1997; Hart 2003) and transaction cost economics (Williamson 1999), we make propositions and we test them econometrically.

Such investigation put some light on two linked questions that are 1/ how and why PPP are chosen by local public authorities and 2/ how PPP impact on performances. Results clearly show that contractual choices are not randomly chosen and that the involvement of private operators in the game may improve results, but not always.

Key Words : public services, contractual choices, transaction costs, delegated management contracts

JEL Codes : H0, H7, K00, L33

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