Loss of Efficient Competition in Public Procurement and Market Failure

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Abstract:

Both public procurement and competition law represent two of the basic components of market regulation and affect highly on the efficiency and development of economics. Economics has always played a more significant role in competition law while public procurement regulations and practices are a source of market failure. By their inflexible price policies, they generate a big negative impact on market dynamics and impose an efficiency loss on society. The government as the main buyer can cause monopsony and their action in the market can detract from perfect competition. The public procurement regulation may remove a number of suppliers from public market. Whilst government may benefit in the short term from cost-saving and low prices, by these reductions of opportunities and imposing prices on suppliers, the long term effects can be destructive and worse market conditions for fringe buyers—both in terms of reduced variety and (in the long run) in higher prices. In order to justify the view that public procurement is a source of potential distortion in market competition, this research has criticized the monopsony of government and its effects on suppliers and other smaller buyers.

Keywords:

Competition Law, Monopsony, Market Failure, Public Procurement.

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