

Stimulus money should go to lowest bidders, economists say

April 20 2009, BY ADAM GORLICK

A group of Stanford economists is pressing the government to streamline the process for doling out \$7.2 billion in economic stimulus money slated for high-speed Internet development.

In a paper submitted this week to the National Telecommunications Information Agency and the Rural Utilities Service, the 13 Stanford experts on telecommunications, auctions and competition policy joined 58 other [economists](#) in urging the agencies to award broadband stimulus grants to the lowest bidder, rather than wading through stacks of proposals and trying to decide which are the best ones.

While they don't necessarily see eye-to-eye on the \$787 billion federal stimulus package, "we believe that it is important to implement mechanisms that make stimulus spending as efficient as possible," the economists wrote. The broadband stimulus grants are intended to beef up the country's Internet infrastructure, creating online access in currently underserved areas.

By relying on so-called procurement auctions, government officials will have easier and earlier control over how the money is used while guarding against overpayment for projects, the economists say.

"Our idea is that the government should set up criteria for the projects in advance of the auctions, rather than being subjective and establishing the criteria after people submit the proposals," said Gregory Rosston, deputy director of the Stanford Institute for Economic Policy Research.

Otherwise, weighing proposals against each other would be arbitrary, take too long and lead to “picking the ones that have the best political influence,” Rosston said.

Having Internet providers bid on the grant money will foster a more competitive market, preventing companies from overcharging the government for services it may not want.

At the same time, “you have to make sure that the person who submits the lowest bid doesn’t do a shoddy job,” Rosston said.

To hold the bid winners to their promises, the economists suggest having them put money in an escrow account that will be returned only when their obligations are met. They also say that to ensure the grants are sparking new economic activity, the companies should be given some money to start the projects, and receive the balance when they finish.

While the broadband grants amount to a relatively small chunk of the entire stimulus package, Rosston said procurement auctions could also apply to the selection of businesses vying for [money](#) earmarked for other utility and highway projects.

“At a minimum, the broadband stimulus funds present a golden opportunity to implement rigorous evaluation techniques, which will generate knowledge that can be applied to other current and future programs,” the economists wrote.

The other Stanford economists signing their names to the paper submitted this week are: Kenneth Arrow, Timothy Bresnahan, Jeremy Bulow, Peter DeMarzo, Robert Hall, Ward Hanson, Ilan Kremer, Paul Milgrom, Roger Noll, Bruce Owen, Yoav Shoham and Andrzej Skrzypacz.

Provided by Stanford University ([news](#) : [web](#))

Citation: Stimulus money should go to lowest bidders, economists say (2009, April 20) retrieved 4 May 2024 from

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