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Tax Farming: The Effects of Contracting Out Delinquent Tax Collection on the Tax Collection Performance of County Governments in the U.S.*

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Is contracting out a county's delinquent tax collection more efficient than making public employees responsible for it? Based on the public choice theory, existing literature on the history of tax farming, and the theory of agency, we hypothesize that contracting out a county's delinquent tax collection is likely to increase tax collection efficiency. To test our hypotheses, a pooled cross-sectional analysis was conducted using the merged data of 345 counties in the United States from 1997 and 2002. The empirical results show that outsourcing a county's delinquent tax collection statistically reduces property tax revenue per dollar of financial management expenditure. The outsourcing also reduces the total tax revenue per dollar of financial management expenditure, but not at a statistically significant level. These findings raise the question of why county governments use private debt collectors even though outsourcing delinquent taxes is not efficient from a financial perspective.

[Key Words: Outsourcing Tax Collecting, Tax Farming, Local Governments, Financial Performance]

I. Introduction

Taxation is a coercive transaction based on the authority of the public sector. It is a forced transfer of money from the private sector to the public sector such as the governments. When the government considers contracting out its functions to the private sector, the outsourcing of

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tax collection is more controversial than other governmental functions, for example, garbage collection, because of the coercive nature of taxation and the mechanisms for enforcement. Delinquent tax collection is even more controversial than other taxation processes, such as processing tax bills, assessing taxes, and processing tax data.

Despite the unique nature of tax collection, governments (e.g., rulers and kings) have historically contracted with private agents (e.g., businessmen, bankers, merchants, and tax farming syndicates) known as “tax farmers” to enhance their tax collection capacities from the third millennium B.C. to the eighteenth century (Webber & Wildavsky, 1986; Levi, 1988). Under this old practice of contracting out tax collection, the right to collect taxes was auctioned off to tax farmers (Stella, 1993) or governments shared tax revenue with them (Cizakca, 1996). Tax farming was naturally developed as an alternative to governmental collection, becoming a private-sector solution to inefficient bureaucratic tax collection (Stella, 1993).

In the 1990s, under the Bush and Clinton Administrations, there were attempts to contract out the delinquent federal income tax collection of the Internal Revenue Service (IRS) to private collection agencies (e.g., law firms, CPA firms, and other private bad debt collection companies) in the United States. However, Congress refused this proposal because it was concerned that the overzealous collection efforts of private collectors would likely violate taxpayers’ rights. Congress worried that private collection agencies would be likely to collect delinquent taxes too efficiently, and, in turn, such overly efficient tax collection would lead to a reduction in procedural fairness and violate the privacy of taxpayers. Meanwhile, since the 1980s, many state and local governments had already been outsourcing their delinquent tax collection, even though there were some variations in outsourcing. According to the Association of Credit and Collection Professionals¹⁾ (i.e., the ACA International), forty-three states, most federal agencies, and thousands of cities and counties have used Private Collection Agents (PCAs) for the collection of delinquent taxes and other receivables (e.g., student loans). However, there have been few studies on the empirical effects of the functions and performance of reintroducing tax farming into tax administration. To fill this lacuna, this research aims to empirically examine the effect of contracting out a U.S. county’s delinquent tax collection on tax collection performance in terms of financial efficiency by applying a pooled cross-sectional analysis using data from 1997 through 2002.

1) ACA international was founded in 1939 for representing third-party tax collection agencies, law firms, asset buying companies, creditors and vender affiliates.

II. Literature Review and Theoretical Framework

There is a rich history of studies on the privatization of public services. Many of these studies are focused on the field of public administration and policy (e.g. Sappington & Stiglitz, 1987; Park, 1987; Poole & Fixler, 1987; Prager, 1994; Guenther, 2006), and discuss the political and philosophical concepts and rationale of privatization rather than analyze its impact empirically. While there are some empirical studies on contracting out government services in the field of public administration and policy (Ferris & Graddy, 1986; Greene, 1996; Clinger Mayer & Feiock, 1997; Nelson, 1997; Tigue, Larson, & Zorn, 1997), they focus on the motivations and factors affecting governments' decisions to outsource public services instead of examining the effects of contracting out governmental services. They have also typically used survey data based on subjective perceptions of contracting out services and concluded that the choice of public service delivery is driven by not only purely economic reasons but also political ones. More recently, using hard data, the literature on empirical assessment of the outsourcing of governmental services, for example, garbage collection, prison management, and social and e-government services (Marvel & Marvel, 2007; Ya Ni & Bretschneider, 2007), has been growing. However, from a public fiscal administration perspective, these studies are about contracting out the expenditure side of government activities. There are few studies on contracting out the revenue side of governmental functions using hard data, except for Jang and Eger's (2019) study on the effects of outsourcing a state's delinquent tax collection on tax administration performance. In order to fill this lacuna, this research contributes to developing the literature on contracting out governmental functions, especially those related to their revenue collection by exploring the effects of contracting out delinquent tax collection on tax collection performance by county governments in the United States.

This article's theoretical foundation is built on a proposition identified by the public choice theory (Domberger & Jensen, 1997; Blom-Hansen, 2003; Fernandez, Ryu, & Brudney, 2008), historical studies on tax farming practices, and the theory of agency (Ross, 1973; Jensen & Meckling, 1976). The public choice theory claims that contracting out government services leads to greater efficiency (i.e., the ability to get things done at a lower cost) due to competition. Public choice theorists believe that because of the monopolistic nature of bureaucracy, public employees have no incentive to provide services to the public efficiently. Meanwhile, because of the competitive nature of the private market, private employees have an incentive to achieve high efficiency to maximize their financial rewards. That is, these theories theoretically validate the legitimacy of governments outsourcing their functions to the private sector in order to enhance the efficiency and quality of public services through competition among the firms and public organizations in the market. Public choice theory tends to highlight advantages of

contracting out. Therefore, contracting out tax collection is a promising option from public choice theory point of view. However, contracting out may have detrimental effects on other administrative values, such as justice, public interest, citizen rights, accountability, and due process. Holmstrom and Milgrom (1991 & 1994: 1131) argue that “an agent with strong incentives to pursue on objectives, such as profits, can lead to his shirking on other objective, such as quality.” In the short term, the government may focus on amount of revenue collected and cost saving. However, in the long term, the government may also concern themselves about the taxpayer’s rights, which are related to the concept of public service “quality” (Hart, Shleifer, & Vishny 1997; Holmstrom & Milgrom 1991, 1994).

Historical studies on tax farming identified the benefits and costs of the features of tax farming (e.g., Webber & Wildavsky, 1986; Azabou & Nugent, 1988; Levi, 1988). Tax farming was defined as a financially innovative and efficient tax collection method, especially before a government has fully developed its tax collection bureaucracy. According to research, tax farming is a more efficient way to improve enforcement associated with tax collection than a bureaucratic system because private collectors are financially motivated based on an incentive-based contract with their firms. That is, such a contract encourages private collectors to collect taxes more effectively at a lower cost. While tax farming is an efficient means to collect taxes, tax farmers have an incentive to abuse the authority delegated to them by the public sector (Webber & Wildavsky, 1986; Levi, 1988; Azabou & Nugent, 1988; Stella, 1993; Ma, 2003). Ma (2003) argues that “the historical experience of tax farming provides the very case illustrating how governments achieved efficiency (e.g., revenue maximization or cost-savings) at the price of the public interest and taxpayer rights.” Jang and Eger (2019) found that while outsourcing a state’s delinquent tax collection reduces collection costs, it increases procedural issues in tax collection

The underlying mechanism of tax farming is associated with its unique payment scheme. In the theory of agency, the various types of payment schemes represent different forms of contracts. In a principal-agent delegation relation, the principal chooses a contract form to address the agency problem, which is that agents tend to deviate from the principal’s intent. To address this agency problem, the principal chooses a compensation system from various types (i.e., different forms of contracts)—a fixed-rent contract, revenue-sharing contract, and fixed-wage contract. The principal may choose a fixed-wage contract to force the agent to input a certain minimum necessary level of effort. Current in-house tax collection using public employees is a form of fixed contract that does not entail a direct financial relationship between tax collection performance and financial reward to the agents.

Alternatively, the principal may choose an incentive-based system, such as a fixed-rent or revenue-sharing contract, to increase the agent’s output of effort through two means. First, the government may sell its right to collect taxes to private agents. This rent-contract form of tax farming is very similar to tax sales in local governments (Pointdexter, Lizabeth, & Wachter, 1997;

Alexander, 2000). Second, the government may enter a revenue-sharing contract according to which it hires private agents to collect delinquent taxes and pays commissions based on their collection performance. Based on public choice theory, historical studies on tax farming, and the theory of agency, we build a proposition that states that contracting out a county's delinquent tax collection will improve tax collection performance.

III. Tax Collection Performance and Measurement Issues

One of the research issues regarding tax farming is how to measure the performance of the outsourcing of tax collection through straightforward means. To measure the effect of contracting out a county's delinquent tax collection on tax collection performance, we use the amount of tax revenue per dollar of financial administration expenditure. The most accurate and ideal way to examine the effect of outsourcing on delinquent tax collection performance is to compare public agents' and private agents' performance in terms of the amount of collected delinquent taxes per cost directly related to delinquent tax collection. While Revenue Canada (RC) uses collected delinquent tax amount per Full-Time Equivalent (FTE) as one of the productivity indices associated with tax administration (Baker, 1994), the total spending of the department of revenue is a more appropriate measure of tax collection costs than the number of full-time employees in the department in terms of the financial perspective.

However, since we faced data accessibility issues that prevented direct measurement of the performance of tax farming, this research attempts to apply several alternative methods of measurement. First, we use the collected total taxes rather than the collected delinquent taxes. The data for delinquent taxes at the local level is not available to the public and is usually only presented on internal financial statements by governments. Tax collection agencies could also view such information about the amount of delinquent taxes as potentially embarrassing. Local governments might report such financial information to their state governments rather than to the public. It is not easy to acquire data on the number of employees associated with revenue services in local governments either. The total collected taxes include the collected delinquent property taxes. We use the amount of collected property taxes, as well as the total taxes collected, in our analysis because property taxes are a major source of tax revenue for county governments. The total amount of taxes collected is a function of the tax base, tax rate, and tax collectors' collection efforts. If we control the tax base, tax rate, and other factors, the difference in the amount of taxes collected will be attributable to the difference in collection efforts between public employees and private debt collectors.

Second, we use financial administration expenditures, which are expenditures directly related to

delinquent tax collection, rather than delinquent tax collection costs. While county governments' budget documents and final statements are available publicly, those financial documents do not provide information on expenditures directly related to delinquent tax collection separately from other tax and financial administration expenditures.

IV. Hypotheses and Model

This study explores the difference in tax collection performance between counties using their own employees and counties using private debt collectors. We empirically test the following two hypotheses:

Hypothesis 1: Contracting out delinquent tax collection is likely to increase total tax collected per dollar of financial administration expenditure.

Hypothesis 2: Contracting out delinquent tax collection is likely to increase property tax collected per dollar of financial administration expenditure.

The following two regression analyses are conducted to measure tax collection performance:

$$Tax\ Collection\ Performance_i = \beta Private\ Agent\ Dummy_i + \delta X_i + d_t + d_s + \epsilon_i$$

The *i* indexes counties, *s* indexes states, and *t* indexes years, 2002. Table 1 shows each variable, its description, and the data sources used in the equation above. Table 1 contains all variables, their descriptions, and the data sources used in the regression model above.

<Table 1> Variable Descriptions and Data Sources

	Variables	Descriptions	Sources
Dependent Variables	Property tax revenue per \$1	Collected Property Tax per \$1 of Financial Administration Expenditure (in \$1) = Total Property Tax Revenue / Total Financial Administration Expenditure	U.S. Bureau of Census, <i>Compendium of Government Finance</i> , 1997 and 2002(http://www.census.gov/prod/www/abs/govern.html)
	Total tax revenue per \$1	Collected All Tax per \$1 of Financial Administration Expenditure (in \$1) = Total All Tax Revenue / Total Financial Administration Expenditure	U.S. Bureau of Census, <i>Compendium of Government Finance</i> , 1997 and 2002(http://www.census.gov/prod/www/abs/govern.html)

	Variables	Descriptions	Sources
Explanatory Variable of Interest	private	Private Agency Dummy = 1 (as Contracting out to private debt collectors for delinquent tax collection) and 0 (as Using their own employees)	International City/County Management Association (ICMA), <i>Profile of Local Government Service Delivery Choices</i> survey, 1997 and 2002
Control Variables	population	County population (in thousands)	U.S. Bureau of Census, <i>Compendium of Government Finance</i> , 1997 and 2002(http://www.census.gov/prod/www/abs/govern.html)
	mhincome	Median Household Income (in \$1,000)	U.S. Bureau of Census, <i>Government Finance</i> , 1997 and 2003
	govform	Form of County Government Dummy = 1 (as Council-administrator or Council-elected executive) and 0 (as Commission)	International City/County Management Association (ICMA), <i>Profile of Local Government Service Delivery Choices</i> survey, 1997 and 2002
	central	Central County Dummy = 1 (as Central Counties in which core city in an MSA (Metropolitan Statistical Area) is located) and 0 (as Otherwise) * Reference County: Independent County = County not located in MSA	International City/County Management Association (ICMA), <i>Profile of Local Government Service Delivery Choices</i> survey, 1997 and 2002
	suburban	Suburban County Dummy = 1 (as Suburban county located in MSA) and 0 (as Otherwise) * Reference County: Independent County = County not located in MSA	International City/County Management Association (ICMA), <i>Profile of Local Government Service Delivery Choices</i> survey, 1997 and 2002
	d2002	Year Dummy = 1 (as 2002 data set) and 0 (as 1997 data set)	NA
	states	State Dummy = 39 Dummy variables (for Merged data set), 33 Dummy variables (for 2002 data set), and 36 Dummy variables (for 1997 data set) * Reference State: Florida	NA

Note: Financial Administration—Activities involving finance and taxation. This includes central agencies for accounting, auditing, and budgeting; the supervision of local government finances; tax administration; collection, custody, and disbursement of funds; administration of employee-retirement systems; debt and investment administration; and the like (U.S. Bureau of Census, *Compendium of Government Finance*).

The independent variable of interest is the Private Agent, which indexes whether a county government contracts out delinquent tax collection by using private debt collectors, where outsourcing is coded as 1 and using public employees is coded as 0. The data on independent variables comes from the International City/County Management Association (ICMA) survey, *Profile of Local Government Service Delivery Choices*, in 1988, 1992, 1997, 2002, and 2007. Table 2 represents the number of counties using public employees and those using private debt collectors among those that responded to the survey.

〈Table 2〉 Status of the Outsourcing of Delinquent Tax Collection of the Respondents

Delinquent Tax Collection	1988	1992	1997	2002	2007
Number of Counties Using Public Employees	36	13	219	79	189
Number of Counties Using Private Debt Collectors	1	11	23	25	25

One of the limitations of the survey data is that all counties did not continuously respond to every ICMA survey in 1988, 1992, 1997, 2002, and 2007. For example, one county responded to the 1988 and 1992 surveys only, while another county responded to only the 1992 and 2002 surveys. Because of this data limitation, this research applied cross-sectional analysis given the data structure by using each year's data rather than applying panel data analysis.

The two dependent variables are the measures of tax collection performance calculated using the total tax collected per dollar of financial administration expenditure and property tax collected per dollar of financial administration expenditure. The ICMA survey data on the outsourcing of delinquent tax collection by local governments does not specify what types of taxes are outsourced when collecting its delinquent tax. Because of the limitations of the data, first, we must assume that county governments are contracting out the same kinds of delinquent taxes as the states. Therefore, we use the total tax collected, or aggregate tax revenue, of county government to capture tax collection performance as a proxy to measure the performance of delinquent tax collection. Second, we alternatively use the property taxes collected, as a major portion of a county's delinquent taxes would likely be delinquent property taxes because it is generally a major source of revenue county level. To calculate these two dependent variables, the total tax revenue collected, property tax revenue collected, and financial administration expenditures are taken from the *Compendium of Government Finance* of the U.S. Bureau of Census, which collected data from the same years as the ICMA survey, starting in 1992. However, data on financial administration expenditures are available only from 1997 and 2002. Therefore, the pooled cross-sectional analysis is conducted using only data from 1997 and 2002.

For the control variables, X_i are the covariates that affect the dependent variables. First, the data on population (in thousands) comes from the *Compendium of Government Finance* of the U.S. Bureau of Census, as do the data on the median household income (in thousands). Second, to capture the political-administrative institutional impact on tax collection administration at the county level, the form of county government is included in the regression equation. The data come from the ICMA survey. A council-administrator or council-elected executive type of county government is coded as 1, and a commission-type of county government is coded as 2. Many scholars in the field of public policy and administration believe that council-administrator or council-elected executive forms of government are more professional and administratively efficient, while the commission-type form of government is more unprofessional and politically efficient. Third, to capture geographical characteristics and population density, Metropolitan Statistical Area

(MSA) data on central, suburban, and independent counties come from the ICMA survey.

Two kinds of dummy variables are used to control for unmeasured effects. The variable is a time dummy meant to capture the differences between the 1997 data set and the 2002 data set. It also captures the time-varying trends in error that are the same for all counties (time-varying heterogeneity).

V. Empirical Results

Table 3 and Table 4 show a summary of statistics on the merged data for the pooled cross-sectional analysis.

(Table 3) Summary of Statistics: All Variables

Variable	Obs.	Mean	Std.Dev.	Min.	Max.
Property Tax Rev. per \$	345	25,9231	13,7147	4,18421	114,0366
Total Tax Rev. per \$1	345	20,15317	10,33141	1,424651	61,95193
Private	345	0,1391304	0,3465852	0	1
Population	345	189,7699	333,7641	3,44	2655,463
Mhincome	345	38,69243	10,08437	0	74,796
Govform	345	0,6985507	0,4595539	0	1
Central	345	0,284058	0,4516196	0	1
Suburban	345	0,2	0,400581	0	1
D2002	345	0,5985507	0,458287	0	1

(Table 4) Summary of Statistics: Dummy Variables

Variable		Variable Frequency	Percentage
Private	1: Private Debt Collectors	48	13,91%
	0: Public Employees	297	86,09%
Covform	1: Council–Administrator or Council–elected Executive	241	69,86%
	0: Commission–type Form of Government	104	30,41%
Central Suburban	Central County	98	28,41%
	Suburban County	69	20,00%
	(Independent County: Reference County)	178	51,59%
D2002	2002 Data (or Observation or County)	103	29,86%
	1997 Data (or Observation or County): Reference Data	242	71,14%

The mean of total tax revenue per dollar of financial administration expenditure is about \$25, and the mean of property tax revenue per dollar of financial administration expenditure is about

\$20. Among the pooled data set (345 counties), 48 counties (about 14%) contract out delinquent tax collection while 297 counties (about 86%) use their own employees. Regarding the form of government, 241 counties (about 70%) have a council-administrator or council-executive structure, while 104 counties (about 30%) have a commission-type form. Based on Metropolitan Statistical Area (MSA) data, 98 counties (about 28%) are located in the center of a metropolitan area, 69 counties (about 20%) are located in a suburb of a metropolitan area, and 178 counties (about 52%) are located outside of a metropolitan area.

〈Table 5〉 Pooled Cross-sectional OLS Results Based on Merged Data from 1997 & 2002

Variable	tt3	pt3	tt2	pt2	tt1	pt1
Private	-2,567327 (-1,5)	-2,5428 (-1,57)	-3,177284 (-1,52)	-2,92963 (-1,85)	-3,18969 (-1,50)	-2,849037 (-1,76)
Population	0,0036776 (1,45)	0,0015764 (0,82)	0,003683 (1,45)	0,0015419 (0,80)		
Mhincome	0,1397514* (1,77)	0,1157889* (1,93)	0,1393501* (1,74)	0,118359 (1,95)		
Govform	-3,300283** (-2,08)	-2,097092* (-1,74)	-3,293736** (-2,05)	-2,139022 (-1,76)		
Central	2,730656 (1,37)	1,9185822 (1,27)	0,72415 (1,35)	1,960184 (1,29)		
Suburban	4,03232 (1,93)	0,4959644 (1,58)	0,3886* (1,92)	2,459963 (1,55)		
D2002	0,533149 (0,03)	-0,3414356 (-0,27)				
Cons	26,2803*** (33,05)	20,50437*** (34,28)	20,98304*** (6,56)	16,202220 (6,67)	0,97953*** (6,54)	6,2247*** (6,67)
R-square	0,0042	0,0072	0,0689	0,0573	0,0698	0,0575
Observation	345	345	345	345	345	345

Note: *p<.1; **p<.05; ***p<.01, (): t value

tt1: Private agent dummy variable-only model for all tax collection

pt1: Private agent dummy variable-only model for property tax collection

tt2: All tax collection performance model to control the county's characteristics, such as population, income, form of government, and geographical area

pt2: Property tax collection performance model to control the county's characteristics, such as population, income, form of government, and geographical area

tt3: All tax collection model to control year effect

pt3: Property tax collection model to control year effect

The fifth regression (tt3) shows that outsourcing a county's delinquent tax collection has no statistically significant effect on the total tax revenue per dollar of financial administration expenditure. Therefore, this result does not support Hypothesis 1, which states that contracting

out delinquent tax collection is likely to increase total tax collected per dollar of financial administration expenditure. Meanwhile, the result of the sixth regression (pt3) shows that outsourcing a county's delinquent tax collection statistically reduces property tax revenue per dollar of financial administration expenditure by \$2.84. Hence, this result is not consistent with Hypothesis 2, which states that contracting out delinquent tax collection is likely to increase property tax collected per dollar of financial administration expenditure. The fifth regression shows that as median household income increases, the total tax revenue per dollar of financial administration expenditure increases by \$0.13. Having a council-administrator or council-elected executive form of government reduces the total tax revenue per dollar of financial administration expenditure by \$3.29. Being a suburban county increases the total tax revenue per dollar of financial administration expenditure by \$4.03.

The empirical results show that outsourcing a county's delinquent tax collection decreases tax revenue per dollar of financial administration expenditure. This result contradicts our hypotheses. One of the possible explanations for these empirical results is that counties with lower tax revenue per dollar of financial administration expenditure tend to utilize private tax collectors to enhance their tax collection capacity. This is consistent with the public choice literature on factors in the choice to outsource. The literature (Warner & Hebdon, 2001; Zullo, 2009) argues that governments adopt outsourcing due to fiscal hardship. Another possible implication of our empirical results is that contracting out a county's delinquent tax collection could increase the cost of financial administration, including tax collection costs. While this article focuses on exploring the financial efficiency of contracting out tax collection, tax farming literature shows that there are costs tax farming, like the over-enforcement of private tax collection. Jang and Eger (2019) also found that outsourcing a state's delinquent tax collection increases procedural issues. Their study shows that using private tax collectors increases the number of tax appeals filed in a state's tax department, especially under a Republican governor. Therefore, while more sophisticated studies using high-quality data are needed to measure the effect of outsourcing on tax administration, our empirical results imply two things. First, county governments could adopt the outsourcing of delinquent tax collection as a tool to mitigate fiscal hardships, but this is not a fundamental solution. Second, county governments must consider not only the benefits of contracting out their delinquent tax collection, but also the costs of it.

VI. Conclusion

One purpose of this research is to empirically investigate the effect of contracting out delinquent tax collection on financial performance in terms of financial efficiency in the United

States. Unlike previous studies, this study approaches this research question from the revenue side rather than the expenditure side using the available proxy measurements of financial performance. The empirical results show that private tax collectors collect a smaller amount of property tax revenue relative to the financial administrative expenditure than do public tax collectors. The finding implies that contracting out debt collection would not be an effective solution to the fiscal hardships of local governments. This unexpected finding provides several implications that could lead policy makers to reconsider privatizing public services. There are several possibilities that might account for this unexpected finding.

First, regarding the agency theory perspective, private tax collectors, as employees, might not be adequately motivated by an incentive-based contract. This may indicate that private tax collection firms do not provide big enough monetary incentives to encourage their tax collectors to perform well.

Second, when private tax collection firms abuse the authority delegated to them through outsourcing, it could increase or cause resistance among taxpayers. Opponents of privatization argue that the outsourcing of public services could lead the private sector to take greater financial advantage of the situation, increasing service fees or charges. Outsourcing might also decrease the quality of public services, which would reduce the satisfaction of citizens with them. As a result, the poor quality of public services could hamper citizens' trust in the government and in turn it may reduce taxpayers' compliance rate. Our empirical results imply that a public tax collector's performance would be better than that of private tax collectors.

Third, this unexpected finding may indirectly indicate that the capacity of bureaucracies for tax collection cannot be lower than private tax collectors. Or rather, public officials feel more administrative responsibility for the public services they provide. With enough resources and a proper incentive structure, public officials with a high level of responsibility would attempt to enhance their administrative capacity to collect taxes.

Finally, the limitations of variables and regression model that we use might lead to results inconsistent with our hypotheses. Because of the limitations of the data accessibility, we use two proxies, such as the total tax collected per dollar of financial administration expenditure and property tax collected per dollar of financial administration expenditure, to measure tax collection performance of contracting out delinquent taxes. If the data on delinquent tax collected per dollar of delinquent tax collection expenditure are available, the result might be different. Also, the results show that each regression model's R-square is very low. It implies that selection of variables and model specification should be improved in the future."

The empirical results imply that policy makers should consider not only the beneficial aspects of outsourcing, but also its negative effects. Outsourcing would increase costs, which may include not only the financial costs of tax collection, but also the social costs associated with diminishing public values, for example, belief in social equity and democratic processes.

Regarding public values, public officials must revisit Waldo's (1965) view of public administration to define it. According to him, contemporary public administration scholars tend to focus more on the "administration" than on the "public." As a result, much of the research on public administration is skewed towards better managing public organizations rather than caring about public values. For a balanced approach to public administration, we should consider the effects of outsourcing on public values rather than focusing only on its effect on financial health.

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