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**Tax Farming Redux:
Experimental Evidence on Performance Pay for Tax Collectors**

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Abstract

Performance pay for tax collectors has the potential to raise revenues, but might come at a cost if it increases the bargaining power of tax collectors vis-a-vis taxpayers. We report the first large-scale field experiment on these issues, where we experimentally allocated 482 property tax units in Punjab, Pakistan into one of three performance-pay schemes or a control. After two years, incentivized units had 9.4 log points higher revenue than controls, which translates to a 40 percent higher growth rate. The scheme that awarded partly on revenue did best, increasing revenue by 12.9 log points (64 percent higher growth rate), with little penalty for customer satisfaction and assessment accuracy compared to the two other schemes that explicitly also rewarded those dimensions. The revenue gains accrue from a small number of properties becoming taxed at their true value, which is substantially more than they had been taxed at previously. The majority of properties in incentivized areas in fact pay no more taxes, but instead report higher bribes. The results are consistent with a collusive setting in which performance pay increases collectors' bargaining power over taxpayers, who either have to pay higher bribes to avoid being assessed, or pay substantially higher taxes if collusion breaks down.

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