

Why tax cuts make us less happy

November 1 2017, by Michael Krassa And Benjamin Radcliff



Credit: AI-generated image ([disclaimer](#))

Republicans recently [announced](#) their tax plan and are hoping to [turn it into law](#) before Thanksgiving. While details are in flux, it would likely eliminate the estate tax, lower the top marginal rate and slash corporate rates, producing, in sum, what the president has dubbed a "[gigantic](#)" tax cut.

Each of these elements, if passed, would make the tax code less

progressive and reduce government revenues in ways that ultimately makes it harder to pay for programs and services. Since the purpose of public policy should be to improve citizens' lives and well-being, the obvious question to consider in evaluating this plan is whether it does that. Or put another way, will the tax plan make most Americans happier?

Research on [happiness economics](#) suggests two vantage points to use in considering this question.

The first concerns how progressive a tax system is. Simply put, are societies happier when the wealthy bear a proportionately higher share of taxes? The second is the total level of taxation. That is, whether higher taxes make people more or less happy because the government takes more of their earnings and spends it on services like health care or infrastructure.

Let us consider each in turn.

The importance of 'tax morale'

A [recent article](#) in the peer-reviewed journal *Psychological Science* suggests that countries with a more progressive tax system are in fact happier than those where tax rates are flatter.

In this piece, three psychologists compare the progressiveness of a nation's tax system with various measures of happiness. They find clear and unequivocal evidence that progressive taxes "are positively associated with subjective well-being." In other words, a country's citizens are happier when the wealthy bear a larger share of the taxes.

This conclusion holds not just when using simple correlations. It also holds under sophisticated statistical analyses that control for other

national factors, such as GDP per capita and income inequality, as well as for individual factors like income, gender, age and marital status.

One reason for this is that the link between income and happiness is strongest for the poor and middle class. Nobel Laureates Angus Deaton and Daniel Kahneman demonstrated that happiness increases with income until a certain threshold is reached at which the returns in terms of well-being [progressively diminish](#). That means that while income lost to taxes harms the poor and middle class – who tend to spend most of what they earn – it does not trouble the affluent – whose satisfaction with life is much less affected by a marginal increase in tax burden.

Another reason might be what scholars call "tax morale." This refers to the extent to which people accept a moral obligation to pay taxes as their contribution to society. In turn, this implies a belief that a tax system is fair.

Existing research clearly indicates, and [common sense suggests](#), that [tax morale is higher the more progressive a system is](#) – that is, a "[fair](#)" [system](#) is one in which the rich pay a disproportionate share – and that [people with greater tax morale are happier](#). So, logically, if progressive taxation increases tax morale, and tax morale increases happiness, more progressive taxes mean higher levels of happiness.

This is not good news for Americans, however.

The U.S. tax system is [one of the least progressive](#) in the Western world and is [considerably less so](#) than it was just a few decades ago.

And this is also bad news for the Republican tax plan – if the GOP and President Donald Trump want to make Americans happier.

The highly respected Tax Policy Center's [detailed analysis of the plan](#)

shows that benefits are heavily skewed toward the wealthiest. The current proposal will benefit the 1 percent handsomely, increasing their incomes by [more than 8 percent](#). Meanwhile the working and middle classes receive minimal benefits, if any – and they [may even see their taxes increase](#).

While nothing is certain until the ink is dry, their bill most likely will result in a more regressive tax system that likely will make most Americans less happy.

What taxes do

But what about connection between the total tax burden and the national level of happiness?

Surely no one likes being taxed, but taxation is the mechanism by which society provides a great many things that people do like, such as Medicare, Medicaid and Social Security, not to mention good schools, good roads and safe neighborhoods.

"Big government" programs [benefit everyone](#) for the obvious reason that [they reduce poverty](#) and alienation, thus lowering the social problems such as [crime](#) and [suicide](#) that these conditions produce.

In turn, it seems obvious that virtually all people, regardless of social class or political ideology, are happier when there is less poverty and less insecurity. [Much peer-reviewed academic research](#) has documented just that.

Whether [looking across countries](#) or [across U.S. states](#), people – both rich and poor – tend to be happier in places where government provides a greater array of social protections and services. Hence, the closer we approach what Europeans call social democracy – and Americans call

New Deal programs – the more people [tend to find life satisfying](#).

If taxpayer-funded government programs make people happy, then we should find a link between the level of tax burden and happiness. And in fact, that's what we find by [examining a wide range of countries](#) in the Western world.

For example, Denmark, generally considered [the world's happiest country](#), also has the highest tax burden of any of industrial democracy, with about [half of all income](#) going to the tax man in 2014. Conversely, the [least happy](#) are also the least taxed, namely South Korea and Turkey, which pay 25 percent and 15 percent, respectively. Yet, despite their low taxes, [South Korea](#) ranks just 58th in happiness, between Moldova and Romania, while Turkey ranks even lower at 69th, just below Libya.

We cannot of course generalize from a few examples, nor can we assume that taxation (and the spending taxation allows) are the only causes of happiness. To make strong claims about the nexus between taxation and well-being requires the rigorous and systematic analysis found in the peer-reviewed academic literature.

In "[The Political Economy of Human Happiness](#)," one of us (Radcliff) examined individual-level data on 21 countries over three decades and found that people are happier as tax burden increases.

This held even when accounting for other factors known to affect happiness such as income, health, employment status, gender, age, race, education, religion and so on. Similarly, the national or aggregate level of happiness went up or down with the level of taxation (again, controlling for other factors).

The same positive connection between tax burden and happiness was reported in [a 2011 paper](#), while [another article](#) found that life

satisfaction varies positively with the total amount of governmental "consumption" of the economy, that is the level of taxation.

The price of a 'civilized society'

While details of the Republican tax plan could change drastically, it is certain to reflect core Republican values like lowering tax rates and smaller government.

Republicans tend to [favor a flat tax](#) because they argue it's fairer. And they want to reduce the tax burden overall because they think people are better off with more money in their pockets and fewer government services. Scholarly research by us and others suggest they are wrong on both counts, at least in so far as human happiness is concerned.

The familiar aphorism, usually attributed to Justice Oliver Wendell Holmes, notes that "[taxes are the price we pay](#) for a civilized society," a sentiment chiseled into the side of the IRS building.

We believe research into the economics of [happiness](#) would take this sentiment one step farther: Taxes are the price we pay for a happy society.

This article was originally published on [The Conversation](#). Read the [original article](#).

Provided by The Conversation

Citation: Why tax cuts make us less happy (2017, November 1) retrieved 27 April 2024 from <https://phys.org/news/2017-11-tax-happy.html>

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