

A More Progressive Tax System Makes People Happier

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The way some people talk, you'd think that a flat tax system—in which everyone pays at the same rate regardless of income—would make citizens feel better than more progressive taxation, where wealthier people are taxed at higher rates. Indeed, the U.S. has been diminishing progressivity of its tax structure for decades.

But a new study comparing 54 nations found that flattening the tax risks flattening social wellbeing as well. “The more progressive the tax policy is, the happier the citizens are,” says University of Virginia psychologist Shigehiro Oishi, summarizing the findings, which will be published in an upcoming issue of *Psychological Science*, a journal of the Association for Psychological Science. Oishi conducted the study with Ulrich Schimmack of the University of Toronto at Mississauga and Ed Diener, also at University of Illinois and the Gallup Organization.

The researchers analyzed the relationship between tax progressivity and personal well-being in 54 nations surveyed by the Gallup Organization in 2007—a total of 59,634 respondents. Well-being was expressed in people's assessments of their overall life quality, from “worst” to “best possible life,” on a scale of 1 to 10; and in whether they enjoyed positive daily experiences (such as smiling, being treated with respect, and eating good food) or suffered negative ones, including sadness, worry, and shame. Finally, the analysis looked at the participants' satisfaction with their nation's public goods, from schools to clean air.

The degree of progressivity was measured by the difference between the highest and lowest tax rates, corrected for such confounding factors as family size, social security taxes paid, and tax benefits received by individuals.

The results: On average, residents of the nations with the most progressive taxation evaluated their own lives as closer to “the best possible.” They also reported having more satisfying experiences and fewer discomfiting ones than respondents living in nations with less progressive taxes. That happiness, Oishi says, was “explained by a greater degree of satisfaction with the public goods, such as housing, education, and public transportation.”

Higher government spending per se did not yield greater happiness, in spite of the well-being that was associated with satisfaction with state-funded services. In fact, there was a slight negative correlation between government spending and average happiness.

“That data is kind of weird,” Oishi says. He guesses that the misalignment might indicate national differences in the efficiency with which those services are delivered or in people's relative ability to access them. For example, the U.S. spends more on education and health care than other developed countries, “but its international standing in those areas is not so great.” Such puzzling findings may be illuminated in further research.

The study, like others Oishi has done looking at connections between economics and personal life, has important social implications. “If the goal of societies is to make citizens happy, tax policy matters,” he says. “Certain policies, like tax progressivity, seem to be more conducive to the happiness of the people.”