

## **The Effects of Income Transparency on Well-Being Evidence from a Natural Experiment** (Perez-Truglia, 2020)

Transparency policies have been implemented to increase government trust and social trust. Some examples are disclosing public officials' assets, wages, lobby related activities, and even citizens's tax records have been disclosed to the public. Norway made the tax records of every citizen public, although not easily available, in the nineteenth century. In 2001, a newspaper created an online tool which allowed most of the population to search anyone's tax records. This tool displayed full names, net incomes, birth years, among other information. Although this policy's aim was to increase social trust, it had unintended consequences of citizen's well-being.

### **One Sentence Summary**

The authors showed evidence that publicly displaying citizens income will increase the well-being gap between the richest and the poorest of a country. Both the differential social treatment from status and how deeply are humans concerned about income status can explain this phenomenon.

### **Main Findings**

People routinely compare themselves to others<sup>1</sup>. To no one's surprise, the online tool to search anybody's tax record became quite popular. Norwegians are more likely to search for the tax records of others than the weather. In addition, on the month of October in 2010 for every five YouTube searches there was one tax record search. In synthesis, Norwegians liked to snoop on their friend's incomes.

An individual can easily compare their income to their neighbors, friend, and coworkers with public tax records. The constant comparison brought an increase(decrease) in well-being for rich(poor) individuals because of the perception on their income rank. On one hand, a rich person thinks his rank is not that high in the income distribution. Because rich people live with other rich people. It will be harder for someone to pinpoint their exact income rank. When tax records are released and their true rank is higher than they thought, their happiness increases. Specifically, the authors found an increase in happiness and self-satisfaction levels for the richest Norwegians. On the other hand, the public tax records made poor individuals frustrated with their income rank, as their perceived income rank will be higher than their actual rank. It is important to note

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<sup>1</sup> This phenomenon is linked to the aspirations research. For more information please refer to Aspirations a Review (One-page Econ #15).

that Perez-Truglia (2020) found this effect in the entire population and the population with better access to the internet.

There are two potential mechanisms that drive these results. First, when people have a higher social status, other people treat them better. Therefore, there is high demand for expensive clothing and cars. With public tax records, poor individuals have no disguises left to avoid the subpar treatment. In simpler words, they will receive a worse treatment because their income rank decreased. Second, the signal of status increases and decreases happiness. An increase from the income rank will increase happiness, regardless of social treatment. Sadly, a step down in income rank decreases happiness.

### **Concluding Remarks**

This paper provides quantitative evidence of a negative effect of making tax records public. However, the authors emphasize that the transparency policy is not bad; it is just flawed and in need of a reform. For instance, the Norwegian government made searches public in 2014, so that everyone can see who searched for their tax records. This reform decreased the number of searches because it increased the social cost of snooping. This change in design is a step in the right direction to minimize the unintended consequence of the policy.

### **References**

- Perez-Truglia, R., 2020. The Effects of Income Transparency on Well-Being: Evidence from a Natural Experiment. Am. Econ. Rev. <https://doi.org/10.1257/aer.20160256>.