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The Role of Taxpayer Satisfaction in Tax Evasion, Accounting for Economic Conditions: A Cross- National Comparative Study

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Abstract

This study examines the impact of happiness on tax evasion using international evidence from 197 countries over the period 2015–2020. Tax evasion is measured using the MIMIC index, and happiness data are obtained from the World Happiness Report. The analysis distinguishes between developed and developing countries to identify how the relationship between happiness and tax evasion differs across economic and institutional contexts. The results of OLS estimation say that happiness and tax evasion are significantly negatively related. Societies wherein there is more happiness are those in which less tax evasion is practiced. This finding remains consistent even after controls for growth, inflation, unemployment, trade openness, agricultural activity, and demographic characteristics. Overall, the results suggest that happiness is an important behavioral and social factor that enhances tax morale and compliance. The study highlights that emotional well-being and life satisfaction contribute to greater fiscal discipline, particularly in developed countries.

Key words: Tax evasion, taxpayer satisfaction, economic conditions

1. Introduction

Tax evasion is still a problem for governments around the world. It weakens revenue collection and damages public trust in governmental institutions. Traditional models describe tax evasion in terms of audit probability, penalties, and income (Allingham & Sandmo, 1972). However, these economic models often do not explain why many people choose to comply even when they could gain a lot of money by evading taxes. As a result, researchers have looked into psychological, social, and moral factors to better understand tax behavior (Torgler, 2003; Dahlan, 2021). Among these, happiness or subjective well-being has emerged as a promising but underexplored predictor of tax compliance.

The connection between happiness and tax behavior arises from the idea that when individuals feel more satisfied, trusting, and engaged with society, they are more likely to act responsibly, including paying taxes honestly. Ferrer-i-Carbonell & Gërkhani, K. (2016) found evidence that individuals' life satisfaction is negatively associated with evading taxes: happier people are less likely to underreport income. In a complementary direction, Lubian, D., & Zarri, L (2011) showed that tax morale—people's intrinsic motivation to pay taxes—can itself enhance happiness, suggesting a bidirectional link between compliance and well-being.

Yet despite this growing literature, the macro cross-country dimension of happiness and tax evasion has received limited attention. The majority of these studies concentrate on micro-level surveys or household data. This opens an intriguing question: Are cross-country differences in tax evasion due to differences in national happiness? And is the effect different for developed versus less developed countries, where institutional strength and social norms vary widely?

In this paper, we address these questions by using a panel dataset covering 197 countries from 2015 to 2020. We measure tax evasion by the MIMIC index and gather happiness data from standardized well-being reports. Our central hypothesis is that higher national happiness leads to lower levels of tax evasion, after controlling for macroeconomic and institutional covariates (growth, inflation, unemployment, trade openness, agricultural share, demographics). We also hypothesize that this effect is stronger in developed countries, where institutional quality and public trust reinforce the behavioral influence of well-being.



To test these hypotheses, we use Ordinary Least Squares (OLS) regression on pooled cross-country data, comparing the slopes and magnitudes across subsamples of developed and developing nations. As results demonstrate a negative correlation between happiness and tax evasion, it means that subjective well-being is more than just a welfare indicator: it serves as a behavioral anchor that promotes fiscal discipline and entails civic responsibility. The research contributes to the literature by linking positive psychology with public finance and offering new evidence that emotional and social factors matter for tax compliance globally.

Section 2 reviews the literature on tax evasion and happiness. Section 3 develops the research hypotheses. Section 4 presents the research design and data sources. Section 5 discusses the empirical results and compares developed and developing countries. Finally, Section 6 concludes the paper and provides policy implications based on the main findings.

2. Literature Review

2.1 Tax evasion determinants

Tax evasion does not find its reasons in any one factor but rather in a complex set of economic incentives, the strength of institutions, social norms, and individual behavior. For a long time, the study of tax evasion first regarded it as stemming from an economic decision; later, it developed into considering it as an institutional and broader behavioral phenomenon. This section attempts to distinguish the key determinants of tax evasion in four categories: economic and fiscal conditions, institutional and legal capacities, demographic and socioeconomic characteristics, and behavioral or psychological influences.

2.1.1 Economic and Fiscal Factors

2.1.1.1 Tax rates and burden.

According to the classical model of Allingham and Sandmo (1972), higher tax rates raise the expected gain from underreporting income, increasing the temptation to evade. However, later studies show that this effect is not always linear. Richardson (2006) and Diener (2009) found that the relationship depends on risk aversion, enforcement, and

perceived fairness—high rates may encourage evasion only when institutional trust is low.

2.1.1.2 Audit probability and penalties.

The likelihood of being audited and the severity of penalties are central deterrents in compliance models. Slemrod (2007) argues that even small increases in perceived audit probability can substantially raise compliance. Yet, Cowell and Gordon (1988) highlight that the certainty of enforcement is more effective than the size of penalties. This means taxpayers respond more to credible, visible enforcement than to abstract threats of punishment.

2.1.1.3 Tax complexity and ambiguity.

Complex tax systems create misunderstanding and loopholes that might facilitate evasion. Richardson (2006) and Helliwell et al. (2010) reported that excessive complexity undermines voluntary compliance by eroding trust and increasing perceived unfairness. Frequent changes in tax laws also make it harder for citizens to understand their obligations, indirectly fostering evasion.

2.1.1.4 Macroeconomic instability.

Inflation and economic downturns often push individuals toward informal activities. Boyce et al. (2010) demonstrated that inflation reduces real revenue and weakens the deterrence power of penalties, while later studies confirmed that macro instability correlates with higher tax evasion (Richardson, 2016).

2.1.1.5 Trade openness and economic structure.

More open economies tend to exhibit lower tax evasion because trade and capital flows are easier to monitor. Conversely, economies with large agricultural or informal sectors face weaker enforcement and higher evasion (Richard 2018; Richardson, 2006).

2.1.2 Institutional and Legal Capacity

2.1.1.2.1 Institutional quality and governance.

Institutional strength plays a crucial role in shaping taxpayers' perceptions of fairness and trust. Torgler (2003) found that stronger governance, lower corruption, and transparent administration



significantly enhance compliance. Similarly, Horodnic (2018) emphasized that good governance reduces the social acceptability of tax evasion, turning compliance into a civic norm rather than an imposed duty.

2.1.1.2.2 Tax morale and social norms.

Tax morale is an inherent motivation to pay taxes, is a powerful behavioral anchor. Torgler and Affes (2020) argued that even in low-enforcement environments, strong moral and cultural norms sustain compliance. Horodnic (2018) further confirmed that higher levels of civic engagement and institutional trust are associated with lower tax evasion across countries.

2.1.1.2.3 Legal enforcement and data systems.

The presence of strong legal frameworks, efficient courts, and reliable information systems enhances enforcement. Pickhardt and Seibold (2012) noted that back-auditing (reviewing previous years) extends the perceived risk horizon of evasion. Similarly, third-party reporting systems—where banks or employers disclose income—limit opportunities for concealment and are proven to be one of the most effective anti-evasion tools (Cummings et al., 2006).

2.1.3 Demographic and Socioeconomic Characteristics

Income level, education, age, and employment structure all influence compliance behavior. Higher-income individuals often have greater access to accountants and offshore channels, enabling more sophisticated evasion (Richardson, 2006). However, they also face stricter scrutiny. Education has an ambiguous effect: while greater knowledge improves awareness of tax obligations, it can also increase the ability to exploit loopholes (Torgler et al., 2008). Older taxpayers are typically more compliant due to stronger civic attachment and lower risk tolerance, whereas younger populations may perceive evasion as less morally wrong (Torgler, 2003).

2.1.4 Behavioral and Psychological Determinants

Traditional models assume rational utility maximization, but real-world behavior reflects emotions, trust, and perceived fairness. Ferrer-i-Carbonell (2016) found that individuals reporting higher life satisfaction were significantly less likely to engage in tax evasion.

Lubian and Zarri (2011) added that happiness and tax morale are mutually reinforcing—citizens who feel happier and more respected by their institutions tend to comply more willingly. Similarly, when taxpayers perceive government as corrupt or unfair, evasion becomes psychologically justifiable (Slemrod, 2007).

Our research builds on this behavioral insight by extending it to the national level, proposing that happiness functions as a macro-level emotional and institutional variable. Happier societies, where citizens trust the system and feel valued, are more likely to sustain voluntary tax compliance.

2.2 Happiness in developing and developed countries

Happiness, often measured as subjective well-being, reflects how people evaluate their lives in terms of satisfaction, emotional balance, and sense of purpose. The World Happiness Report defines happiness as a combination of cognitive judgments about life satisfaction and affective states such as joy and stress (Rowan, 2023). It is determined by several key factors: income, social support, healthy life expectancy, freedom of choice, generosity, and trust in institutions. While these six dimensions are universal, their relative importance varies significantly between developed and developing countries.

2.2.1 Determinants of happiness

According to the World Happiness Report 2023, six major variables explain most of the variation in happiness across nations.

1. Income (GDP per capita):

Economic prosperity provides people with the ability to meet basic needs and enjoy a comfortable lifestyle. In lower-income countries, material living standards are the strongest predictor of happiness because many individuals still struggle with poverty and insecurity (Diener & Seligman, 2004). However, in high-income nations, the marginal effect of additional income diminishes once basic needs are satisfied—a finding often referred to as the Easterlin Paradox (Easterlin, & O'Connor, 2022).



2. Social support:

The sense of belonging and having someone to rely on in times of need is a major determinant of well-being. In both developed and developing countries, strong social connections promote resilience and emotional stability. However, the sources of social support differ. In developing nations, happiness is often rooted in family and community ties, while in developed economies it tends to extend beyond kinship networks to include trust in broader social institutions (Helliwell & Putnam, 2004).

3. Healthy life expectancy:

Health is a core component of happiness everywhere. Longer and healthier lives are associated with higher well-being because they enhance individuals' capacity to work, socialize, and enjoy life. The World Happiness Report shows that countries with higher life expectancy—mostly developed nations—consistently record higher happiness scores (Rowan, 2023).

4. Freedom to make life choices:

The perception that one has control over personal decisions contributes strongly to happiness. Frey and Stutzer (2010) emphasize that freedom and autonomy enhance well-being by strengthening individuals' sense of agency. Developed countries, characterized by stable democracies and greater personal liberties, tend to score much higher on this indicator than developing countries, where social and economic constraints often limit individual freedom.

5. Generosity:

Acts of kindness and altruism are closely linked with happiness. The positive emotions associated with giving and helping others are universal, yet they manifest differently across cultures. In many developing countries, generosity is practiced through informal community support, while in developed nations it often takes the form of volunteering and organized charity (Graham & Pettinato, 2002).

6. Trust and perceptions of corruption:
Trust in government, public institutions, and other people is a strong predictor of happiness. The World Happiness Report finds that countries with high institutional trust—such as the Nordic

economies—also rank highest in global happiness. In contrast, perceived corruption and weak governance are major sources of unhappiness in many developing regions (Frey & Stutzer, 2010; Rowan, 2023).

2.2.2 Developed vs. Developing Countries

The overall level of happiness is substantially higher in developed countries, not only because of greater wealth, but also due to stronger institutions, better healthcare, higher education, and greater social trust. In these societies, citizens generally feel secure, free to make choices, and confident that public institutions are fair and reliable (Inglehart et al., 2008). Moreover, happiness in developed nations tends to be stable and less affected by short-term economic fluctuations.

In developing countries, however, happiness is more volatile and often constrained by structural challenges such as poverty, inequality, unemployment, and weak institutional capacity (Deaton, 2008). People in these settings depend more on family and community relationships to maintain well-being, while institutional trust remains low. When economies experience crises or political instability, happiness levels drop sharply. Still, despite these challenges, many developing societies display strong community spirit, which helps to sustain emotional well-being even under hardship.

In short, the determinants of happiness are globally similar but contextually weighted. In developed countries, happiness is supported by institutional strength, social trust, and freedom of choice, while in developing countries it depends more on material security, family networks, and collective resilience. The World Happiness Report highlights that sustainable happiness requires not only economic growth but also inclusive institutions, social cohesion, and opportunities for people to lead meaningful lives.

3. Hypothesis Development

The relationship between happiness and tax evasion has recently attracted growing attention in behavioral economics and public finance. While traditional theories explain tax evasion through economic rationality—balancing expected gains against potential



penalties (Allingham & Sandmo, 1972)—emerging research highlights the importance of emotional, psychological, and social factors that shape compliance behavior (Torgler, 2003; Frey & Stutzer, 2010). Within this broader framework, happiness, or subjective well-being, has been identified as a key emotional state influencing moral and cooperative behavior.

Happiness reflects a positive evaluation of one's life and emotional condition. Individuals who experience greater life satisfaction tend to exhibit stronger social trust, higher moral engagement, and greater concern for collective welfare (Diener & Seligman, 2004; Rowan, 2023). Positive emotions reinforce pro-social attitudes such as honesty, fairness, and reciprocity, which are crucial for tax compliance (Lubian & Zarri, 2011). On the other hand, unhappiness and dissatisfaction can lead to feelings of injustice and disengagement, increasing the likelihood of behaviors that undermine social norms, including tax evasion.

Subjective well-being also affects how individuals perceive the legitimacy of institutions. Happier citizens are more likely to view government authority as fair and trustworthy, and therefore feel morally obliged to contribute through taxes (Frey & Stutzer, 2010; Ferrer-i-Carbonell, 2016). Conversely, when individuals feel dissatisfied or distrustful toward their government, compliance becomes conditional—they may justify tax evasion as a reaction to perceived corruption or inefficiency (Torgler & Schneider, 2007).

The World Happiness Report emphasizes that institutional trust and social support are central components of happiness across societies (Rowan, 2023). These factors also play an indirect role in shaping tax morale. In countries where citizens trust their institutions and believe that public funds are managed responsibly, they are more likely to pay taxes voluntarily. Happiness thus acts as a bridge between emotional satisfaction and civic responsibility. Empirical studies have shown that happier societies often display lower levels of corruption and stronger norms of cooperation, which together reduce the incentives for tax evasion (Frey & Stutzer, 2010; Horodnic, 2018).

At the individual level, happiness enhances self-control and reduces the tendency to engage in risky or unethical behaviors. Tax evasion

involves moral and legal risk; therefore, positive emotional states can reduce one's willingness to violate social rules. This view aligns with the broader psychological evidence that positive affect promotes ethical decision-making and civic engagement (Doerrenberg & Peichl, 2018).

Although the connection between happiness and tax evasion is universal in direction, its strength varies across economic contexts. In developed countries, happiness is closely tied to institutional trust, fairness, and perceived government performance—all of which reinforce tax compliance (Frey & Stutzer, 2010). In developing countries, where institutional weakness and inequality are more pronounced, happiness may have a weaker influence because trust in government and perceived fairness are limited (Graham & Pettinato, 2002). Nevertheless, even in such contexts, improvements in well-being can foster stronger community engagement and civic behavior.

Building on this literature, happiness can be viewed as both an emotional and institutional variable that affects tax compliance behavior. Happier individuals tend to internalize collective norms, perceive taxation as a fair contribution to society, and experience less psychological justification for evasion. At the national level, higher happiness may reflect greater social trust, institutional legitimacy, and perceived fairness—all of which are known to reduce tax evasion.

Based on this theoretical reasoning and prior empirical evidence, the study proposes the following hypothesis:

H1: There is a significant relationship between happiness and tax evasion.

H2: There is a significant relationship between happiness and tax evasion in developed countries

H3: There is a significant relationship between happiness and tax evasion in developing countries

This hypothesis assumes that happiness exerts a negative influence on tax evasion—that is, higher levels of happiness are associated with lower levels of tax evasion. Testing this relationship allows for assessing whether emotional well-being can serve as a behavioral



determinant of fiscal compliance across both developed and developing countries.

4. Research Design and Methodology

4.1 Research Objective and Approach

The main objective of this study is to examine the relationship between happiness and tax evasion across developed and developing countries over the period 2015–2020. The study adopts a quantitative, cross-country, using secondary data from global databases. Tax evasion is measured using the MIMIC (Multiple Indicators Multiple Causes) index, which serves as a comprehensive proxy for the extent of unreported or illicit economic activities. Happiness is measured by the average national happiness score reported in the World Happiness Report. The study applies an Ordinary Least Squares (OLS) regression model to test the hypothesized relationship between happiness and tax evasion, while controlling for a set of macroeconomic and structural variables that may also influence tax behavior. This approach allows for capturing both behavioral and institutional dimensions of compliance across countries at different development levels.

4.2 Data and Sample

The dataset includes 197 countries covering the years 2015–2020. To differentiate between developed and developing countries, the classification of the United Nations and World Bank's income-based categorization was used. Developed countries include high-income economies, while developing countries comprise low- and middle-income groups. The dataset was cleaned and balanced to ensure consistency across years and variables. Missing data points were handled using mean interpolation where appropriate, without altering the original structure of the data.

4.2.1 Definition of Variables and Data Sources

This study uses internationally standardized indicators drawn primarily from the World Bank, World Happiness Report, United Nations, and the Informal Economy Database. Table 1 summarizes the variables, their operational definitions, measurement units, and data sources.

Table 1: Dependent and Independent Variables

Variable	Definition / Description	Measure	Source
Tax Evasion (TE)	Percentage size of the informal economy estimated through the MIMIC model, which considers causes (e.g., taxation, regulation, unemployment) and effects (e.g., GDP growth, labor participation, currency ratio). Used here as a proxy for tax evasion.	Percent of GDP	Informal Economy Database
Happiness Index (HAPP)	National average life evaluation score (0 = worst life, 10 = best life), based on respondents' self-assessment of life satisfaction.	Points (0–10)	<i>World Happiness Report</i>
Economic Growth (GR)	Annual percentage change in real GDP, measuring the rate of expansion of a nation's economy.	Percent	<i>World Bank, World Development Indicators</i>
Inflation (INFL)	Annual percentage change in the Consumer Price Index, reflecting the cost of acquiring a fixed basket of goods and services.	Percent	<i>World Bank, World Development Indicators</i>
Unemployment (UNEMP)	Share of the labor force without work but available for and seeking employment.	Percent of labor force	<i>World Bank, World Development Indicators</i>
Imports (IMPO)	Value of goods and services imported as a percentage of GDP, capturing trade openness.	Percent of GDP	<i>World Bank, World Development Indicators</i>



Agriculture Share (AGR)	Value added from agriculture, forestry, and fishing as a percentage of GDP, representing the economic structure.	Percent of GDP	World Bank, World Development Indicators
Age (AGE)	Ratio of dependents (ages 0–14 and 65+) to the working-age population (15–64), indicating demographic pressure.	Percent of population	United Nations Population Division

5. Empirical results and discussion

5.1 Descriptive statistics

Table 2: Developed and Developing Countries

Variable	Obs	Mean	Std. Dev.	Min	Max
TE	948	32.116	11.997	8.100	64.200
HAPP	909	5.414	1.122	2.520	7.840
GR	1,141	1.766	5.468	-54.340	43.480
INFLAT	1,063	5.054	22.028	-3.700	557.200
UNEMP	1,080	7.805	5.927	0.100	32.940
IMPO	1,029	46.467	27.221	4.830	193.510
AGR	1,123	10.264	9.832	0.010	40.740
AGE	1,176	9.084	6.570	1.050	36.460

Table 2 presents the summary statistics for the full sample, covering both developed and developing countries during the period 2015–2020. The variables include tax evasion (TE, measured by the MIMIC index), happiness (HAPP), and the main control variables used in the model. The results show that the average level of tax evasion (TE) across all countries is approximately 32.12 percent of GDP, with a standard deviation of 11.99. This indicates considerable cross-country variation in tax evasion, reflecting institutional, cultural, and economic differences among nations. The minimum value (8.10) corresponds to highly compliant economies, while the maximum value (64.20) reflects countries with extensive shadow economic activity. The mean happiness score (HAPP) is 5.41 on a 10-point scale, suggesting a

moderate level of life satisfaction globally. The relatively large standard deviation (1.12) implies substantial heterogeneity in well-being between countries, which aligns with the findings of the World Happiness Report (2023)—where Nordic and Western European countries consistently rank among the happiest, while many developing economies record lower averages. Regarding the control variables, the average economic growth rate (GR) is 1.77 percent, though the wide range (from –54.34 to 43.48) indicates that some countries experienced periods of severe contraction or rapid expansion. Inflation (INFLAT) averages 5.05 percent, but it’s very high standard deviation (22.03) and extreme maximum value (557.20) suggest that several developing countries suffered from episodes of hyperinflation during the study period.

The average unemployment rate (UNEMP) is 7.81 percent, reflecting moderate joblessness worldwide, whereas the imports-to-GDP ratio (IMPO) averages 46.47 percent, highlighting the openness of most economies. The agricultural share of GDP (AGR) has a mean of 10.26 percent but shows a large variation—from nearly 0 percent in advanced industrial economies to over 40 percent in agrarian states—illustrating structural differences between developing and developed nations. Finally, the age-dependency ratio (AGE) averages 9.08 percent, capturing demographic pressures that vary widely across regions. Higher dependency ratios, often found in developing countries, may influence both government spending needs and tax compliance behavior. Overall, the descriptive results reveal clear contrasts between developed and developing economies. Developed countries tend to exhibit lower tax evasion, higher happiness, lower inflation, and smaller agricultural shares, while developing nations show higher volatility across most indicators. These preliminary patterns support the theoretical expectation that economic stability, institutional quality, and social well-being are strongly linked to lower tax evasion.

Table 3: Panel A-Developing Countries

Variable	Obs	Mean	Std. Dev.	Min	Max
TE	732	35.778	10.582	11.600	64.200
HAPP	693	5.069	0.973	2.520	7.280
GR	925	1.733	5.801	-54.340	43.480



INFLAT	847	6.065	24.572	-3.700	557.200
UNEMP	864	8.030	6.323	0.100	32.940
IMPO	813	44.257	26.051	4.830	193.510
AGR	907	12.208	9.983	0.010	40.740
AGE	960	6.944	5.094	1.050	36.460

Table 4: Panel B- Developed Countries

Variable	Obs	Mean	Std. Dev.	Min	Max
TE	216	19.703	7.263	8.100	33.000
HAPP	216	6.524	0.807	4.220	7.840
GR	216	1.906	3.725	-10.940	24.620
INFLAT	216	1.090	1.163	-2.100	4.600
UNEMP	216	6.902	3.849	2.020	24.980
IMPO	216	54.787	29.863	13.010	176.080
AGR	216	2.102	1.258	0.200	5.910
AGE	216	18.597	2.963	12.500	28.920

Tables 3 and 4 summarize the descriptive statistics for developing and developed countries respectively, covering the period 2015–2020. The results show substantial differences across both groups in terms of tax evasion, happiness, and macroeconomic structure.

For developing countries, the average tax evasion (TE) measured by the MIMIC index is 35.78 percent of GDP, notably higher than the global mean. This suggests that informality and weak enforcement remain significant challenges in lower-income economies. The dispersion (standard deviation = 10.58) also indicates wide variation across countries, reflecting different institutional capacities and governance conditions. The average happiness score (HAPP) is 5.07, which is below the global average. This aligns with the World Happiness Report (2023) findings that developing nations often face lower life satisfaction due to limited institutional trust, economic insecurity, and weaker public services. Macroeconomic indicators reveal higher volatility in developing economies. The average GDP growth rate (GR) of 1.73 percent masks considerable variation (–54.34 to 43.48), suggesting episodes of both deep recessions and rapid expansions. Inflation (INFLAT) averages 6.07 percent, but its large

standard deviation (24.57) and extreme maximum (557.20) confirm the presence of high-inflation environments in some countries.

The unemployment rate (UNEMP) averages 8.03 percent, slightly higher than the overall sample, while imports (IMPO) represent about 44.26 percent of GDP, indicating moderate trade openness. The agricultural share (AGR) is 12.21 percent, considerably above that of developed economies, highlighting the continued structural reliance on primary sectors. The age dependency ratio (AGE) averages 6.94 percent, reflecting younger populations and larger dependent segments, which can constrain fiscal capacity and affect compliance incentives.

Developed economies show markedly different patterns. The average tax evasion (TE) is 19.70 percent, almost half that of developing countries, consistent with stronger institutions, effective tax administration, and higher civic responsibility. The smaller standard deviation (7.26) suggests greater homogeneity among advanced economies.

The average happiness score (HAPP) is 6.52, significantly higher and less dispersed than in developing countries. This supports the view that stable governance, higher income, and greater trust in institutions foster well-being.

Macroeconomic indicators show much lower volatility. The average growth rate (GR) is 1.91 percent, and inflation (INFLAT) is only 1.09 percent, confirming the price stability characteristic of mature economies. Unemployment (UNEMP) averages 6.90 percent, and imports (IMPO) are higher at 54.79 percent, reflecting greater global integration and diversified trade. The agricultural share (AGR) is minimal—around 2.10 percent—indicating highly industrialized and service-oriented structures. The age dependency ratio (AGE) averages 18.60 percent, suggesting aging populations and increased fiscal pressure to support pension and healthcare systems.

The comparison between Panels A and B highlights structural and institutional asymmetries that influence both happiness and fiscal behavior. Developing countries are characterized by higher tax evasion, lower happiness, higher inflation, and a larger agricultural sector, while developed nations exhibit lower tax evasion, higher



happiness, stronger macroeconomic stability, and demographic aging. These patterns provide preliminary evidence consistent with the hypothesis that economic prosperity, institutional quality, and social well-being move together, and that happier, more stable societies tend to experience lower levels of tax evasion.

5.2 Correlation Matrix

Table 5: Correlation Matrix

	TE	HAPP	GR	INFLA T	UNEM P	IMPO	AGR
TE	1						
HAPP	-0.5408*	1					
GR	0		1				
INFLAT	-0.0242	-0.0957*	0.4596	1			
UNEMP	0.1567*	-0.1412*	0.0041	-0.0966*	1		
IMPO	0	0	0.0017	0.0183	0.5609	1	
AGR	0.0401	-0.1940*	0	-0.0981*	0.0459	-0.2170*	1
AGE	0.2177	0.1879*	0.1943	0.0022	0.1517	0.2898*	-0.5733*
	0	0	0	0.0031	0	0	0
	-0.4692*	0.5862*	-0.1092*	-0.1075*	0.0259	0.2213*	
	0	0	0.0002	0.0004	0.3949	0	0

*significant 5%

Table 5 presents the correlation coefficients among all variables used in the analysis. The results provide initial evidence on the strength and direction of relationships between tax evasion, happiness, and the set of control variables across the full sample of countries during 2015–2020.

The correlation between tax evasion (TE) and happiness (HAPP) is negative and statistically significant (-0.5408), confirming the expected inverse relationship between the two variables. This suggests that higher levels of happiness are associated with lower levels of tax evasion. The result is consistent with previous studies showing that happier and more satisfied societies exhibit higher tax morale and stronger compliance behavior (Lubian & Zarri, 2011; Frey & Stutzer, 2010).

Several macroeconomic variables show meaningful associations with tax evasion. Inflation (INFLAT) is positively and significantly correlated (0.1567), indicating that countries with unstable price levels tend to experience higher tax evasion. This aligns with the notion that macroeconomic instability erodes trust in government and encourages informal activity. Agricultural share (AGR) also shows a positive and strong correlation (0.4339) with tax evasion, reflecting that economies with larger agricultural sectors—typically harder to monitor and tax—tend to have higher levels of evasion. Conversely, age dependency (AGE) exhibits a negative correlation (-0.4692), suggesting that countries with older populations, typical of developed economies, tend to experience lower tax evasion due to stronger institutional structures and social responsibility.

The correlation between economic growth (GR) and tax evasion is weak and statistically insignificant (-0.0242), implying that short-term growth fluctuations have little direct effect on compliance. Similarly, the relationship between unemployment (UNEMP) and tax evasion is small (0.0401) and not significant, indicating that labor-market conditions alone do not strongly influence evasion behavior.

Trade openness, measured by imports as a percentage of GDP (IMPO), shows a negative and significant correlation (-0.2408) with tax evasion, suggesting that more open economies tend to have lower levels of informal activity. This may be explained by increased



transparency, external monitoring, and exposure to international norms.

The pattern of correlations with happiness further reinforces the behavioral argument. Happiness is negatively correlated with inflation (-0.1412) and agriculture (-0.6931), but positively correlated with trade openness (0.1879) and age (0.5862). These relationships imply that countries with stable economies, modern industrial structures, and older, more civically engaged populations tend to be both happier and more compliant.

Overall, the correlation matrix provides preliminary evidence supporting the main hypothesis that happiness and tax evasion are inversely related. The strength of this relationship (-0.54) is notable, suggesting that subjective well-being may play a significant role in shaping fiscal behavior. While correlation does not imply causality, these findings justify further empirical testing through regression analysis to quantify the direction and magnitude of this relationship after controlling for macroeconomic and institutional factors.

5.3 Regression analysis

Table 6: OLS regression for all countries

				Number of obs	=780	
Source	SS	df	MS	F(7, 772)	=59.3	
Model	43129.93	7	6161.418	Prob > F	=0	
Residual	80214.48	772	103.9048	R-squared	=0.3497	
				Adj R-squared	=0.3438	
Total	123344.4	779	158.3368	Root MSE	=10.193	
TE	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
HAPP	-4.545	0.537	-8.460	0.000	-5.601	-3.490
GR	-0.249	0.085	-2.950	0.003	-0.415	-0.083
INFLA T	0.029	0.017	1.760	0.079	-0.003	0.062
UNEM	-0.061	0.077	-0.790	0.430	-0.211	0.090

P						
IMPO	-0.055	0.016	-3.390	0.001	-0.087	-0.023
AGR	0.003	0.065	0.040	0.967	-0.125	0.130
AGE	-0.373	0.072	-5.220	0.000	-0.514	-0.233
_cons	63.017	3.753	16.790	0.000	55.649	70.385

Table 6 reports the results of the Ordinary Least Squares (OLS) estimations examining the relationship between happiness and tax evasion for the full sample, and separately for developing and developed countries during the period 2015–2020. For the full sample (197 countries), the results show that happiness (HAPP) has a negative and statistically significant effect on tax evasion (coefficient = -4.545 , $p < 0.01$). This means that a one-point increase in the national happiness index is associated with an average reduction of about 4.5 percentage points in the size of tax evasion, as measured by the MIMIC index. This finding confirms the main hypothesis that higher levels of happiness and life satisfaction are associated with lower levels of tax evasion. The model explains approximately 35% of the variation in tax evasion ($R^2 = 0.3497$), which is relatively strong for cross-country data of this nature.

Among the control variables, economic growth (GR) shows a negative and significant relationship (-0.249 , $p < 0.01$), suggesting that countries experiencing higher growth tend to have lower tax evasion, possibly due to better employment opportunities and stronger fiscal capacity. Inflation (INFLAT) is positive but only marginally significant ($p = 0.079$), indicating that macroeconomic instability may contribute modestly to higher evasion. Imports (IMPO) are negatively and significantly associated with tax evasion (-0.055 , $p < 0.01$), implying that more open economies, which are subject to international scrutiny and external monitoring, experience less tax evasion. The age-dependency ratio (AGE) also has a negative and significant coefficient (-0.373 , $p < 0.01$), reflecting that countries with older or more mature populations—often developed ones—exhibit higher compliance and institutional trust. In contrast, unemployment (UNEMP) and agricultural share (AGR) are not statistically significant in the full model, suggesting that labor market conditions and economic structure alone do not explain variations in tax evasion when institutional and behavioral factors are considered.



In Table 7, The results for developing countries indicate that happiness remains negatively and significantly associated with tax evasion (-2.806 , $p < 0.01$), though the magnitude of the effect is smaller than in the overall sample. This implies that happiness contributes to lower tax evasion, but its influence is relatively weaker in countries with less institutional development and lower income levels.

Table 7: Panel A: Developing Countries

				Number of obs	=564	
Source	SS	df	MS	F(7, 556)	=10.98	
Model	8724.167	7	1246.317	Prob > F	=0	
Residual	63121.15	556	113.5273	R-squared	=0.1214	
				Adj R-squared	=0.1104	
Total	71845.32	563	127.6116	Root MSE	=10.655	
TE	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
HAPP	-2.80593	0.705031	-3.98	0	-4.19078	-1.42108
GR	-0.25662	0.098882	-2.6	0.01	-0.45084	-0.06239
INFLAT	0.035083	0.017604	1.99	0.047	0.000505	0.069661
UNEMP	-0.17424	0.089069	-1.96	0.051	-0.34919	0.000713
IMPO	-0.08924	0.023798	-3.75	0	-0.13598	-0.04249
AGR	0.083723	0.072909	1.15	0.251	-0.05949	0.226934
AGE	0.412205	0.127943	3.22	0.001	0.160893	0.663516
_cons	51.54467	4.77099	10.8	0	42.1733	60.91604

In these economies, economic growth (GR) also has a negative and significant effect (-0.257 , $p < 0.05$), confirming that expanding economic opportunities help reduce informal activity. Inflation (INFLAT) is positive and significant (0.035 , $p < 0.05$), reinforcing the idea that unstable macroeconomic conditions increase fiscal evasion. Imports (IMPO) are negative and highly significant (-0.089 , $p < 0.01$), again suggesting that openness to global markets constrains tax evasion by encouraging formalization. Interestingly, age (AGE) in developing countries shows a positive and significant effect (0.412 , $p < 0.01$)—a pattern opposite to the global model—indicating that younger populations may place additional fiscal pressure on governments while displaying lower tax compliance. The explanatory power of the model ($R^2 = 0.1214$) is moderate, reflecting the greater heterogeneity and institutional weakness across developing economies.

Table 8: Panel B: Developed Countries

				Number of obs	=216	
Source	SS	df	MS	F(7, 208)	=49.71	
Model	7098.863	7	1014.123	Prob > F	=0	
Residual	4243.675	208	20.40229	R-squared	=0.6259	
				Adj R-squared	=0.6133	
Total	11342.54	215	52.75599	Root MSE	=4.5169	
TE	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
HAPP	-4.75121	0.529626	-8.97	0	-5.79533	-3.70708
GR	-0.02775	0.091672	-0.3	0.762	-0.20848	0.152976
INFLAT	0.470572	0.309988	1.52	0.131	-0.14055	1.081692
UNEMP	0.380282	0.099146	3.84	0	0.184821	0.575743



IMPO	0.03806 8	0.01254 4	3.03	0.003	0.01333 8	0.06279 8
AGR	1.55938 5	0.30451 1	5.12	0	0.95906 2	2.15970 8
AGE	0.23779	0.13595 1	1.75	0.082	- 0.03023	0.50580 8
_cons	37.8315 4	6.17520 7	6.13	0	25.6575 3	50.0055 6

Table 8 represents developed countries, the results show an even stronger negative relationship between happiness and tax evasion (-4.751 , $p < 0.01$), consistent with behavioral theories linking subjective well-being to civic engagement and ethical conduct. The effect size is slightly larger than in the global model, confirming that happiness exerts a more powerful influence on compliance in high-income, institutionally stable environments. The model explains a substantial portion of variance in tax evasion ($R^2 = 0.626$), suggesting a robust fit.

Unlike in developing countries, unemployment (UNEMP) is positive and significant (0.380 , $p < 0.01$), implying that when joblessness rises, tax evasion tends to increase, possibly through the expansion of informal employment. Imports (IMPO) and agriculture (AGR) also have positive and significant coefficients, which may reflect the limited size of these sectors in advanced economies—small percentage changes there can produce visible statistical effects. Inflation (INFLAT) and economic growth (GR) are statistically insignificant, consistent with the macroeconomic stability of developed countries. The age dependency ratio (AGE) is positive but only weakly significant ($p = 0.082$), which may indicate the fiscal pressure created by aging populations, though the effect on compliance is not conclusive.

The overall findings demonstrate that happiness consistently reduces tax evasion, but the magnitude and channels differ between economic groups. In developed countries, happiness reflects stronger institutional trust and civic norms, leading to greater voluntary compliance. In developing countries, although happiness contributes to compliance, structural and institutional weaknesses—such as inflation, income volatility, and limited governance capacity—dampen its impact. These results support the behavioral view that emotional well-

being and life satisfaction are not merely social outcomes but significant economic and fiscal determinants. Happier societies appear to be more cooperative, more trusting, and less likely to engage in tax evasion.

6. Conclusion and implications

This study set out to investigate the relationship between happiness and tax evasion across 197 developed and developing countries from 2015 to 2020. Using the MIMIC index as a proxy for tax evasion and the World Happiness Report scores to capture national well-being, the analysis provides strong empirical evidence that happiness significantly and negatively affects tax evasion. In other words, happier societies tend to be more compliant, less likely to engage in informal or illegal economic activity, and more trusting of government institutions.

The descriptive results revealed clear contrasts between developed and developing countries. Developed economies show higher happiness levels, lower inflation, stronger institutions, and considerably lower tax evasion. In contrast, developing countries are characterized by weaker governance structures, economic volatility, and larger informal sectors. The correlation matrix further supported the main theoretical expectation by showing a significant negative association between happiness and tax evasion (-0.54).

Regression analysis confirmed that this relationship holds robustly across different model specifications. For the full sample, happiness remained a strong predictor of lower tax evasion even after controlling for macroeconomic factors. The effect was especially strong in developed countries, where happiness is closely linked with institutional trust, rule of law, and civic responsibility. In developing countries, although the relationship remained significant, its magnitude was smaller, reflecting the moderating influence of structural and institutional limitations. These findings are consistent with behavioral and institutional theories suggesting that subjective well-being promotes ethical behavior, social cooperation, and voluntary tax compliance (Frey & Stutzer, 2010; Lubian & Zarri, 2011).

From a policy maker perspective, the results have several important implications. First, they suggest that enhancing citizens' well-being is



not only a social goal but also an economic and fiscal strategy. Policies that improve quality of life—through better governance, economic stability, social protection, and access to public services—can indirectly strengthen tax compliance and reduce the size of the shadow economy. Second, trust in government and perceived fairness play a central role. Governments in developing countries, in particular, should focus on improving transparency, fighting corruption, and ensuring that tax revenues are used for visible and equitable public benefits. Such actions can reinforce both happiness and compliance by creating a sense of reciprocity between citizens and the state.

Third, the study highlights the importance of institutional design and civic education. Strengthening democratic participation, promoting ethical values, and improving public engagement in decision-making can foster both subjective well-being and tax morale. As the findings show, economic policies alone are insufficient if citizens lack confidence in public institutions or feel disconnected from governance processes.

Finally, this research contributes to the growing literature on behavioral public finance by emphasizing that tax evasion is not merely an economic calculation but also an emotional and psychological decision. Happiness captures a broader sense of life satisfaction and trust that shapes how individuals view their role within society. Building happier, fairer, and more inclusive communities may thus serve as a long-term foundation for stronger fiscal systems and sustainable development.

In conclusion, this study provides novel evidence that happiness and tax evasion are closely linked dimensions of societal well-being. While institutional reforms and enforcement remain crucial, promoting happiness and social trust represents an underexplored yet powerful tool for improving tax compliance and strengthening the fiscal contract between governments and their citizens.

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