

The negativity bias in news about how public money is used affects our willingness to pay taxes

*To meet the public's preference for negative content, the media tend to overreport negative news. **Miloš Fišar, Tommaso Reggiani, Fabio Sabatini, and Jiří Špalek** write that this negativity bias in the coverage of economic policy issues decreases tax compliance. Conversely, when people are exposed to authentic information about the appropriate use of tax revenues, compliance increases significantly.*

Why do we pay taxes? Not just because of the fear of audits and penalties. Satisfaction with government action and trust in institutions may also play a role in tax compliance.

Economic theory suggests that citizens believing that the government does not spend their taxes well tend to reciprocate by refusing to pay their entire tax liability. Instead, suppose that the prevalent belief is that institutions use taxes to fund public goods and services adequately. In that case, taxpayers will be more willing to comply, as if a "psychological contract" with authorities was in force. Such a contract relies on the fairness of the political process and the legitimacy of the resulting policy outcomes.

These perspectives imply a vital role for information about government action and the political process. The media coverage of economic and policy issues, however, is far from balanced. Mass media tend to overreport negative news as they generate stronger psychophysiological reactions in the audience, and they better fit the public's preference for negative content. This negativity bias creates a 'spiral of cynicism' in the industry. The public's demand for sensational news strengthens the incentive for providing negative content to journalists and newsmakers. The recent spread of anti-establishment narratives related to the rise of populist movements has further exacerbated the negativity bias in reporting about the efficiency and fairness of public institutions.

How does this negativity bias in the coverage of economic policy issues affect tax compliance?

Laboratory experiment

To answer this question, we conducted a [novel lab experiment](#) studying how the exposure to biased news affects compliance. We compared the tax compliance of three groups of people under different conditions. The first group watched negatively biased news about government actions. This treatment aimed to reflect the media negativity bias that is the status quo in the supply of information about public finance and policy issues. Next, the experimenters exposed the second group of participants to positively biased news. Finally, a control group was exposed to a placebo treatment.

Pieces of good news raise tax compliance

Compared to the placebo treatment, the exposure to negative news does not affect tax compliance, confirming that participants perceive the media negativity bias as the norm rather than the exception. As the selection and tonality of news deviate from the status quo, resulting in positive content, participants become significantly more compliant than the control group. The effect is economically sizable: people exposed to good news reported a compliance rate 23 percentage points higher than those exposed to negative or neutral news.

These results reveal that the narrative of public finance and policy issues crucially affects tax compliance, suggesting that biased news are a constant source of psychological priming. Individuals tend to reciprocate the behaviour they observe in the government, and more generally in public institutions, as if citizens and the state were bound by a psychological contract. Therefore, the systematic tendency of the media to focus on negative news entails hidden social costs related to the government's inability to fully exploit its tax revenue potential and meet fiscal goals, with detrimental effects on the efficient provision of public goods and services.

However, the most striking finding is the positive effect of even brief exposure to good news about the public sector's activity on tax compliance. Intuition suggests that a piece of negative news is more salient than a good one. Instead, we find that merely exposing participants to a few pieces of authentic information about the appropriate use of tax revenues significantly encourages compliance.

Promoting the impartial reporting of good news

Overall, the findings suggest that more substantial attention in impartially reporting (also) good news may ultimately strengthen the psychological contract between taxpayers and the state.

The take-home message for policymakers is straightforward. Public policy can create the preconditions to promote tax compliance in previously unsuspected ways. The design of strategies and incentives nudging more balanced information that impartially reports positive news could help the government meet its tax revenue objectives. Increasing compliance may feed a virtuous cycle by further improving the provision of public goods and services. In pursuing this end, authorities must preserve freedom of critique, which supports the belief that the political process is fair and the policy outcomes legitimate, further underpinning tax morale.



Notes:

- This blog post is based on [Media negativity bias and tax compliance: Experimental evidence](#), *International Tax and Public Finance*, forthcoming (2021) [Open access – DOI: 10.1007/s10797-021-09706-w]
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