EXAMINING UTILITY FUNCTION OF "HAPPINESS" INDICATOR IN THE CONTEXT OF ECONOMIC GROWTH AND INCOME INEQUALITY

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ABSTRACT

The happiness studies in economics substantially increased over past decades. Especially the nature of relationship between economic growth (income, relative income and income change, unemployment, inflation, etc,) and happiness has been the center of many debates among economists and other social scientists. Those studies have been applied different economical models in which different national and cross-national micro and macro datasets through cross sectional and panel analysis are used. Most of these studies have been provided that happiness or related concepts (subjective wellbeing, etc,) could be an important proxies or experienced utilities for economic growth. On the other hand seminal works of Easterlin (1974,1995) have cast a serious doubt on the utility function of happiness which is called Easterlin Paradox. These studies showed that even though substantial income growth in Western countries over the last fifty years, income changed did not relate to rise in reported happiness level. From these perspectives economic growth per se has little impact on happiness and therefore should not be primary goal of economic and public policies. In this context I try to review the related empirical studies and approaches to assess the utility function of happiness. This critique especially will focus on the role of economic inequality and related other factors that can influence the link between income and happiness. Also, the methodological problems (e.g., using aggregate data, cross-sectional data, distribution of happiness data, etc.) in those studies will be discussed thoroughly. Especially, findings and methodological discussions from health economics (e.g., income and health relationship) will be utilized to assess the utility function of happiness. Finally, these findings and arguments will be discussed in Turkish economical context where very few study available in this topic.

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