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The Causal Nexus Between Inequality and Happiness in South Africa

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Abstract

South Africa experiences persistent challenges in happiness and inequality, emanating from deeply rooted socio-economic inequality. This paper contributes to the literature by establishing the causal nexus between inequality and happiness in South Africa. This study employs the vector error correction mechanism (VECM) and granger causality test to analyze the causality between happiness, inequality, GDP per capita, unemployment, inflation, and FDI; using available data between 2012 and 2024. The results show that happiness is influenced by inequality, and there is a negative relationship between happiness and South Africa's unemployment levels, gross domestic product per capita, and foreign direct investment. Similarly, the results depict that a positive (and significant) relationship exists happiness and inflation. Results also show that happiness-inequality; happiness-unemployment; happiness-FDI; inflation-GDP; and FDI-unemployment do not granger cause one another. Also, there is unidirectional causality running from economic growth to capital flight; while there is independence among other variables. Happiness and inequality remain crucial in all policy frameworks to achieve high levels of welfare and happiness economy. There is need to encourage equitable access to education, skills development, and employment opportunities. The authorities also have to implement policies that reduce income inequality, such as progressive taxation and enhanced social protection systems.

Keywords: Inequality; Happiness; Wellbeing; South Africa