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Full Length Research Paper

The effect of county government expenditure on gross county product in Kenya: A panel data analysis

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From previous studies, the effects of expenditure on economic growth appear to provide mixed results. Despite this uncertainty, theory suggests that expenditure induce growth. In Kenya, economic growth has been fluctuating despite the devolved expenditure increasing over time. It is against this background that this study was carried out to investigate empirically the short-run and long-run effect of components of county spending on growth in Kenya using panel data set over the period 2013 to 2017. Employing Harris-Tzavalis test, the study tested for the panel unit root and found that all variables were non-stationary at their level except gross county product (GCP). To check if the variables have long-run relationship, this study applied F bounds test. The result for this test revealed that there exists a long-run relationship among the GCP growth and regressors in the model. Once co-integrating was confirmed using F-bound, the long-run and ECM estimates of the ARDL model were obtained. The ARDL results revealed that spending on recurrent expenditure exerts a positive and significant effect on economic growth both in short-run and long-run hence confirming Keynesian theory in Kenya. However, capital expenditure was insignificant during the study period. From a recommendation standpoint, this study submits that the policymakers need to put in place policies that will improve budget allocation and execution so as to improve expenditure increase to capital infrastructure. This is necessary since counties lack infrastructures that help promote private capital accumulation and consequently county GCP.

Keywords: Gross county product (GCP), counties, expenditure, panel, autoregressive distributed lag model (ARDL), short-run, long-run.

INTRODUCTION

The universal drive towards devolution has been increasingly justified on the basis that greater transfers of resources to sub national governments are expected to deliver greater efficiency in the provision of public commodities and accelerate development (Martinez-Vasquez and McNab, 2005; IMF, 2016). Further, many studies on the linkage between spending and economic expansion have been conducted at the national and international level, for instance, Kakar (2011) and Kimaro et al. (2017). The causes of much of the disparity in

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