

ABSTRACT

The modern devolution development across the globe has been in part driven by assertions of a supposed 'economic dividend' linked with the devolved expenditure. There is however, little empirical evidence to validate these assertions in Kenya. Most empirical studies across different countries have used different methods of analysis, different time periods and diverse techniques of measuring variable which have generated mixed conclusions and others are inconclusive. More so, in Kenya these studies do not differentiate between long-run and short-run channels through which county expenditure influences economic activities. The implication in differentiating these two effects arises for the two motives. First, there is interval between a fiscal policy action and its impact in the county economy. Second, they can have opposite effects on growth. Failure to differentiate can give erroneous results and recommendations. It is against this background that this study was carried out to analyse the long-run and short-run effect of components of county expenditure on county economic growth in Kenya using panel data set over the period 2013 to 2017. This study used the published annual data from Economic Surveys, Gross County Product (GCP) report, Statistical Abstracts and county Budget Implementation Review reports. Further, this study was informed by neoclassical augmented Ram growth accounting model as the theoretical framework. The analysis techniques that were used in this study were descriptive and inferential statistics. Employing Harris–Tzavalis (HT) test, this study tested for the panel unit root and found that all variables were non-stationary at their level except GCP per capita, human capital and non-devolved expenditure. To check if the variables have long-run relationship, this study used Kao panel test. The result for this test revealed that there exists a long-run relationship among the real GCP per capita and regressors in the model. Once cointegration was confirmed using Kao test, the long-run and error correction estimates of the panel ARDL model were obtained. The ARDL results revealed that spending on recurrent and rise in absorption rate of 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. Arising from the study findings, this study submits that the county authorities need to put in place policies that will improve budget allocation and execution so as to improve expenditure to capital infrastructure in counties. This is because counties typically lack infrastructures such as roads, power, water and communications that boost private productivity and consequently GCP growth.

Keywords

County government expenditure