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An Analysis of Optimal Government Size for Growth: Application of Scully Model in Kenyan Counties

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Abstract
This study, assuming a balanced budget, attempts to estimate the optimal devolved government size in Kenya using the panel ARDL regression and Scully (2008) model for the period 2013-2017. The optimal devolved government size is determined to be around 9.7 percent of the GCP (Gross County Product). The estimated threshold size is higher than the current size of county government which stands at 5.4% of GCP. The panel analysis suggests that the optimal size of government is higher than the current size of government (9.7 > 5.4) and there is a scope of 4.3% increase in county public expenditures. Therefore, the study recommends increase of devolved government spending to arrive at the growth, maximizing level of the government size. This can be possible via increased national government budget allocation to the 47 county government and improved county revenue collection.

Keywords: County government expenditure, optimal government size, devolvedexpenditure, economic growth

1. Introduction

Africa shows an impressive decentralization institutional creativity. Two countries, Ethiopia and South Africa, have chosen a quasi-federal system. Nigeria, which used to be the only federal state in Africa, has adopted a new constitution that maintains the federal framework and gives more powers to its sub-national governments. In particular, rural areas are receiving priority over the urban ones in the current decentralizing trends in developing countries (Brosio, 2000; KIPPRA, 2016). In a number of countries, such as Kenya, Ethiopia, Mali, Madagascar and Senegal, devolved government, is a response to the demand for more autonomy from some areas of the country, as well as for a more equitable distribution of national shared resources (Brosio, 2000; Mose*et al.*, 2019).

In Kenya, decentralization started as early as 1963, particularly the *Majimbo* system and the sessional paper No 10 of 1965 entitled "African Socialism and its application to planning in Kenya." Further, Mutie (2014) observes that there are four main philosophies that guide fiscal decentralization. These are expenditure responsibilities, intergovernmental fiscal transfers, revenue assignment and sub-national government borrowing. Kenya came up with a new constitution which was promulgated in the year 2010 and fiscal decentralization is integrated in this constitution. Underpinning the devolution agenda was the need to: address deeply entrenched disparities in growth between counties; jumpstart long-term economic growth; improve equity in access to social and economic services at the county level; and, work progressively toward equalizing opportunities for all Kenyans (World Bank, 2014). Before the country prepared a new constitution, fiscal decentralization used to operate at the local authority level as Local Authority Transfer Fund (LATF) (IEA, 2010).

For devolved expenditure, about 20 percent of total government expenditure was spent at sub-national level in 2013/14 for Kenya which is the same level as EAC countries. The share of sub national expenditure closely mimics the levels in the region; in Uganda and Tanzania expenditure by sub-national governments account for 20 and 22 percent

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