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ECONOMIC GROWTH AND QUALITY OF LIFE IN KENYA

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ABSTRACT

Purpose of Study: This study examines the effect of economic growth on the quality of life (QoL) of people in Kenya over a period of 15 years, 2008-2022. The period marks the larger part of the ongoing Kenya Vision 2030.

Methodology: The study uses human development index (HDI) as the metric for QoL, secondary data sources, and the autoregressive distributed lag model in the analysis to test the null hypotheses that economic growth is not statistically significant in influencing QoL in Kenya.

Result: The results indicate that there is not enough evidence against the null hypothesis, contrary to popular expectations. One possible explanation for this outcome is attribution arising from inclusivity in the growth process.

Keyword: *Economic growth, quality of life, Kenya Vision 2030, equilibrium theory, cumulative causation theory.*

INTRODUCTION

The Kenya Vision 2030 is a most ambitious national development strategy since Kenya's independence in 1963, with a timeframe covering a period of 25 years, 2008-2032. The mission of the strategy is two-fold including transformation of Kenya into an industrial middle-income country and attainment of high QoL of the people (GoK, 2007). The strategy targeted growth of the economy at an average annual rate of 10 percent. The governing structure of the strategy comprise two 'Anchors' and three 'Pillars'. The two Anchors are the 'foundations (enablers) for national transformation' anchor and the 'macroeconomic stability' anchor. Together, the Anchors form the 'building blocks' for the three Pillars which include the 'economic pillar', the 'social pillar', and the 'political pillar' (GoK, 2007). The actual annual average growth rate of the economy achieved over the 15 years' period of the study is about 5 percent. According to the World Bank (2024), Kenya made significant political and economic reforms over the study period reflected in poverty reduction from 37 percent in 2015 to 27 percent in 2019.

Quality of life is a broad concept for welfare improvement and is necessary for economic transformation (Krinitcyna, Mikhailova & German, 2016; Hrynchyshyn, 2020). According to (Boyle, 2024), the concept is based on welfare economics with direct focus on economic efficiency and income distribution. The governing principle of the welfare economics is welfare maximization of all members of society. The human development index introduced by the United Nations in 1997, is the most authoritative metric of QoL in the world (Krinitcyna et al., 2016). It is a summary measure of the average achievement in three key dimensions of human development including a long and healthy life, being knowledgeable, and having a decent standard of living (Krugman, Rodriguez & Choi, 2011). The key premise of the study is the circular cumulative causation theory of growth (Myrdal, 1944).

LITERATURE REVIEW

Equilibrium theory in neoclassical economics asserts that, the market system stabilizes economic forces such that any disequilibrium is recognized as being a temporary state to be dissipated by the normal operation of the market (Mankiw, 2000). Several theories including the Myrdal cumulative causation theory dispute this thought (Fujita, 2007:2004; O'Hara, 2008; Singh, 2022). Myrdal, using the circular cumulative causation theory explained the process of regional development, arguing that the process of economic growth is unbalanced, being concentrated on certain

favorable locations, and taking place unevenly across a geographic space (Singh, 2022). Economic development results in a circular causation process leading to rapid development of developed countries/regions while the underdeveloped countries/regions tend to remain behind (Fujita, 2004). According to Fujita (2007), the circular cumulative causation theory is important in distinguishing between the 'virtuous circle' in developed countries and the 'vicious circle' in underdeveloped countries.

The originality and meaning of the circular cumulative causation theory is grounded on three streams of theories including the Youngian cumulative causation theory which is based on the economies of scale (demand and supply), the Veblenian cumulative causation theory which is based on the institutional school, and the Wicksellian cumulative causation theory which is based on the monetary theories (Fujita (2004). As such, the circular cumulative causation theory by Myrdal is the theory for development including the institutional and political factors as well as the demand-supply system. The theory emphasizes the circular and cumulative character in the process of economic change (Fujita, 2004:2007; Singh, 2022; O'Hara, 2008; Toner, 1999; Veblen, 1998; Skott & Auerbach, 1995; Young, 1928).

Cumulative causation is a process where a result of an action (stimuli) leads to increase in the intensity and speed of initial action (stimuli) (Singh, 2022). For instance, an initial investment will lead to increase in economic activity. The investment is the stimulus or stimuli. The increase in economic activity due to stimuli will lead to production, sale and ultimately, profit. The result is profit. The investor will invest the profit along with the initial investment, further increasing the economic activity. This process keeps on repeating itself and the size of the economy continues to grow. The process of increasing the size of economy due to reinvestment of profits in the economy is cumulative causation. The path of investment and profit is circular and progressively push each other (Singh, 2022).

According to Myrdal, one of the principal shortcomings of economic theory is its disregard for noneconomic factors in the economic theory analysis, yet these factors are the main vehicles for the circular causation in the cumulative processes of economic change (Fujita, 2007). Myrdal explained his theory by distinguishing the economic space/region as containing two primary zones, a core zone and its periphery (Singh, 2022). The core zone is a developed area where economic growth started initially due to some natural advantages. The core contains most of the economic

activities of a region. On the global scale, the core refers to the developed countries and the area surrounding the core zone is the periphery or hinterland. The periphery is an underdeveloped area which provides food, raw materials, minerals and labor, and so on, to the core. On global scale, the periphery refers to the underdeveloped regions/countries of the world.

Myrdal explains the "spread effects" and "backwash effects" of the growth process through which the progressive/advancing regions affects growth in the lagging/depressed regions (Fujita, 2007). The "spread effects" are the centrifugal forces of expansionary momentum emanating from the centers of economic expansion and have a positive effect on the development of other regions. For instance, demand for agricultural products and raw materials from the periphery regions increase, while advanced technology is made available to the periphery regions promoting their growth. In contrast, the "backwash effects" emanate from the center of growth but have a negative effect on the growth of the periphery regions. Rapid growth of the growth centers, the progressive regions, attracts a net movement of the population, capital, and goods from the periphery regions, the backward regions. The migration from the backward regions to the progressive regions is mostly selective in the sense that, it is the young, the educated, and the healthy that migrate. These factors have adverse effects on the backward (periphery) regions in terms of stagnant growth and a lopsided age structure of the population.

O'Hara (2008) seeks to promote the development of the principle of circular and cumulative causation (CCC) through integrating social and economic dimensions as applied to historical problems, focusing on the empirical works of Myrdal and Kaldor in relation to money, growth, demand-supply, development, and ethnicity. According to O'Hara (2008), Myrdal scrutinized the conditions of African Americans and Asian underdevelopment through the CCC lens influenced by Wicksell, whereas Kaldor applied CCC to the role of manufacturing in capitalist growth influenced by Adam Smith and Allan Young. The Myrdalian CCC concentrates on the social provisioning aspect of development whereas the Kaldarian CCC centers on demand-supply relationships linked to the manufacturing sector. O'Hara (2008) links both the Myrdalian and Kaldorian CCC approaches in an integrative model to enhance the understanding of development and growth dynamics as well as to contribute to the development of institutional-evolutionary political economy. Myrdal started applying CCC to money and macroeconomics (Myrdal 1965) then most famously to the under-privileged situation of African Americans in the United States

[US] (Myrdal, 1944), along with work on Asian underdevelopment (Myrdal, 1968). Applications of the Myrdalian CCC model include Fagence (1980) on the provision of public and social services in rural and remote areas, Tarkcowski (1988) on the socio-political crisis in Poland in the 1980s, and Hill (1998:2008) on uneven development at the regional level.

In his economic theory of transmission Hirschman (1958), raised the main critique of Myrdal's ideas that, Myrdal did not believe in convergence of income levels of the rich and the poor since once economic growth starts at a place (core), the core continue to grow at the cost of surrounding area. The author further, argued that certain places are naturally resourceful whereas some other places are resource scarce, and therefore, it is inevitable that the growth will take place at fewer places, that is, the process of growth is intrinsically unbalanced. Singh (2022) observes that in spite of all the criticism, Myrdal theory has certain truth in itself and is a leap forward in locational analysis and for achieving regional equality. According to Leon-Ledesma (2000), the nature of cumulative growth models neither assumes full-employment nor deal with a general equilibrium economy but allows for a "total" endogeneity of growth to growth as self-reinforcing force. The author further argues that, despite having been ignored in growth debates in 1980s-1990s, the rich set of income distribution witnessed across the globe is a possible outcome of the cumulative growth models. The cumulative models are also compatible with a wide set of outcomes concerning the catching-up and convergence issues, explains the author.

METHODOLOGY

The study employed secondary data sources and the autoregressive distributed lag model to achieve its objective. The data included the HDI as proxy for the QoL variable, total public expenditures as ratio of GDP, annual GDP growth rate as proxy for economic growth, and the log of total factor productivity as proxy for total factor productivity.

Data diagnostics tests for normality, multicollinearity, heteroscedasticity, autocorrelation, and stationarity (unit root) were undertaken. The VIF value for the total public expenditures variable was 12>critical value VIF =10, suggesting violation of the multicollinearity assumption under the classical linear regression modeling. The study addressed the multicollinearity problem by taking the squares of the variable. The ADF p-value for QoL was 0.5788>critical value = 0.05, suggesting 'not to reject' the null hypothesis that the QoL variable has a unit root, that is, it is non-stationary.

ANALYSIS AND RESULTS

The regression results were attained using the ARDL (1 0 0 1) model, Schwartz Information Criterion (SIC) model selection method, and automatic selection of maximum dependent lags as well as dynamic regressors. These results include the Adjusted R-Squared at 0.4919, the F-statistic at 3.7109, and the p-value at 4.23 percent, implying that the regression model is objectively robust. Further, the results show a positive and statistically significant value of the coefficient for the autoregressive dependent variable (QoL) at first lag, HDI(-1) at 0.7448, with t-statistic at 2.8223 and p-value at 0.0200<0.05, suggesting that the QoL at first lag variable is positively and statistically significantly related to the QoL in Kenya. This implies that the values of the QoL experienced during the 'previous period/year' are statistically important in explaining/determining the QoL during the current period/year.

Contrary to overwhelming evidence by several scholars including DFID (2024), Chikalipah (2021), Chisadza & Loots (2019), and Rodrik (2007) that economic growth is a critical and powerful instrument for the improvement of quality of life in developing countries, the results show statistically insignificant but positive value of the coefficient of economic growth variable, implying that economic growth variable at level is not statistically important in influencing/determining the QoL in Kenya. In essence, strong economic growth generates virtuous circles of prosperity and opportunities, for instance, advancing human development through increased investment in education, which may lead to improved governance, and in turn promote economic growth. On the other hand, weak economic growth implies vicious circles in which poor/low QoL contributes to economic decline leading to further deterioration in QoL (Rodrik, 2007).

POLICY INITIATIVES/IMPLICATIONS

Inclusivity in the growth process is an important strategy for promoting rapid and sustained economic growth, as well as offering better prospects across both productive and service sectors and ensuring balanced sharing of the growth proceeds (DFID, 2024). Economic growth is inclusive when it is shared, benefiting the QoL of the broader population (Chisadza & Loots, 2019). The challenge for policy is to combine growth-promoting policies with inclusive-growth policies that allow full participation by the poor in the opportunities unleashed as to contribute to that growth. Examples of growth-promoting and inclusive-growth strategic polices include strategies/policies

to make labour markets work better, increasing financial inclusion, embracing new technologies, and increasing budgets on health and education which have major effects on the ability of the poor to take part in growth opportunities (DFID, 2024). Public sector promotes economic growth and equity by providing physical infrastructure for productive investment, social services to meet basic needs which in turn improve productivity of the population, and subsidies on goods and services consumed by the poor (Kirori, 2019).

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