

Reverse Causal Nexus Between Pro-Poor Policies and Income Inequality in Kenya



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Abstract Presentation

What does it cover?

- The actuality of the study (Statement of the problem)
- Research objectives and the leading question.
- Data and Methodology.
- Key findings and discussion.
- Conclusion, and policy recommendations.
- Acknowledgement

Research Problem

WHAT I WANT TO SOLVE

- Many developing economies are faced with challenges of retarded economic growth and resulting unequal distribution of the income to the key factors of production .
- These two challenges potentially generate two significant social problems in the economy.
- One, it results in the occurrence of income gaps among the people, and secondly, it results in a rise in poverty.
- These two problems create a development puzzle within governments regarding whether to prefer pushing for economic growth or reducing income inequality.

Cont'.....

- Kenya, a developing economy, is encountering various challenges associated with income inequality.
- Even though there are so many contributing factors to inequality, access to opportunities such as a quality education system has been identified as the key contributing factor.
- Why this study? Conflict in the literature:
 - The theoretical identification of channel.
 - Lack of harmony among economic researchers.
 - Which channel has the extreme effect on the interdependencies of human capital and income inequality?
- Against this backdrop, the study pursued the question of : relationship? and reverse causal nexus?

Question of the Study

- Is there a reverse causal nexus between pro-poor policies (government spending on education) and income inequality in Kenya?

Objective of the Study

- To determine the nexus between pro-poor policies and income inequality in Kenya.
- To determine the nexus between measures of human capital and income inequality in Kenya.

Data and Methodology

STEPS AND ACTION ITEMS

DATA

- The time series data.
- A sample period between 1982 to 2018.
- Log transformation to reduce biasedness and cointegration fitness.
- Data analysis by Eviews & Ox-Metrics softwares.

ESTIMATION MODEL

- Granger causality to show causal nexus.
- Cointegration to depict short and long run nexus.
- ECM to show the magnitude of nexus between variables.

PROCEDURE OF ESTIMATION

- Log transformation of data.
- Descriptive and normality analysis.
- Unit root test (ADF&PP).
- Lag order selection (AIC)
- Cointegration test (JC).
- Granger causality test.
- ECM Analysis.
- Diagnostic test

Key Results

RESEARCH FINDINGS
AND HIGHLIGHTS

- **HIGHLIGHT 1: Descriptive and Normality Test**
 - The data was normally distributed with mean and SDV close.
 - Normality test satisfied (Skewness, Kurtosis & Jargue-Bera).
- **HIGHLIGHT 2: Unit Root Test & Lag Order Selection**
 - Unit root test (ADF & PP).
 - Stationary data at the level form (integrated to order 0).
 - Minimum lag of 0 was selected using AIC.
- **Highlight 3: Granger Causality & Cointegration**
 - Stable short and long run relationship between PP & II.
 - Stable short & long run nexus between HCM & II.

Cont'....

● **CONT'**.....

- Economic growth induces nexus between HCM and II.
- No reverse causal nexus between II and PP.
- No reverse causal nexus between II and HCM, and EG.

● **HIGHLIGHT 4: ECM & Diagnostic Test**

- Increase in PP results in an increase in II.
- Increase in the average number of years of schooling leads to a cut in II.
- Increase in secondary school graduates results in a decline in II.
- Increased graduates from tertiary institutions results in higher II.
- Increase in economic activity leads to a decline in income inequality.

Conclusion

NEW UNDERSTANDING OF THE PROBLEM

- The interaction of government spending and human capital measures contributes to a uniform distribution of income .

It is important for the government to reconsider reviewing social policy interventions that will aid in enhancing unified distribution of income.

Policy Recommendations

POLICY DIRECTIONS FROM THE PROBLEM

- Policy initiatives to ensure increased human capital and a quality education system.
- Increase budgetary allocation towards the education sector that can attain both quality education, productivity, and fair distribution of income among the people.

Acknowledgement

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- Contributions, critiques and suggestions from Dr. Izabella Szakálné Kano & Dr. Zsófia Boglárka Vas.

Conclusive Remarks

FOR FURTHER CLARIFICATION AND REACH OUT



“A nation will not survive morally or economically when so few have so much and so many have so little”
(Bernie Sanders)



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