

The link between deficit financing and the unemployment in Kenya

Abstract:

Deficit financing is an economic policy which many governments use to stabilize the economy especially in the midst of the limited resources. These economies are forced by circumstances beyond their control to look for finances both within and outside their geographic boundaries to meet budget obligations and ultimately improve the welfare of the citizens. As a policy measure, deficit financing is expected to lower unemployment levels in the economy. This study therefore, is meant to establish the link between deficit financing and the complex unemployment problem in Kenya. The findings have shown a weak positive link between deficit financing and unemployment. A weak positive link because the marginal effects to the level of unemployment due to a unit increase in financing fiscal deficits is not significant. The general advice to developing nations is to avoid debts by limiting borrowing, to formulate proper policy framework and regulations which allows wise and sustainable utilization of local resources without depending from external sources and also to prevent any likely leakages or withdrawals of these funds (in cases where deficits are financed) from the circular flow of income by strengthening corporate social responsibilities of public servants.