Abstract:

The Vision 2030 proposes to contain growth of total expenditures with expenditure rationalization that shifts resources from non-priority to priority areas. This is expected to see the development expenditure increase from 18% in 2006/07 to 35% by 2012/13. This study set out to determine the exact causative process between the size of the government and economic growth given that knowledge of the same has important policy implications for the attainment of the 'Vision' goals. Economic theory dictates that if government spending accelerates economic growth, in which case causality is Keynesian, then government expenditure acquires the status of an important policy variable. If on the other hand, growth causes expansion in government expenditure, in which case causality is Wagnerian, then government expenditure is relegated to a passive role. Working within the bivariate and trivariate frameworks using the theory of cointegrated processes, the study concludes that in Kenya, causality is Keynesian and therefore the relative size of government spending is a critical policy variable in attaining the vision 2030 goals. This implies that there is potential for achieving long run/potential growth envisaged in the 'Vision' by controlling the size of the government.