ABSTRACT

Human capital is generally considered as a positive contributor to economic growth. This study investigated the relationship between human capital (as proxied by capital expenditures on education and health) and economic growth in Kenya (1981-2011). Ordinary Least Square multiple regression method (developed from the original Cobb-Douglas production function) was used to examine the relationship between capital expenditures on education and healthcare; and economic growth. The time series data analysis showed a significant and positive relationship between health expenditures and economic growth; while reporting a significant but negative relationship between education expenditures and economic growth. The study thus recommended that Kenyan policy makers should pay closer attention to the health sector by increasing its yearly budgetary allocation to the sector; and addressing the anomalies in the education sector. Nevertheless the key to good results lies not in ordinarily increasing particular budgetary allocation but rather in implementing a public finance system that, to the extent possible, links specific expenditure and revenue decisions and ensure the usage of the allocated fund as transparently as possible.