ABSTRACT

Human capital investment has a crucial role in economic growth, and as such, it has been regarded as a significant aspect of government spending. The Gini index score reported an average of 41.6 percent in 2018, which is higher than the generally recognized perfect equality Gini index of 20%, representing significant income inequality and thus suggesting that Kenya has been suffering from high income disparity. The effect of human capital investment on disparities in income is a growing source of worry for all countries. There has been a widespread belief that income inequality and human capital investment are mutually exclusive. The theoretical and empirical literature approaches provide different findings on the topic of the connection between income inequality in Kenya and investment in human capital. The current research studied how human capital investment affected income inequality in Kenya from 1990 to 2019. This research used Kuznets' inverted U hypothesis and the concept of persistent income inequality to explicate the connection between human capital investment and income inequality. Time series data from 1990–2019 was used to analyze trends in education expenditure, healthcare expenditure, spending on creativity and innovation, GDP per capita, the interest rate, the human development index, and income inequality. The data was obtained from the Kenya National Bureau of Statistics (KNBS), the World Bank, and the United Nations Development Programme. The study adopted a causal research design, which enabled the researcher to determine if a cause-and-effect association occurs amid human capital investment and income inequality. After applying differentiation, all variables passed an Augmented Dickey Fuller test for stationarity. The associations between the variables were shown to be unrelated using the Granger causality test. All of the models had long-run equilibrium relationships between the variables, as determined by the cointegration tests. Diagnostic tests revealed the absence of multicollinearity, heteroscedasticity, and autocorrelation, thereby concluding that the assumptions of the Classical Linear Regression Model were held. A vector error correction model was also used from the evidence to infer how human capital investment affects income inequality in Kenya. Health investment expenditure was found to have an adverse and statistically significant effect on income inequality, with an R^2 of 0.8697 after controlling for interest rate and GDP per capita. After accounting for changes in interest rates and GDP per capita, the data shows that education spending has a negative and statistically insignificant effect on income inequality, with an R^2 of 0.8461. The study discovered that there was a detrimental and statistically significant influence on income inequality when investments in creativity and innovation were adjusted for interest rates and GDP per capita, with an R^2 of 0.8516. The human development index was discovered to have a negative and statistically significant effect on income inequality, and this was verified by the robust check. An inverted U was found using the Kuznets test, which was performed to broaden the scope of the research but yielded an insignificant result. The study recommends the formulation and implementation of policies that adhere to the Abuja Declaration on Health, which requires that 15% of government expenditure be allocated to health. To nurture creativity and innovation, the study also recommends 2% of the government's expenditure go towards research and development, as stipulated in the National Research Fund, Science, Technology, and Innovation Act of 2013. The study recommends strict adherence to the 100% transition from primary to post-primary levels policy of education since, in the long run, it yields maximum benefits for the country. The study's conclusions are pertinent to the development and implementation of successful policies that encourage human capital investment, resulting in a decrease in Kenya's levels of income inequality.

CS CamScanner