The Impact of Government Economic Policies on the Education Sector

Wilberforce Njeru
Email: wilberforce@kabarak.ac.ke

Abstract

In July 2023, the Government of Kenya released its national 2023/24 Financial Budget with a deficit of KeS 718 billion, to be financed through domestic and external financing. The internal financing would be through internal borrowing, manipulation of money supply, and taxation, while the external funding may be through loans and grants. The taxation method is referred to as fiscal policies, and the money supply is monetary policies. This paper investigates the effect of monetary and fiscal policies on education in selected countries and applies the understanding to policymakers in Kenya.

Keywords: Budget Deficit; Monetary Policies; Fiscal Policies; Education Policies.

Introduction

Governments face an economic crisis when they face budget deficits; thus, they turn to monetary and fiscal policies to solve these financial crises in their countries. Monetary and fiscal economic policies are applied in a country whenever the budget fails to balance (Rowden, 2011). The state applies economic policies to stabilize the macroeconomic environment in a country. These economic policies affect the education sector. The countries surveyed are Latvia, Jamaica, and Uganda to show the effect of overborrowing funds on the economy and education sector. The survey covers 1990–2010. The impact on the education sector has been reduced education budgets, strikes by labor unions and students, increased educated unemployment, and emigration of brain drain in affected countries.

From 2002 to 2007, the world experienced a financial crisis caused by the housing bubble in the United States. Wealthy governments like that of the United States helped their banks by lending them money to avoid a collapse. The lending banks recalled their loans from foreign banks for fear of collapsing. The foreign banks paid debts owned by foreign

countries, and this led to financial crises in these countries. A lack of financial prudence can heavily cost the economic stability of a nation.

Latvia, a European country whose economy was growing at a percentage close to 10 percent, faced the global financial crisis. The citizens of Latvia caused an economic crisis by borrowing heavily to finance rental houses in Latvia. The citizens of Latvia imported goods from the European market to fund their lifestyles. The money borrowed by Latvian citizens increased Latvia's debt to above 125 percent of their GDP. As a result, the government of Latvia sold its national assets, such as the National Bank, to pay foreign debt (IMF Survey, 2010).

Another example is Uganda in Sub-Sahara Africa. Uganda followed policies of mixed economy in which private and public enterprises thrived side by side. The economy recorded more than 5 percent economic growth. However, according to Kiapi (2011), corruption and wastage in government led Uganda to experience a national financial crisis during the 1990s and 2000. The situation forced Uganda to begin borrowing funds from internal and external sources. The government activities led to a deeper economic crisis. The crisis affected education as inadequate funds were available for this critical sector.

Further, the government of Jamaica in Central America borrowed recklessly in the 1990s from international and local financial sources to finance her economic activities. Consequently, the government faced an economic crisis due to her reckless borrowing. It subsequently reduced public financing in the education sector (EFA, GMR, 2011).

The Kenyan Case

The Kenya Government's 2023/2024 financial year budget was tagged at KeS 3.7 trillion (GOK, 2023). The Kenyan government allocated KeS 2.53 trillion in recurrent expenditure, rapidly expanding its infrastructure, especially roads and railways. The ambitious budget increased loan portfolios borrowed from domestic and international sources, mostly at commercial interest rates. This situation deepened Kenya's domestic and foreign national debt, resulting in economic and financial challenges. Christina and Romer (2002) note that over-ambitious government macroeconomic policies have partly caused severe recession.

The negative effect on the economy affected education in several ways. For instance, inadequate public funding in education led to high fee increases and reported student disturbances in higher education institutions. The government reacted by establishing a new

financing model in education. The financing model implementation is still in its infancy, and much remains to be seen.

According to the World Bank (2008) Report, on average, Kenya's Gross Domestic Product has been declining since the early 1970s. The World Bank Report shows that the national income rose by 22.1 percent and began to decrease in subsequent years. The World Bank Report shows that in 2013, it fell to 5.3 percent, then to 4.8 percent in 2017. Thus, the Kenyan government has considered increasing its GDP growth rate above 5 percent yearly.

In the 2023/04 financial year, the Kenyan government faced a fiscal deficit of Kes 718 billion, which had to be financed by net external financing of Kes 131.5 billion and domestic financing of Kes 568.5 billion. To resolve this challenge, the Government of Kenya proposed monetary and fiscal policies (GOK, 2023). An effect of an economic crisis caused by the financial crisis is reduced by the use of monetary and fiscal policies established by the government of the day.

Monetary Policies

The monetary policy is determined by the Central Bank (GOK, 2023). It is independent of the political process. The monetary authority's agenda is to use money supply and interest rates to deal with an economic crisis in the country. The monetary authorities are required to maintain a stable macroeconomic environment.

Central Banks operate in a certain way to resolve an economic crisis. During the economic recession, the Central Bank releases more money into the economy to increase aggregate demand. Increasing money in the economy through printing money or buying government securities increases private consumption and investment spending. The bank's action enables the economy to expand and, thus, the productivity of dormant resources to reach an optimal level.

The monetary authorities can also lower interest rates called Discount Rates to allow private firms to borrow money at a lower cost and thus use the money to boost the economy. Therefore, monetary policy raises the overall aggregate demand in the long run, moving the economy towards Keynesian full employment. The money to boost the economy is borrowed money from private firms. The government funds its own expenditure programs and pays later during the economic upturn (Mason, 2014).

The intellectual foundation of monetary policies came from an American economist, Milton Friedman (1970), who believed that monetary policies are better than fiscal policies in tackling economic downturns. Fiscal policies were already in use before Milton Friedman introduced his ideas on curing the economic crisis in countries undergoing the economic downturn.

During the economic upturn, the central bank decreases the money supply by increasing the interest rates of the commercial banks. Thus, the private sector reduces the appetitive demand for money for transactions. High interest rates lower the aggregate demand and save the economy from overheating. Alternatively, the government may buy securities held by the general public and commercial banks and thus lower the amount of money in the economy. The money multiplier is used to lower economic activities in the short run. Woud (2014) argued for control of money circulating in the economy to stabilize the macroeconomic environment.

The followers of Milton Friedman, known as monetarists, oppose the idea of fiscal policy, which they claim is ineffective in dealing with economic downturns. Monetary policies are associated with classical economics, which advocated for free markets and less government intervention. The idea of free trade or markets is that developing countries are better at achieving fast economic development by building their domestic industries and adopting the concept of markets. Developed countries have used monetary policies in times of economic crisis.

For instance, the United States Government used monetary policies during the 2007–2009 economic crisis. The government lowered the interest rates to one percent and increased the money supply by buying its securities held by the general public. The policies helped to raise economic activities in the country. Monetary policies can be traced from classical economists (Rowden, 2011).

The ideas of monetary policies are associated with economists such as Adam Smith and David Ricardo. They advocated for free trade in a world where government intervention is limited. This idea of free markets was fine-tuned by the President of the United States, Ronald Reagan, and British Prime Minister, Margaret Thatcher, in the 1980s to resolve the economic crisis faced by nations of the world (Rowden, 2011). Ronald Reagan and Margaret Thatcher advocated for balanced budgets, low interest rates, and low inflation in a world of

fiscal crises. The ideas came to be known as neoclassical or neoliberal economics. Countries needing money from international money markets to solve economic crises were to adhere to stipulated doctrines.

By maintaining price stability, monetary policy is a vital tool in sustaining macroeconomic stability. The challenge would be at what price level or inflationary level. Attempts have been made to answer that question through studies. Researchers such as Pollin and Zhu (2005) found the danger point between 14–16 percent for developing countries, while Fischer (1993) settled at 15–30 percent, and Bruno and Easterly had a higher figure of 40 percent. Thus, for developing countries like Kenya, the inflation level may vary from 14 – 40 percent to attain macroeconomic stability. Developed countries had a lower figure on the appropriate inflationary level for an acceptable economic growth rate.

In developed countries like the United States, a lower figure of 1–3 percent of the inflationary level was quoted as acceptable for economic growth. The United States and other developed countries had varying quotations for acceptable inflation levels for economic growth: Khan and Senhadjl (2001) settled at 1–3 percent, Sarel (1996) at 8 percent, and Gao (2009) had a higher figure of 7–12 percent. Thus, a 1–2 percent inflation rate was considered safe for positive economic growth.

Fiscal Policies

The opposite of monetary policy is an older approach called fiscal policy or Keynesian approach. Fiscal policy is carried out by the treasury, debated, and passed by the legislative arm of the government. It is political. The fiscal policies' economic policy implies lowering taxation and providing other allowances to business firms and households during an economic downturn. The fiscal policies allow the general public and the business firms to have more funds to use to increase aggregate demand in the long run and thus effect an economic upturn.

During the upturn of the economy, stability is maintained by increasing taxation and applying measures to depress the aggregate demand in the short run. Taxation by the government comes as its revenue. Government receipts are imposed on citizens' personal income, businesses, and natural resources. Fiscal policies are associated with John Maynard Keynes, a British economist who wrote a book in 1936 on the *General Theory of Employment, Interest Rates and Money* to try to understand the Great Depression of the 1930s

in America. Keynes advocated for massive government intervention during an economic recession in the form of government expenditure during the economic downturn.

Governments can afford massive expenditures on the economy because they control many activities in the country, including the market. Keynes is believed to be the founder of public capitalism, which is prevalent in most developing countries (Foley, 2010). Fiscal policies are applied to stabilize the economy during an economic downturn.

Maintaining price stability in a country requires governments to lower taxes, increase government expenditure during an economic downturn, and increase taxes and lower government spending during an economic upturn. In economic parlance, contractionary policies lower the inflation rate, increase unemployment, lower trade deficits and budget deficits, and increase income inequality in the country. Governments' treasury applies fiscal contractionary policies to lower aggregate demand in the short run.

An expansionary government fiscal policy increases employment, inflation, and budget deficits and reduces economic inequality as the government borrows money for massive spending. In the long run, expansionary economic policies increase aggregate demand output and lower price levels in the context of aggregate short-run and long-run demand. Therefore, a government should monitor the economy's metrics to maintain price stability and increase employment. Thus, developed countries use fiscal macroeconomic environments to stabilize the economy and increase economic growth (Blinder and Solow,1973).

The global recession of 2002–2007 hit the United States economy in 2008. The global financial crisis led to the economic recession beginning in 2008 and constituted the worst global recession since the Great Depression of the 1930s. The United States government established several measures to ease the crisis's impact on the public and businesses. It paid unemployment rebates to people searching for or who had lost jobs during the financial crisis, lowered taxes on business firms, and gave tax rebates to working families affected by inflation during the crisis. It also spent on infrastructure to ease the recession in 2009.

Further, the United States government provided $2500 tax credits for qualifying college students for educational expenses. The spending resulted from a stimulus package of $784 billion passed by the federal legislature at the onset of the 2009 financial crisis. Moreover, the United States government encouraged first-time home buyers by providing tax

credits. A cash rebate was provided to new car buyers with higher fuel-efficient standards as provided for by the American Recovery and Reinvestment Act of 2009. Finally, the United States government allowed people to register for medical aid, cash transfers, and food stamps once their incomes fell below a certain level. The United States government experienced a rise in the national debt. The bulk of the money spent by the United States government comes from taxes on individual incomes, and the sales tax comes from state governments. Tax revenue is the largest source of government spending for sustainable development in developed and developing countries. The Keynesian approach to resolving economic crises has a long history since it was used to stabilize the economy of America after the 1930 global economic crisis (Keynes,1936).

Keynesian economics was used after World War II when the government of the United States provided financial support to European countries to rebuild after being devastated by the war under the economic policy called the "Marshall Plan for Europe." The financial help was in the form of government grants, which assisted European countries in re-establishing their industries after World War II (Hudson & Sommer, 2009).

Moreover, during the Industrial Revolution, European countries supported their industries through low-interest loans and outright grants and looked for markets for their manufactured goods abroad. The European governments protected their industrial markets until they could stand. Also, European governments used military technology to protect their markets and sea routes abroad. Kenya has experimented with monetary and fiscal policies to stabilize its macroeconomic environment.

Kenya Economic Policies

Using fiscal and monetary policies, the government of Kenya intends to close the 2023/24 budget deficit and loans through a raft of fiscal frameworks to help achieve its targets. It plans to increase revenue collection by broadening the tax base and controlling overall expenditure (GOK, 2023). The Kenya Government has increased value-added tax (VAT), which has increased the cost of domestic goods and services and imported goods. Simultaneously, the Kenya government has reduced public expenditure significantly, although reducing government public spending may negatively affect the general public and economic growth. There is a possibility that Kenya's fiscal policies on domestic goods and services will be retrogressive and will most likely hurt low-income families.

The primary role of the Central Bank of Kenya is to maintain general price stability (CBK, 2010). The central bank's monetary policy is to keep inflation at 5 percent. A stable price level and adequate liquidity of a Central Bank would encourage private savings, investment, and employment. Kenya, after independence, had an inflation rate of about 2 percent and economic growth of 8 percent, which made money control unnecessary (Kinyua, 2001).

The Central Bank of Kenya has raised its base lending rate, thus reducing the demand for money. In Kenya, wages have been raised minimally, equivalent to internal devaluation of the currency. Studies have shown that many foreign firms may invest more in an economy with low labor costs (Baker, 2011). The challenge of foreign firms' local employment is that they assemble manufactured goods with little vertical and horizontal integration of the economy. Foreign firms are involved in a high monetary outflow from the economy, further depressing the local macroeconomic environment and increasing unemployment.

The rise in inflation to a certain undesirable level will require the monetary authorities to raise interest rates to reduce demand for money and effect a fall in price level. A government significantly influences the economy as it employs the largest number of workers and is the largest borrowed in the money markets. Moderate deficit financing and expansion of the ICT sector may result in a boom in economic recovery. Low inflation is necessary for a growing economy to increase production and raise workers' wages.

The influence of monetary and fiscal policy is not only on the domestic economy but also on foreign trade. An increase in the domestic economy's money supply lowers the domestic currency's exchange rate against the international currency, hence increasing exports and the economy's growth. Therefore, Central Banks must maintain a stable, realistic, and competitive exchange rate (Frenkel and Ros, 2005; Frenkel and Rapetti, 2008).

In that context, Serget and Wallace (1981) noted that an interest rate increase affects demand for money, price level, government debt, government securities, exchange rate, and exports. An increase in interest rates lowers the demand for money, which increases the price level of government debt and increases the demand for government securities. An increase in interest rates overvalues the local currency and decreases the quantity of a country's exports.

A decrease in money supply in the economy increases interest rates and artificially overvalues the cost of domestic currency against foreign currencies, thus increasing the cost

of domestic exports. A decrease in money supply reduces the quantity of goods and services exported, and the value of total exports decreases. A decrease in the money supply will increase the interest rates and depress the growth of the domestic economy (Furman and Stiglitz, 1998).

Milton Friedman (1970) was the founder of monetary policy ideas and was a critique of Keynes's economic system; and believed that the economic system is self-regulating and that the knowledge of the economic system is limited to satisfactorily account for short-term fluctuations. Another economist, Renshaw (2017), believed that uncontrolled government spending policies may lead to undesirable increases in price levels. Further criticism of Keynesian theory was by Chen, Yao, and Lin (2017), who believed that uncontrolled government spending policies may negatively affect private investment by raising interest rates. Thus, economists and policymakers must find a formula to meet each country's economic challenges.

Proper exchange rate management can lead to increased economic investment and employment. In 2005, Frankel and Ros asserted that the real exchange rate influences the economy through aggregate demand. Reducing export and import taxes on essential goods may lead to a revenue gain critical for development. Monetary policies positively impact economic growth where money is accessible for domestic infrastructural development. The money laundering to foreign accounts by low-income countries' leaders is borrowed by developing countries as loans with interests to pay back. Money laundering hurts economic growth and income distribution in a country. A government applies monetary policies and fiscal policies to stabilize the macroeconomic environment.

There is a relationship between the price level (inflation) and taxation. An increase in taxation increases the price level. Taxation has adverse effects on economic growth at a particular inflation level. Low taxation decreases price level, increases aggregate demand, and helps attain full employment. Taxation policies are also called fiscal policies or Keynesian economics. The policies are practiced as a stimulus package to stabilize the macroeconomic environment.

The government uses stimulus packages during an economic downturn. The period of an economic downturn is called an economic recession. Business firms and consumers register low demand for goods and services. A government can reduce spending and keep

taxation low to increase consumers' and business firms' demand for goods and services in the country. Over-taxation by a government will lead to inequitable income distribution and reduce consumer spending. When governments tax citizens, it is said to apply regressive taxation. Regressive taxation has other adverse effects on the economy. Progressive taxation leads to equitable income distribution and increases consumer spending.

Countries with 2 to 4 percent inflation tend to attract emigration of skilled workers from high-inflation countries, causing brain drain in the mother countries. Countries with inflation rates above 10 percent tend to attract the immigration of skilled workers. Economists call the emigration of skilled workers from one country to another as brain drain from the mother countries. Decreased government spending over time in a country with lower economic growth may become self-reinforcing (EFA, 2011).

Kenya's government has instituted a raft of taxes on its citizens, such as value-added tax (VAT) on practically every item where transactions are involved. The VAT increase results in the devaluation of the local currency and dampens the efforts to achieve economic recovery. High taxes reduce the incentives to work, invest, and innovate. Studies have shown that using VAT has had low success in Sub-Sahara Africa and South and East Asia. Further examination should be done on using VAT for economic development, especially during the economic downturn. Governments may increasingly tax their citizens without corresponding public spending and economic growth.

A Kenyan government agency, the Salaries and Enumeration Commission (SEC), has capped salary increases for teachers and other workers and has effected few promotions. The capping of salaries when taxation increases leads to currency devaluation, which encourages foreign firms to invest in the country. Capping salaries leads to lower costs per worker compared to rival neighboring countries, thereby causing skilled workers to immigrate to foreign countries (BNN, 2010).

Economic stabilization needs to be more broadly defined to include the real economy's stability, which has smoothened business cycles and reduced fluctuations of outputs, investments, employment, and incomes. Maintaining economic stability may require more significant fiscal deficits and higher inflation rates. A government that spends on non-interest-free loans such as grants to governments from foreign sources plays a minor role in increasing budget deficits.

Developing countries lack the finance for raising the level of economic growth. They experience low growth rates, as Kenya experienced in the 1990s. Spence (2008) concluded that most developing countries are stuck at a low equilibrium level as they depend on raw material exports from agriculture and natural resources. Developing countries need a lot of resources and infrastructure development to be in a stage of economic take-off. Fiscal economic policy is more effective in dealing with economic stability when monetary policy has failed. However, the application of monetary policy and fiscal policy appropriately gives the best results.

The use of monetary and fiscal policy is all related to interest rates. Thus, monetary and fiscal economic policies tend to affect aggregate demand by varying demand for and supply of money by varying interest rates. European Union is experimenting with negative interest rates as an economic policy to stabilize the economy. Keeping interest rates low for a prolonged period may lead to a liquidity trap. Monetary policies are appropriate in times of economic expansion. Further, low interest rates may lead to an economic bubble where large amounts of money are utilized to purchase real estate and in stock markets.

Weeks and McKinley (2007) advised governments to run budget deficits in ordinary times since the money would be used to support fiscal stimulus on public investment, which would be paid when the economy has a surplus budget would be repaid when the economy has a surplus. The standard Keynesian approach to supporting aggregate demand aims to support economic recovery. The money raised can help raise the country's human capital.

While Keynes advocated for massive public expenditure, monetarists argued for limited public expenditure and free markets during economic recession. In developing countries like Uganda, independent policies were needed to lower budget deficits after the economic crisis. Monetary and fiscal policies are critical to boosting the domestic economy via industrialization. The informal sector is a choice to begin with.

Poor timing of the onset of economic depression by government spending may lead the country into high inflation (Wilber, 2019). Optimal self-actualization of the economy is determined by how effective responses are to variables responsible for macroeconomic fluctuations. In the short run, the self-stabilization of an economy creates an environment that lowers support for government economic recovery programs. In the 2008 economic crisis in Latvia, the government bank bailouts increased debt levels to dangerous proportions.

A government can tailor its economic policies towards industrialization and full employment for Keynesians. An increase in the manufacturing sector would help the country to increase value addition in their agricultural production and manufacturing, thus increasing the value and quantity of exports. Increased value addition raises the taxable base. Domestic industries need government protection against foreign manufactured goods in the manufacturing sector until they can stand independently in the liberalized global trade market (Jomo & Reinert, 2005).

According to Reinert (2007), successful industrialization needs a gradual process, which requires a learning process facilitated by the government. Lucas (2003) states that the stabilization process has minimal welfare benefits. Thus, the industrialization and expansion of ICT may help a country achieve a budgetary surplus. Industrialization and expansion of (Information and Communication Technology (ICT) will help to attain budgetary surplus. According to (Kregel, 2009), industrialization has a budget surplus for economic development and available funds for education. However, government political policies may make the recovery of the economy difficult. In Europe, Latvia's decision to remain in the European economic bloc slowed its economic recovery progress (Baker, 2011).

Economic experts have opined that country economic planners and policymakers must be conversant with economic variables or metrics to drive the economy in the desired direction, as many forces affecting the economy make it difficult to predict the magnitude of the positive change with precision.

A stable and positive inflation is necessary for economic development as it is predictable: Private firms, individuals, and foreign firms can accurately predict their economic actions. Everyone aims for positive economic development (Alexion& Nellis, 2017), including all those with a stake in a country's management of their public finances (Pagano & Giavazzi,1990), such as foreign investors and international money lending organizations.

Effect on the Education Sector

In the Kenya government's 2023/2024 Financial Year, the education sector has a lower budget than the 2022/2023 Financial Year. The increased value-added tax and reduced education sector budget may negatively affect the supply and demand of educational resources. Reducing educational resources will affect Kenya's "Vision 2030" to make Kenya a middle-

level industrial state by 2030. The dependence on the export of natural resources and agricultural products in their natural state may not lead significantly to job creation and structural change (Chen & Martin, 2008).

Individual learner's sources of funds must originate from increased economic activities in the country. Reducing the education budget will impose more demand on individual learners and parents for education financing. Money for financing education by parents and learners depends on a healthy and stable economy. A stable macroeconomic environment boosts domestic production and increases employment and exports. It increases national income, lowers national debt, and increases available educational funds for families and the government.

Studies on education have shown that education training, research, and development produce skilled workers are critical for optimal economic performance. Human capital contributes more to Gross Domestic Product (GDP) than any other factor of production: physical capital and land. An extra year of study increases average GDP growth by 0.37 percent. Quality education increases GDP by one percent (Hanushek et al.,2008). Large investments in education and training by many East Asian countries led to their technological advancement. According to the Barcelona Declaration of 2002, states in the European Union should raise research investment to 3 percent of GDP and for higher education by 2 percent of their GDP (Chen, Yao & Lin, 2017). School and university curricula should support industrialization and technological sophistication in the country.

Appropriate economic policies by the government reduce strikes by students in the universities and academic staff unions. It also reduces the agitation for increased salaries and work conditions by teacher trade unions in other sectors of the economy. College students often complain about high fees in higher education due to reduced education budgets.

A stringent fiscal policy reduces the growth rate of gross domestic product (GDP) and creates overcrowded classrooms, dilapidated classes, absentees in education, and low-quality education. According to (Otmar, 2005), a volatile economic environment will trigger damaged education careers and life paths. States with high economic growth rates and per capita income have been found to increase their education allocation proportionate to national income. In the United States of America, the amount of money allocated to primary and secondary education per student was 35 percent less than that of the Organization of

European Countries on Development (OECD) in those two education sectors (OECD, 2019). The education budget in Kenya was about 17 percent of the Gross Domestic Product (GDP) in the 2023/24 Financial Year.

Summary and Conclusion

The severe recession in Kenya has been partly caused by over-ambitious government macroeconomic policies and world economic conditions, affecting the education sector. The Government of Kenya has proposed monetary and fiscal policies to meet its 2023/24 budget deficit. The effect of an economic crisis caused by the financial crisis is reduced by using monetary and fiscal policies established by the government of the day. The monetary policies are required to maintain a stable macroeconomic environment. The bank increases the money supply to enable the economy to expand and thus productivity of dormant resources towards optimal level. The government borrows funds for its own expenditure programs and pays later during the economic upturn.

The idea of free trade or markets is that developing countries are better at achieving fast economic development by building their domestic industries and adopting the concept of markets. An increase in the domestic economy's money supply lowers the domestic currency's exchange rate against the international currency, hence increasing exports and the economy's growth. A decrease in money supply in the economy increases interest rates and artificially overvalues the cost of domestic currency against foreign currencies, thus increasing the cost of domestic exports. Also, it increases the interest rates and depresses the growth of the domestic economy.

The opposite of monetary policy is an older fiscal policy or Keynesian approach. Fiscal policies are applied to stabilize the economy during an economic downturn. It allows the general public and business firms to have more funds to increase aggregate demand in the long run, thus affecting an economic upturn. An expansionary government fiscal policy increases employment, inflation, and budget deficits and reduces economic inequality as the government borrows money for massive spending. In the long run, expansionary economic policies increase aggregate demand and output and lower price levels in the context of aggregate short-run and long-run demand.

There is a possibility that Kenya's fiscal policies on domestic goods and services will be retrogressive and will most likely hurt low-income families. Low taxation decreases price

level, increases aggregate demand, and helps attain full employment level. Progressive taxation leads to equitable income distribution and increases consumer spending. The effect of the VAT increase is to devalue the local currency and dampen the efforts to achieve economic recovery. Decreased government spending over time in a country with lower economic growth may become self-reinforcing. Maintaining economic stability may require more significant fiscal deficits and higher inflation rates.

The challenge of foreign firms' local employment is that they assemble manufactured goods with little vertical and horizontal integration of the economy. The dependence on the export of natural resources and agricultural products in their natural state may not lead significantly to job creation and structural change.

Individual learners' sources of funds must originate from increased economic activities in the country. Reducing the education budget will impose more demand on individual learners and parents on education financing. Money for financing education by parents and learners depends on a healthy economy. Economists and policymakers must find a workable formula to meet each country's economic challenges.

The education advocates have a role to play in national budgets by understanding the role of government actions in stabilizing the economy during periods of boom and more so during periods of economic downturns or recession. Education financing is more of a development model problem than a sectoral one. Therefore, education economists should be concerned more with economic governance and its development model.

Recommendations

The following recommendations are given. First, stabilization of interest rates: there should be control over the circulation of money in the economy to stabilize the macroeconomic environment. Second, supporting and protecting indigenous industries: This can be done through low-interest rates loans and grants and by looking for markets for manufactured goods abroad. An increase in the manufacturing sector would help the country to increase value addition in their agricultural production and manufacturing, thus increasing the value and quantity of exports. Increased value addition raises the taxable base. Third, maintaining a stable macroeconomic environment: Government intervention can be through government expenditure during the economic downturn. Low inflation is necessary for a growing economy to increase production and raise workers' wages. An increase in interest rates

overvalues the local currency and decreases the quantity of a country's exports. Maintaining price stability in a country requires governments to lower taxes, increase government expenditure during economic downturns, and increase taxes and lower government spending during an economic upturn.

Fourth, spending should be increased in high-growth sectors and higher multiplier social sectors. Moderate deficit financing and expansion of the ICT sector may result in a boom in economic recovery.

Fifth, increasing spending on innovation, especially in technology. Monetary and fiscal policies are critical to boosting the domestic economy via industrialization. The informal sector is a choice to begin with. Successful industrialization needs a gradual process, which requires a learning process facilitated by the government. Sixth, borrowing of loans at low interest rates with high social rate of return. A government that spends on non-interest-free loans such as grants from foreign sources plays a minor role in increasing budget deficits.

Seventh, reducing taxes: reducing export and import taxes on essential goods may lead to a revenue gain critical for development. Eighth, developing innovative curriculum: school and university curricula should support industrialization and technological sophistication in the country. Finally, the Central Banks must maintain a stable, realistic, and competitive exchange rate. A stable macroeconomic environment boosts domestic production and increases employment and exports. It increases national income, lowers national debt, and increases available education funds for families and the government.

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