

Analysing the economic impact of military expenditure in Pakistan

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*Pakistan's expenditure on defence this year rose to PKR 781 billion, or 18% of the national budget. **Saad Khalid** considers the nature of this military spending, and finds that it does have some development benefits, for example due to contributions to social welfare provided to military families. He argues that if political governments were to utilise the resources available to them more efficiently, army welfare would become redundant and resources could be distributed more equitably.*



The [recent budget](#) revealed that Pakistan's defence expenditure is PKR 781 billion (\$7.7 billion), a whopping 18% of the country's total budget. This ranks Pakistan's military spending as a percentage of its total budget as [one of the highest in the world](#). These are shocking statistics for a country which ranks [180th in the world in terms of literacy](#) and has the [25th highest infant mortality rate](#).

However, Pakistan has been at war for a decade. Ongoing military operations are costly and so will be the [security force](#) that has been proposed to protect Chinese workers for infrastructure projects. Improving security attracts investment which improves economic growth, so sacrificing health and education in the short term while Pakistan is quite fragile is arguably worthwhile.

But what proportion of the military's budget is spent on the war against terrorism and maintaining law and order, compared to the arms race with India and maintaining forces on the eastern border? Arguably, resources are better spent combatting internal threats or on human development. This year's military's budget was 22% higher than the [sum of federal and provincial education budgets](#) last year. The conflict with India in Siachen is estimated to cost Pakistan [50 billion rupees a day](#), enough to almost double the federal health budget (Rs 50 million x 365 adds up to Rs 18.25 billion per year, or 87% of the Rs 20.88 billion health budget).

That said, there is a third aspect to defence spending: social welfare, albeit limited to military personnel and their families. [42% of the military's budget](#) is spent on employee related expenses, in addition to salaries, this includes military hospitals, schools and universities. Military hospitals have also known to be [better run than some civil government hospitals](#). Free healthcare for the families of non-commissioned soldiers, which are often the more disadvantaged, is an important source of welfare. Ideally this welfare should not be limited to military personnel and their families if it is paid for by all tax payers. However, if this is achieved through diverting resources from the military to civil budget, it is debatable whether those funds would be used more efficiently by civilian administrations.

It is also worth noting Pakistan's military goes beyond a traditional defence role. Organisations such as the Fauji Group which is run by a committee of senior army generals and a board of directors which are retired generals have a variety of commercial interests such as Askari Bank and [Fauji Fertiliser](#). These are self-sustaining organisations not reliant on the government's budget. Although, they crowd out the private sector in terms of access to financial and human capital, they do provide a healthy competition. And again, they are also better run than some civilian government organisations such as Pakistan Steel Mills. DHA is another example of a military institution which has proved to be productive through improving suburban infrastructure.

So how do the different aspects of Pakistan's military spending contribute to economic growth? Economic theory is split on this issue with an on-going debate called the "[guns or butter argument](#)". On the one hand the opportunity cost of the military is seen as high, as it crowds out expenditure on health care and education which is seen to be more productive. On the other hand, the military plays an important role in human capital formation and technological innovation. In situations where initial demand of a country is low, the military's contribution to demand can allow better utilisation of potential supply, allowing the overall output to increase. In other words, even if the military takes a

large piece of the pie, through its positive contribution, it increases the overall size of the pie.

These theories apply to countries differently due to their unique socio-economic situations. Researchers at the Institute of Management Sciences Peshawar, University of Sindh and Huazhong University of Science and Technology China show that a 2.7% increase in military spending decreases economic growth by 1% in Pakistan. This, they argue is because a major proportion of defence spending goes to manufacturing and acquiring arms. In countries where there is a positive contribution to economic growth, there is greater military spending on public infrastructure and improving human capital. The problem therefore is not just with military spending but the type of military spending.

However, even if the military alters the composition of its spending to more productive channels, the unfairness that welfare only benefits the military affiliated population remain. The diversion of resources to more universal welfare will only be successful if civil administration provides value for money. It is unclear whether the welfare created by the military is preventing development of a universal system or whether it is a response to a failed system. If political governments utilise the resources available to them more efficiently, army welfare may become redundant and resources could be distributed more equitably.

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