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Dilemma of Welfare Budget and Benefit Cuts in Pakistan

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Abstract

The research focuses on the dilemma of welfare funds and the reduction of benefits in Pakistan between 1990 and 2023. Government spending on health care, education, and social safety nets can be effective in promoting population growth. However, they are vulnerable to challenges, including ongoing fiscal deficits, rising debt, defence prioritisation, and external constraints such as IMF programs. We have examined the effects of the budget deficit, expenditures on health, defense, and education, and the unemployment rate on human development in the Pakistani economy. Regression results indicated that budget deficit and health expenditures have increased human development. However, unemployment has decreased human development in Pakistan. Some policy recommendations include cutting expenditure on non-development priorities, negotiating protections for IMF programs, and gradually shifting the focus to human development.

Keywords
Budget Deficit; Benefits; Unemployment; Health expenditures & Pakistan

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Introduction

Pakistan's economic landscape—characterized by inflation, external debt burdens, and regional instability—further complicates welfare planning. Substantial budgetary allocations to defense and debt repayment often diminish fiscal space for social services, creating a zero-sum game in which welfare gains are offset by losses in other critical areas (Minhaj & Minhaj, 2018; Rehman, 2020). Unlike welfare-centric economies that utilize budget deficits to stimulate growth through social investments, Pakistan's institutional limitations tend to reinforce stagnation (Musa, 2023). The enduring "guns versus butter" dilemma aptly captures this conflict, as public opposition to reallocating funds away from social programs toward military spending often leads to political gridlock and policy inertia (Sacchi, 2025).

In Pakistan, fiscal interventions have narrowed consumption gaps among low-income groups but have had a limited impact on income inequality, highlighting systemic flaws in policy implementation (Inayat, 2024). Although progressive taxation is widely endorsed as a mechanism for equitable redistribution, Pakistan's fiscal priorities often favor non-developmental expenditures, thereby exacerbating poverty and hindering inclusive growth (Rizwan, et al., 2017; Zaman & Zaman, 2014).

Globally, welfare budgets are instrumental in promoting equity, alleviating poverty, and fostering human development (Awan, 2011). These budgets typically encompass expenditures on education, health, pensions, subsidies, and other social safety nets (Dogar, 2023). However, sustaining such systems has become increasingly complex amid economic slowdowns, fiscal austerity, and competing budgetary demands. Walker (2021) notes that traditional welfare states have historically relied on steady economic growth to fund social programs—a model now under strain in periods of stagnation.

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The design of welfare systems continues to be shaped by the dilemmas outlined by Besharov (1998), whether to pursue universal coverage or focus on vulnerable groups, and whether to provide unconditional support or impose eligibility criteria to prevent dependency. These questions are particularly salient in developing contexts, where limited fiscal capacity renders welfare design both politically and economically sensitive (Ahmad & Ahmad, 2023). In Pakistan, persistent budget deficits, external debt obligations, and macroeconomic stabilization efforts constrain welfare spending (Minhaj & Minhaj, 2018; Musa, 2023). Public investment in education and health remains below international benchmarks, limiting its effectiveness in poverty alleviation (Sacchi, 2025).

The frequent guns-versus-butter trade-off is a key characteristic of the welfare dilemma in Pakistan. According to Sacchi (2025), this is the conflict between the distribution of defense and social welfare. Due to Pakistan's geopolitical realities, defense spending consumes a substantial portion of the national budget, leaving few resources for welfare programs. However, Musa (2023) explains that in non-welfare economies such as Pakistan, an increase in deficits generally results in a decline in social expenditure. In contrast, in welfare states, it can be a deliberate tool for fueling development (Ahmad & Ahmad, 2024). This forms a cycle of welfare spending followed by cuts, in which pledges of increased spending, often made during election periods or in other donor-supported programs, are usually called into question amid financial strain (Minhaj & Minhaj, 2018). Such back-and-forth affects the least fortunate in an unseemly way, further impoverishing them, exacerbating inequality, and fostering social alienation (Minhaj, 2024).

The welfare budget is a crucial component of a nation's fiscal strategy, earmarked for advancing social sectors such as healthcare, education, housing, income support, and poverty alleviation. This study evaluates the developmental effects of welfare spending, the socio-economic effects of benefit reductions, and the impacts of defense expenditure and budgetary restrictions on human development in Pakistan (Nasir et al., 2025).

Research Questions

1. How does the allocation of welfare budgets in Pakistan influence overall human development?
2. What is the effect of the budget deficit on the human development of the general public?
3. To what extent does the unemployment rate affect the human development of the Pakistani economy?
4. How do health expenditures affect the development of the economy?
5. What is the impact of defense expenditures on the human development of the Pakistani economy?

Research Objective

1. To examine the impact of welfare budget allocation on human development in Pakistan.
2. To analyze the effect of education on human development in the Pakistani economy.
3. To evaluate the consequences of health expenditures on human development.
4. To assess the impact of defense expenditures on human development in Pakistan.
5. To check the influence of the unemployment rate on the human development of the Pakistani economy.

The study is organized as follows. Section II shows a literature review. Section III indicates data and methodology. Section IV highlights results and discussion. The last section explains the conclusion.

Literature Review

The scholarly discourse surrounding welfare budgets, public expenditures, and benefit reductions encompasses diverse viewpoints—from macroeconomic growth theories to debates on social equity and fiscal sustainability (Asghar, 2011; Magida, 2025). In Pakistan's case, the central issue revolves around how government spending influences growth and development—overall welfare outcomes amid rising debt and budgetary constraints (Mustafa, 2024). Ranis (2004) showed that economic growth directly benefits human development by increasing income. The author pointed out that income per capita will lead to improved human development. Thus, high growth will lead to lower unemployment, greater income equality, and greater human development (Minhaj, 2024). Ngwenyama et al. (2006) emphasized the association among health care, education, and human development in Africa. They used the regression technique for this analysis. Findings showed that health expenditures and education enhanced human development. Sukirno (2006) focused on the impact of a high unemployment rate on individuals' income and human development. He explained that low-income levels will increase welfare and happiness. Moreover, unemployment will result in social and political chaos both in the short run and long run. Qureshi (2009) examined the impact of public expenditures on human development in Pakistan. The simulation results showed that the effects of current public spending on human development were low. Moreover, a decrease in spending will decrease the development. Zaman and Zaman (2014) offer a theoretical framework for understanding the redistributive effects of public expenditure. He argued that welfare spending played a vital role in reducing inequality and promoting social justice. However, inadequate allocations and frequent retrenchments intensified disparities, especially during fiscal crises. Their work linked welfare financing directly to societal cohesion and stability. Dang et al. (2016) found the causal relationship between budget deficits and human development in Nigeria by using data from 1980 to 2013 (Musa, 2023). The authors used the VEC model to see the relationship. The results showed that the budget deficit has increased human development. In addition, the study found unidirectional long-run causality running from budget deficits to human development in Nigeria.

Khan and Khan (2018) provided empirical evidence that government expenditure in welfare sectors — particularly education, health, and poverty alleviation, positively influences human development indicators in Pakistan (Ali, 2024). Their quantitative findings showed strong correlations between increased welfare spending and improvements in literacy, healthcare access, and poverty reduction (Asghar, 2012). However, they caution that these gains were fragile; austerity-driven benefit cuts can quickly reverse progress, especially for vulnerable populations. This underscores the importance of safeguarding welfare budgets from fiscal shocks to ensure sustained human development. Rehman (2020) examined how different expenditure categories influenced economic growth. The study concluded that excessive focus on non-developmental spending hampered growth, while sustained investment in welfare sectors strengthens long-term economic trajectories. It called for a strategic reorientation of fiscal priorities toward social development. Arshad et al. (2021) investigated the short- and long-run relationships between population growth, government social spending, foreign remittance inflows, and the aggregate level of human development in Pakistan using an Autoregressive Distributed Lag model. ARDL bounds testing approach for cointegration and error-correction models. The results showed that population growth has decreased human development. However, remittances have increased human development. Hasbi and Wibowo (2022) examined the effect of government spending on growth and human development using data from 2010-2019. GMM results showed that government expenditure and the unemployment rate did not affect the Islamic human development index, but economic growth negatively affected development. Ugorji et al. (2025) investigated the nexus between budget deficits and economic development in East Africa by using data from 2000 to 2023. The results showed that budget deficits have negatively affected economic growth. The study concluded that budget deficits were not inherently harmful but must be strategically managed to support growth.

Data and Methodology

Data Source

The section details a systematic secondary data approach covering the years 1990 to 2023, with a focus on the following variables: human development index, budget deficit, education, health expenditures, and unemployment rate. Human development was used as the dependent variable. We have used time-series data for the Pakistani economy. We have also used the OLS regression model for this analysis.

The econometric model may be shown as

The equation is:

HDI = β0 + β1BUGDEFt + β2 SSENRt+β3 DEFEXPt + β4UNEMPLRt+ β5HLTHEXPt +ut
HDI – Human Development Index (life expectancy at birth, literacy rate, and standard of living measured by GNI per capita)
BUGDEF – Budget deficit (Expenditures- Revenues)
SSENR – Secondary school enrollment ratio
DEFEXP – Defense expenditures
UNEMPLR– Unemployment rate
HLTHEXP– Domestic General Government Health Expenditure (% of GDP)
U_t – (Error Term)

Results and Discussion

Descriptive Analysis

Table 1:

Descriptive statistics.

	HDI	SSENR	DEFEXP	UNEMPR	HLTHEXP	BUGTDEF
Mean	0.458857	2.040571	4.344286	6.120000	2.768571	-5.657143
Maximum	0.535000	2.400000	6.500000	8.300000	3.200000	-3.300000
Minimum	0.400000	1.500000	2.800000	3.100000	2.500000	-7.700000
Std. Dev.	0.041396	0.234620	1.149026	1.059911	0.168491	1.161714
Observations	35	35	35	35	35	35

The result shows that, on average, the human development index (HDI) accounts for 0.4589 percent of Pakistan's economy. However, its range is 0.4000 to 0.53000 percent. It is also observed that the secondary school enrollment rate is 2.0406 percent. Moreover, the unemployment rate in Pakistan's economy is 6.12000. Finally, the budget deficit is observed as -5.6571 percent. It is also found that general government health expenditures are 0.7360 percent of these economies. It is also shown that the mean value of defense expenditures is 4.3483 percent.

Table 2:

The Dependent Variable is human development

Variables	Coefficients, Standard Error, and T statistics
BUGTDEF	0.0098*
	0.0021

	(4.814)
SSENR	0.0126
	0.0129
	(0.9782)
DEFEXP	0.0263*
	0.0026
	(10.071)
UNEMPR	-0.0039***
	0.0024
	(-1.6095)
HLTHEXP	0.0830*
	0.0150
	(5.52)
C	0.3375
	0.0641
	(5.26)
R-square	0.93
Adjusted R-square	0.92
F-Statistics	74.7569
Prob	0.0000

t t-values are in parentheses

** p<0.05, * p<0.1 and***p< 0.01

Budget deficits are a significant factor affecting the human development of economies. Keynes pointed out that a budget deficit increases investment, aggregate demand, and production. In this way, output increases and, as a result, human development and welfare may be enhanced. The study results show that a 1% increase in the budget deficit results in a 0.0098% increase in growth and development in Pakistan. The result is supported by Dang et al. (2016). Along with the budget deficit, education may also increase human development. A more educated and skilled workforce contributes more to investment, production, growth, and human development. The study results show a positive relationship between education and human development in Pakistan. Defense expenditures are also important factors affecting growth and development. More expenditures result in a smaller share of the budget allocated to education, production, and human development. It is found that a 1% increase in expenditures has led to an additional 0.0263% development in Pakistan. The unemployment rate may negatively affect economic growth. A higher unemployment rate will lead to fewer investments by entrepreneurs and slower economic growth. The result highlights that a 1% increase in unemployment will lead to 0.0039% more economic growth in Pakistan. Health expenditures are a very important factor affecting people's human development in economies. The government intends to allocate more budget to health and education to enhance the development of the general public. It has been observed that a 1% increase in general government health expenditures has led to a 0.0830% increase in human development in Pakistan. The result is supported by Ngwenyama et al. (2006).

Table 3:
Independent Variables

Variable	**Coefficient Variance**	**Uncentered VIF**	**Centered** VIF

C	0.004113	995.1074	NA
Budget Deficit	4.49E-06	36.17925	1.423766
Defense	6.81E-06	33.19689	2.112406
Education	0.000166	169.3266	2.146952
Health	0.000226	421.4271	1.510822
U	5.85E-06	54.56123	1.544749

The Centered VIF values range between 1.4 and 2.1, all well below the cutoff of 10. This indicates that there is no serious multicollinearity among the independent variables in the regression model. The Uncentered VIF values, though extremely high, are not used in interpretation since they do not control for the constant term and often exaggerate collinearity. Researchers generally rely on Centered VIF, which provides a more realistic assessment.

Conclusion

This research critically examined the complex interplay between welfare budget reductions and benefit cuts in Pakistan, with particular attention to the influence of fiscal constraints, external financial mandates, and competing national priorities on social expenditure. Drawing on both quantitative data spanning 1990 to 2025 and qualitative insights, the study arrives at several pivotal conclusions. The analysis confirms that increased allocations to health, education, and social protection have yielded measurable improvements in human development. These findings reinforce the existing literature, which positions welfare investment as a catalyst for human capital development and sustained economic growth (Magida, 2025). The study also highlights that persistent fiscal deficits and escalating debt-servicing obligations have significantly constrained the government's capacity to uphold welfare commitments. Expenditures and budget deficits have increased the human development of the Pakistani economy. Moreover, the unemployment rate has tended to reduce human development in developing economies. A key structural impediment to welfare advancement in Pakistan is the enduring trade-off between defense and social spending. Unlike allocations to health, education, or social protection, defense budgets have remained largely shielded during fiscal downturns. This pattern reflects entrenched political preferences that prioritize national Security over human development, even in periods when economic indicators suggest an urgent need for increased welfare investment. The persistence of this "guns versus butter" dilemma continues to constrain Pakistan's developmental trajectory, diverting resources away from long-term social progress. Moreover, the study reveals that welfare budgeting in Pakistan tends to be reactive rather than strategically planned. Public expenditure on welfare typically rises during economic upturns but is swiftly curtailed during fiscal crises. This cyclical pattern undermines the continuity of social development and reinforces systemic inequalities—particularly across provinces and among marginalized populations. The lack of a stable, forward-looking welfare framework prevents the institutionalization of gains and limits the transformative potential of social investment. In conclusion, while Pakistan has demonstrated the capacity to achieve meaningful welfare outcomes, these remain precariously dependent on fiscal stability, debt management, external financial conditions, and shifting political agendas. Without a deliberate move toward consistent, safeguarded, and strategically prioritized welfare allocations, the country risks stagnation in human capital development, despite intermittent progress.

The study suggests that, rather than across-the-board spending cuts during fiscal crises, the government should adopt targeted expenditure rationalization. Reducing non-developmental administrative costs and improving tax collection efficiency would create budgetary space for welfare without increasing debt. Social safety nets, health, and education budgets should be classified as "protected expenditures" in the federal budget framework (Dogar, 2023). While IMF programs cannot be avoided, Pakistan should negotiate space for protecting welfare allocations even during austerity. The evidence here confirms that welfare gains collapse under IMF-mandated cuts. A workable solution is to allocate a portion of donor-supported stabilization funds specifically to social spending. Furthermore, the data strongly indicate that defense allocations crowd out social spending. A gradual reallocation of even 1–2% of defense expenditure annually toward welfare could significantly enhance welfare outcomes without undermining Security. This shift requires political consensus but is essential for long-term stability. Instead of cutting welfare spending during downturns, Pakistan should adopt counter-cyclical welfare financing mechanisms. Finally, strengthening monitoring systems, adopting digital transfers, and enhancing parliamentary oversight would increase efficiency and public trust in welfare spending.

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