

## **GUNS OR BUTTER: EMPIRICAL ANALYSIS OF BUDGETARY TRADEOFFS BETWEEN DEFENSE AND WELFARE SPENDING IN PAKISTAN**

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### **ABSTRACT**

This study empirically examines the tradeoff between defense and welfare spending, namely health and education, in Pakistan. By using time series data from 1995 to 2014 and applying Vulnerability Index and Vector Error Correction Model this study concludes that health expenditure is discriminated in annual budgetary allocation while defense and education is favored. In addition two pairs of tradeoff was found from the empirical results; first between defense and healthcare and secondly between defense and per capita GDP. Finally it was concluded that government financial planners should review their budgetary allocation policy towards defense spending since Pakistan competing with India in the arms race is merely absurd since Pakistan's annual GDP as recent as 2014 was \$215 billion and India recently announced an increase in just its defense budget of about \$200 billion.

**KEYWORDS:** GDP, Budget, Defense, Tradeoff