

# Federal Finance in Pakistan - Revenue and Expenditure Analysis

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The article is divorced from the normal practice of analysing the Government revenues and effects of budget policies only. It is also an attempt in the expenditure analysis which, though relatively neglected, has in the recent past attracted the attention of economists such as R. P. Musgrave, P. A. Samuelson, A. T. Peacock and Jack Wiseman. The Wagnarian Doctrine's assertion that Government expenditures in any society will grow at a faster rate than community output, can safely be assumed in case of Pakistan too. Pakistan being a federal country, is faced like other federations, with the problems of demands of more funds from every federating unit or province. Here an attempt is made to study the financial position of the centre from the beginning to vindicate the trends in receipts and also to study the expenditure analysis with a view to exhibit the trends in the Centre-Province Financial Relations. The study is confined to period 1947-48 to 1969-70. The whole period has been divided into four groups, i. e. the Pre-Plan period (1947-48 to 1954-55) and the three Five-Year Plan periods,<sup>1</sup> namely the First Five-Year Plan (1955-56 to 1959-60), the Second Five-Year Plan (1960-61 to 1964-65) and the Third Five-Year Plan (1965-66 to 1969-70).

## (i) The Revenue Budgets of the Central Government

The Revenue budget relates to the proceeds of taxes and other receipts classed as revenue, and the expenditure met therefrom. The net result is revenue surplus or deficit, which is transferred to the capital budget. The revenue receipts<sup>2</sup> of the central government comprise of the tax and non-tax receipts.<sup>3</sup> The important

tax receipts are customs, central excise, income and corporation tax and the sales tax. Non-tax receipts comprise of the receipts from various departments namely post office, telegraph and telephone, currency and mint etc. and interest on the loans advanced by the central government. The main heads of expenditure in the revenue budgets are defence, civil administration, interest payments, and development expenditure on Revenue Account. The position of revenue receipts and expenditures of the central government is given below.

- (a) Revenue Receipts: The position of revenue receipts from 1947-48 to 1969-70 is given in Table I.

The figures in Table I show that the total receipts have increased greatly.<sup>3</sup> The increase has been spectacular between Second and Third Plan periods. The tax receipts have shown a remarkable increase of nearly twice between the Second and Third Plan periods, which is mainly due to a great rise of three times in the central excise.

The non-tax receipts have also shown steady growth. Like tax receipts, these receipts have shown a very rapid increase between the Second and Third Plan periods. This is due mainly to predominantly higher increase in debt services (internal receipts on loans extended to provincial governments and local bodies etc.). It is significant to note that the percentage of tax receipts has not varied much after First Plan, which shows that the growth rate of the tax and non-tax receipts has been more or less in the same proportion.

- (b) Revenue Expenditure: Table 2 gives the revenue expenditure of the Central Government:

Table 2 shows that more than half of the revenue expenditure is on the defence, which is due particularly to a threat of war from India. The army headquarters and most of the defence installations are in the province of Punjab; and also bulk of the army personnel comes from there.<sup>4</sup> Hence the defence expenditure directly and indirectly benefits that province. Such an expenditure, therefore, is viewed as undesired by other provinces.

**Table 1**  
**Revenue Receipts of the Central Government**

Head	Pre-Plan Period (1947-48 to 1954-55)	First Plan Period (1955-56 to 1959-60)	Second Plan Period (1960-61 to 1964-65)	Third Plan Period (1965-66 to 1969-70)
(a) Tax Receipts	6603.6	5972.4	9251.3	18113.0
(i) Customs	3899.1	2503.3	3726.4	6946.6
(ii) Central Excise	573.8	1023.1	2426.5	7598.0
(iii) Income and Corporation Tax	1063.8	1383.8	1637.2	1670.1
(iv) Sales Tax	669.0	752.8	1272.1	1640.7
(v) Other Taxes*	397.0	309.4	189.1	(i) 257.6
(b) Non-Tax Receipts	1487.4	2256.0	3364.7	7261.0
(i) Railways (net)†	251.8	486.8	50.2	—
(ii) Post Office, Telegraph & Telephone (net)	53.1	113.1	205.8	(ii) 439.7
(iii) Debt Services	498.9	505.6	1213.6	(v) 3932.7
(iv) Administration Receipts‡	529.1	675.4	1329.8	(ii) 2296.6
(v) Extra-Ordinary & others**	159.5	475.1	565.3	592.0
<b>TOTAL</b>	<b>8091.0</b>	<b>8228.4</b>	<b>12616.0</b>	<b>25374.0</b>
<b>Tax Receipts as % of the Total</b>	<b>81.6</b>	<b>72.6</b>	<b>73.3</b>	<b>71.4</b>

(Footnotes & Sources given on the back)

\* Include Stamp duties, taxes and duties levied in connection with displaced persons, wealth and gift taxes.

† Railways were transferred to the provinces during the year 1961-62.

‡ Include receipts from defence services and miscellaneous heads.

\*\* Include currency and mint receipts.

**SOURCES :** This and the subsequent tables in this article are formed from the statistics given in the following sources :

- (i) Public Finance Statistics Section of the Budget, in Brief 1971-72.
- (ii) Statistics Section Pakistan Economics Survey 1969-70; and 1970-71.
- (iii) Economy of Pakistan 1948-68.
- (iv) Pakistan Budgets 1969-70.
- (v) The Budget 1968-69; and 1969-70.

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Table 2

## Revenue Expenditure of the Central Government

Head	Pre-Plan Period		First Plan Period		Second Plan Period		Third Plan Period	
	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%
Defence	4741.4	59.0	4612.9	57.0	5594.1	52.0	12511.0	57.3
Civil Administration*	1372.3	17.0	1609.0	20.0	2058.7	19.2	2603.1	11.9
Interest Payments	448.6	5.5	716.7	8.8	1398.7	13.0	3315.8	15.2
Development Expenditure within Revenue Account	—	—	—	—	452.1	4.2	1371.1	6.3
Other Expenditure†	1486.6	18.5	1150.3	14.2	1246.1	11.6	2010.2	9.3
<b>TOTAL</b>	<b>8048.9</b>	<b>100.0</b>	<b>8088.9</b>	<b>14.2</b>	<b>10749.7</b>	<b>100.0</b>	<b>21811.2</b>	<b>100.0</b>

Source: Ibid, Table 1.

\* Civil Administration expenditure includes expenditure on general administration, foreign affairs, Frontier Regions, education, medicine and public health and other beneficent and social service departments and other administrative departments.

† Includes direct demands on revenue, currency and mint, civil works and central Road Fund, contributions and miscellaneous adjustments between central and provincial governments, and Miscellaneous.

Interest payments have grown to be the second important head of revenue expenditure. It is due mainly to the increase in the internal and external borrowings. The repayment of principal is accounted for in the Capital Budget.

The expenditure on civil administration, including 'other expenditure' has been increasing absolutely, though its relative percentage has fallen. Since the Second Plan period the development expenditure within the Revenue Account has been shown separately. It may be mentioned that as the capital of central government is located in Punjab, much expenditure mainly benefits it.

The expenditure in the Revenue Account as shown above has been increasing proportionately less than the increase in the revenue receipts. It, therefore, leaves the surplus on the Revenue Account to be made use of as a capital expenditure. Table 3 shows the surplus on the Revenue account.

Table 3

## Revenue Surplus

(Rs. in Million)

	Pre-Plan Period	First Plan Period	Second Plan Period	Third Plan Period
Total Revenue Receipts	8091.0	8228.4	12616.0	25374.0
Total Revenue Expenditure	8048.9	8088.9	10749.7	21811.2
Revenue Surplus	42.1	139.5	1866.3	3562.8
Revenue Surplus as % of Total Expenditure	.5	1.7	17.3	16.3

Table 3 shows that the surplus has been increasing in absolute terms and also as a percentage of total revenue expenditure with a little variation of 1% less during the Third Plan period. Thus an attempt is being made to release more funds for capital development.

## (ii) The Capital Budgets of the Central Government

The Capital budget reflects the public expenditure on development: It includes all expenditure that is intended to create tangible assets which add to the economic potential of the country and thus involve construction of a work or acquisition of a permanent asset of public utility such as irrigation and industrial projects.

(a) *Capital Receipts*: The capital receipts comprise internal and external borrowings of the central government, money received in payment of loans and advances made by the government earlier, proceeds of the small saving schemes, net receipts on account of various transactions under 'deposits and remittances' head, and also foreign grants received for financing the development project. The capital receipts are further supplemented by the surplus of revenue receipts over revenue expenditure, and the accretions to revenue funds. Table 4 shows the growth of capital receipts.

Table 4  
Capital Receipts of the Central Government

(Rs. in Million)

Head	Pre-Plan Period	First Plan Period	Second Plan Period	Third Plan Period
Internal Resources	4714.4	4848.4	5584.4	12477.4
External Resources	137.7	1782.7	6235.0	12669.9
Total	4852.1	6631.1	11819.4	25147.3
Internal Resources as a % of total receipts	97.2	73.1	47.3	49.6

Source: Ibid, Table 1

The total capital receipts of the country have increased greatly. There was markedly less dependence on external resources in the Pre-Plan and First Plan periods. The details of the internal and external resources are given in Tables 5A and 5B.

Table 5A  
Internal Resources (Funds)

Head	Pre-Plan Period		First Plan Period		Second Plan Period		Third Plan Period	
	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%
1. Revenue Surplus	42.1	.9	139.5	2.9	1866.3	33.4	3562.8	28.6
2. Public Debt raised in Pakistan	2869.6	60.8	2190.8	45.2	1211.2	21.7	4323.8	34.7
a) Permanent debt (net)	1508.1	32.0	824.1	17.0	915.2	16.4	1277.0	10.3
b) Floating debt (net)	1361.5	28.8	1366.7	28.2	296.0	5.3	3046.8	24.4
3. Unfunded debt (net)	177.8	3.8	490.4	10.1	645.2	11.6	762.6	6.1
4. Recoveries of Loans & Advances	406.5	8.6	495.8	10.2	617.0	11.0	1330.7	10.7
5. Accretions to Reserve Funds	1112.8	23.6	903.3	18.6	892.9	16.0	1402.2	11.2
6. Other Capital Receipts	429.3	9.1	614.7	12.7	201.9	3.6	407.0	3.2
7. Other Deposits and Remittances (net)	(-) 323.7	- 6.8	13.9	.3	149.9	2.7	688.3	5.5
<b>Total</b>	<b>4714.4</b>	<b>100.0</b>	<b>4848.4</b>	<b>100.0</b>	<b>5584.4</b>	<b>100.0</b>	<b>12477.4</b>	<b>100.0</b>

Source : Ibid., Table 1.

Table 5B

## External Resources (Funds)

(Rs. in Million)

Head	Pre-Plan Period	First Plan Period	Second Plan Period	Third Plan Period
1. Loans	127.3	871.3	3538.8	11514.1*
a) Project Loans (Foreign Exchange)	127.3	476.7	1393.5	4094.2
b) Non-Project Loans (Rupees)	—	342.9	695.3	1347.2
c) Commodity Loan	—	51.7	1450.0	5735.3
2. Grants	10.4	1269.3	3790.0	1678.6
a) Project Grants (Foreign Exchange)	10.4	149.0	620.1	725.8
b) Non-Project Grants (Rupees releases out of counterpart Funds)	—	1072.0	2906.7	725.6
c) Commodity grants	—	48.3	263.2	227.2
Total External Resources	137.7	2140.6	7328.8	13192.7
Less Foreign Grants transferred to Revenue Account and likely short fall in Resources	—	-357.9	-1093.8	-522.8
Net External Resources	137.7	1782.7	6235.0	12669.9
Loans and Grants as % of Total External Resources.				
Loans	92.4	40.7	48.3	87.3
Grants	7.6	59.3	51.7	12.7

\*Includes Non-Plan and Private Sector loans of Rs. 337.4 Million.

Source : Ibid., Table 1.

Table 5A shows that the revenue surplus has increased steadily and substantially. The decline in percentage terms during the Third Plan period is mainly because of a revenue deficit of Rs. 700.2 million in the year 1965-66, which was due to an unprecedented increased expenditure on defence services, amounting to Rs. 2855.0 million in the same year, as a result of war against India during September 1965. The increasing trend of revenue surplus in the capital receipts is indicative of a healthy trend in the finances of the country.

The amount of public debt, too, contributes a substantial percentage of the internal resources (internal funds). It comprises of a permanent and a floating debt. A permanent or funded debt is one that would be repayable after at least twelve months of the date, is purely temporary in nature, and is payable within a year from the date of issue. The term unfunded debt covers interest bearing obligations of the central government, such as National Defence Savings Certificates, Post Office Savings Bank Deposits, and Government Provincial Fund etc.

Accretions to reserve funds as shown in Table 5A are outside the Central Consolidated Fund and have been created to meet certain specified needs. Mostly these funds are non-interest bearing. Every year certain amounts are charged to revenue budget which constitute accretions or receipts to these reserve funds. Disbursements from these funds such as Post and Telegraph Renewal Reserve Fund, War Risk Insurance Fund and National Reconstruction Fund etc. constitute capital payments.

'Deposits and Remittance' indicate the net effect of the credits and debits into the various deposit heads such as civil deposits, Foreign Aid deposits account and cheques and bills etc.

Finally the head 'Other Capital Receipts' is meant for miscellaneous receipts not covered by the foregoing sub-heads. This includes receipts under irrigation revenues, and return on investment in U.N. Bonds etc.

The external resources (foreign funds) given in Table 5B are in the form of loans and grants. The loans and grants are further

divided into project and commodity loans and grants. Project loans and grants are in the form of machinery and equipment for the projects both in the public as well as in the private sector.

During the pre-Plan period, there was markedly less dependence (2.8%) on the external resources (foreign funds). The increasing availability of these funds in the later years provided an easy finance for the government and killed the basic incentive of generating domestic savings. The normal policy for financing the projects would be to mobilize domestic savings first, because that would probably help the balance of payments position. But the increasing availability of foreign funds led the government to follow a dangerous policy which first took into account the stock of available foreign funds, and then attempted to mobilize the domestic savings to meet the Plan targets; rather than to have made an effort to mobilize domestic savings and then to have looked for foreign assistance. This resulted in an unhealthy trend of increased reliance on foreign funds rather than on own.

(b) *Capital Expenditure* : Capital Expenditure by the central government is broadly divided into development and non-development. The development expenditure is further divided into (a) direct expenditure by the central government, (b) loans to semi-independent bodies, local bodies etc., and (c) assistance to the provincial governments. The other classification within the development expenditure is the plan and non-plan expenditure. The former highlights the expenditure incurred in order to carry out the programme envisaged within the framework of Five-Year and Annual Plans.

The non-development expenditure represents the other expenditure of capital nature but not directly concerned with real investment during the course of the year, and comprises of defence, currency and other work, state trading, repayment of foreign loans, and cash assistance to provinces in order to provide them with budgetary support. The total capital disbursements also include changes in the cash balance and provision for contingency. Table 6 shows the position of capital expenditure.

**Table 6**  
**Capital Expenditure**

Head	Pre-Plan Period		First Plan Period		Second Plan Period		Third Plan Period	
	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%
1. Development Expenditure	2870.1	51.9	6034.8	90.8	11098.0	93.5	21225.8	85.0
2. Non-Development Expenditure	2660.3	48.1	609.7	9.2	769.2	6.5	3728.2	15.0
<b>Total Capital Expenditure</b>	<b>5530.4</b>	<b>100.0</b>	<b>6644.5</b>	<b>100.0</b>	<b>11867.2</b>	<b>100.0</b>	<b>24954.0</b>	<b>100.0</b>

Source : Ibid., Table 1.

Table 6 shows that there has been a remarkable increase in the capital expenditure. The healthier factor seems that the development expenditure has been increasing faster in relation to non-development expenditure, with the exception of Third Plan period. The composition of development and non-development expenditure is given in Tables 7A and 7B.

Table 7A  
Development Expenditure

Head	Pre-Plan Period		First Plan Period		Second Plan Period		Third Plan Period	
	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%
<b>A. Plan Expenditure</b>								
1. Direct Expenditure on Central Projects	1151.4	40.1	2665.4	44.2	2694.3	24.3	2929.9	13.8
2. Loans to Semi-Independent Bodies etc.	119.7	4.2	334.4	5.5	251.6	2.3	1174.7	5.5
3. Development Assistance to Provinces (Loans and Grants)	1550.7	54.0	2814.5	46.6	8686.0	78.2	14189.3	66.9
Less Assistance included in Revenue a/c	—	—	—	—	-894.4	-8.0	-566.0	-2.6
<b>B. Non Plan Expenditure</b>	48.3	1.7	220.5	3.7	360.5	3.2	3128.2	14.7
<b>C. Foreign Loans to Semi-Independent Bodies etc. for Private Sector</b>	—	—	—	—	—	—	369.7	1.7
<b>Total Development Expenditure</b>	<b>2870.1</b>	<b>100.0</b>	<b>6034.8</b>	<b>100.0</b>	<b>11098.0</b>	<b>100.0</b>	<b>21225.8</b>	<b>100.0</b>

Source : Ibid., Table 1.

Table 7B  
Non-Development Expenditure

Head	Pre-Plan Period		First Plan Period		Second Plan Period		Third Plan Period	
	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%	Rs. in Million	%
1. Direct Expenditure Central Government	2590.1	97.4	582.8	95.6	727.3	94.6	2036.5	54.6
2. Loans to Semi-Independent Bodies etc.	70.2	2.6	26.9	4.4	41.9	5.4	1686.2	45.2
3. Cash Assistance to Provinces	—	—	—	—	—	—	5.5	0.2
<b>Total Non-Development Expenditure</b>	<b>2660.3</b>	<b>100.0</b>	<b>609.7</b>	<b>100.0</b>	<b>769.2</b>	<b>100.0</b>	<b>3728.2</b>	<b>100.0</b>

Source : Ibid., Table 1.

Table 7A shows that there has been a considerable decrease in the percentage of direct expenditure by the central government, whereas development assistance to provinces has increased greatly.

The relative downward shift of importance of direct expenditure and an upward shift in the development assistance to the provinces, therefore, marks a significant change in the role of provincial governments in the development of the country. This has been concomitant with the spirit of the Constitution of 1962, which asserts a greater role in the development by the provinces. But one thing is clear that they have to depend for these funds on

the central government. This though acceptable from the overall economic planning point, is undesirable politically to provinces as it limits their extent of autonomy. Moreover such a strict control is not received favourably by other provinces, because it is believed that it mostly benefits the province of Punjab due to its dominant position in central affairs. The greater part of non-development expenditure (Table 7 B) is still incurred directly by the centre, though the loans to semi-independent bodies etc. have increased substantially.

The Central Government's capital expenditure has increased, therefore, very greatly with a shift towards the increasing role of the provinces in the development effort, under its strict control.

#### References

1. Pakistan started Five-Year-Plan economic development since 1955-66.
2. Revenue Receipts and Revenue Expenditures are also known as Current Receipts and Current Expenditures.
3. In real terms the increase would not be the same because of the inflationary trends. There is a lack of reliable price indices. The official indices, whose reliability is doubtful, show the general wholesale prices in country have gone up by 36.13% by 1969-70 taking 1959-60 as a base. Pakistan Economic Survey 1969-70, op. cit., p. 78 of Statistical Section.
4. There are no separate province-wise figures available for the army personnel, but it is a fact and generally believed at home and abroad that most of the army personnel comes from Punjab. For example, see, The Times (London), Friday, November 24, 1972, Col. 3, page 7, wherein it is mentioned that 90% of military recruits at all levels traditionally come from Punjab.