Public Expenditure

Wiseman-Peacock Hypothesis

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- Peacock and Jack Wiseman advanced his views on growth of public expenditure on the basis of empirical study done in the case of Great Britain using the data from 1890 to 1955. Wiseman-Peacock focused on the pattern of public expenditure and concluded that public expenditure does not increase in a smooth and continuous manner, but in jerks or step-like fashion.
- They gave three separate concepts to justify the hypothesis.
  1. Displacement Effect
  2. Inspection Effect
  3. Concentration Effect

Wiseman-Peacock Hypothesis

- At time, some social or other disturbance takes place, creating a need for increased public expenditure which the existing public revenue cannot meet. In absence of dire needs and sufficient pressure earlier, the revenue constraints were dominating, guiding and restraining the growth of public expenditure. Now under changed requirements due to social, economic or other disturbances, such constraints are done away with. Fiscal activities of the government rise step by step to successive new higher level during the span of decades to meet successive social and other disturbances. The Public expenditure increases and makes the inadequacy of the present revenue quite clear to everyone.

Wiseman-Peacock Hypothesis

- **Displacement Effect:** When a social disturbance occurs, the government raises taxes to increase revenue and increases public expenditure to meet the social disturbances. This creates a displacement effect by which low taxes and expenditures are replaced by higher tax and expenditure levels. The movement from the older level of expenditure and taxation to a new and higher level is the displacement effect. However, after the disturbance ends, the people get used to the newly emerged level of tax tolerance and makes the people willing to support higher level of public expenditure. As a result, the new level of public expenditure and public revenue stabilise but are soon destabilised by another new disturbance which causes another displacement effect.

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- **Inspection Effect:** The inadequacy of the revenue as compared with the required public expenditure creates an inspection effect. The government and the people review the revenue position and need to find a solution of the important problems that have come up and agree to the required adjustment to finance and thus increases expenditure. They attain a new level of tax-tolerance. They are now ready to tolerate a greater burden of taxation and as result the general level of expenditure and revenue goes up. In this way the public expenditure and revenue get stabilized at a new level till another disturbance occurs to cause a displacement effect.

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- **Concentration Effect**: When an economy is experiencing economic growth there is a tendency of central government`s economic activities to grow at a faster rate than that of state and local government`s activities. This is known as concentration effect. It is related to the political set up of the country. Thus, each major disturbance leads to the government assuming a larger proportion of the gross national activity. The concentration effect also refers to the apparent activity to grow faster than that of those state and local level governments.

Wiseman-Peacock Hypothesis

- **Conclusion**:
- Wiseman-Peacock hypothesis emphasizing the recurrence of abnormal situation which cause sizable jumps in public expenditure and revenue. But historical facts indicate that on account of advancement of the economy and structural changes therein, there are constant and regular increment in public expenditure and revenue.
- To the extent public expenditure gets financed by ever increasing revenue which is made possible through the expansion and structural changes in the economy, public expenditure will continue to rise.