

Peacock-Wiseman Hypothesis

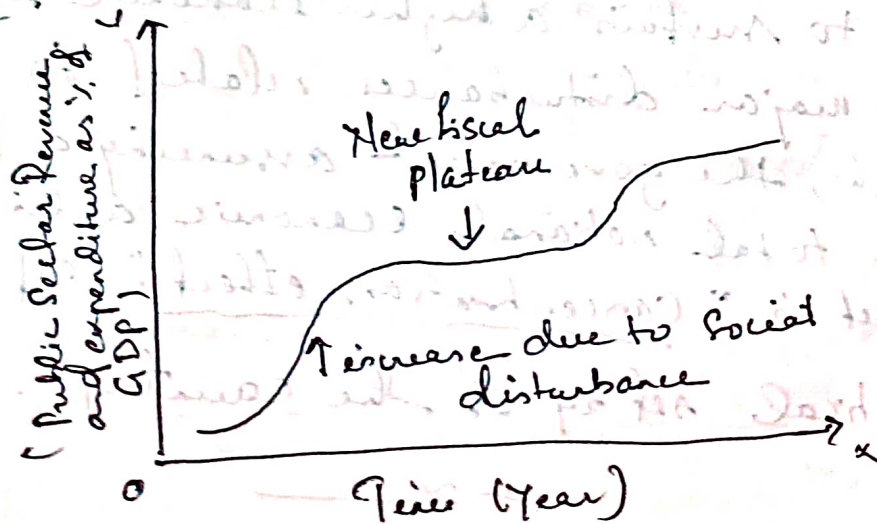
Peacock and Wiseman emphasized the time pattern of public spending, in their empirical study of public expenditure in U.K. for the period 1890-1955. They stated that public expenditure does not follow a smooth or continuous trend but the increase in public expenditure takes place in jolts or steps. To explain this they used three different concepts.

- (a) Displacement Effect
- (b) Inspection Effect
- (c) Concentration Effect

Displacement Effect

When a social disturbance (ex. war) occurs the government raises taxes to increase revenue and increases public expenditure to meet the social disturbance. This movement from the older level of taxation and expenditure to a new level of taxation and expenditure is known as displacement effect.

However, when the social disturbance got over, there is no strong ~~reverse~~ motivation to return to the previous level of taxation as the society is willing to support higher level of expenditure since it is capable of bearing heavier tax burden than before and got adjusted to the new level of taxation and expenditure.



The higher government revenues are used to support permanently higher levels of public sector allocations. Another new disturbance will cause another displacement effect.

Inspection Effect

As there is no motivation left to return to the older/lower level of taxation after the end of social disturbance, government increases its public expenditure. It expands its fiscal activities partly due to social disturbances and partly to expand economic activity. This is known as the "inspection effect".

Some of the public expenditures increase because of direct effect of social disturbances like debt interest, while other expenditures increase because of expansion of government activity and technological development.

Concentration Effect

As economy is already experiencing economic growth, central government initiates a number of measures to sustain a higher economic activity. Since each major disturbance related to a situation in which, the government assumes a larger proportion of the total national economic activity, the net effect is "concentration effect". It is related to the political set up of the country.