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## Fiscal stimulus ruled out too soon

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*From Prof Dennis Leech.*

Sir, The case for a fiscal stimulus by an injection of government spending or a tax cut has been dismissed too readily by many commentators and politicians on the grounds that it would simply make the debt problem worse. Keynesian textbook theory does not work in practice because the multiplier is too weak.

What this ignores, however, is that a fiscal stimulus will nevertheless bring down the debt /gross domestic product ratio, even if there is only a modest multiplier effect. All that is required is that the increase in debt is proportionally less than the increase in GDP. This will generally be the case since the increased economic activity will generate extra tax revenue and reduced government spending on unemployment benefits and such. So solvency improves even though debt rises.

**Dennis Leech, Professor of Economics, University of Warwick, Coventry, UK**

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