Keynesian Multiplier

The Keynesian multiplier represents how much demand each dollar of government spending generates.6﻿ For example, a multiplier of two creates $2 of [gross domestic product](https://www.thebalance.com/what-is-gdp-definition-of-gross-domestic-product-3306038)for every $1 of spending. Most economists agree that the Keynesian multiplier is one. Every one dollar, the government spends adds $1 to economic growth. Since government spending is a component of GDP, it has to have at least this much impact.

NOTE: The Keynesian multiplier also applies to decreases in spending. The International Monetary Fund estimated that a cut in government spending during a contraction has a multiplier of 1.5 or more. Governments who insist on austerity measures during a recession remove $1.50 from GDP for every for every cut.

Examples

President Roosevelt tried to ease the effects of the [Great Depression](https://www.thebalance.com/great-depression-timeline-1929-1941-4048064) by spending on job creation programs. He created Social Security, the [U.S. minimum wage](https://www.thebalance.com/us-minimum-wage-what-it-is-history-and-who-must-comply-3306209), and child labor laws,20﻿ as well as the [Federal Deposit Insurance Corporation](https://www.thebalance.com/federal-deposit-insurance-corporation-fdic-3305984), which prevents bank runs by insuring deposits.21﻿

[President Ronald Reagan](https://www.thebalance.com/president-ronald-reagan-s-economic-policies-3305568) promised to reduce government spending and taxes. He called these traditional [Republican](https://www.thebalance.com/do-republican-economic-policies-work-4129139) policies, [Reaganomics](https://www.thebalance.com/reaganomics-did-it-work-would-it-today-3305569).22﻿﻿ He cut income taxes and the [corporate tax rate](https://www.thebalance.com/corporate-income-tax-definition-history-effective-rate-3306024). Instead of reducing the debt, Reagan more than doubled it. But that helped end the 1981 recession.

[Bill Clinton's](https://www.thebalance.com/president-bill-clinton-s-economic-policies-3305559) expansionary economic policies fostered a decade of prosperity. He created [more jobs than any other president](https://www.thebalance.com/job-creation-by-president-by-number-and-percent-3863218). Homeownership was 67.7%, the highest rate ever recorded.23﻿ The [poverty rate](https://www.thebalance.com/federal-poverty-threshold-3305793) dropped to 11.8%.24﻿

[Barack Obama's](https://www.thebalance.com/what-has-obama-done-11-major-accomplishments-3306158) policies ended the Great Recession with the [Economic Stimulus Act](https://www.thebalance.com/what-was-obama-s-stimulus-package-3305625). This act spent $224 billion in [extended unemployment benefits](https://www.thebalance.com/unemployment-benefits-extensions-3306210), education, and health care. It [created jobs](https://www.thebalance.com/job-creation-ideas-4-ways-that-work-best-3305521) by allocating $275 billion in federal contracts, grants, and loans. It cut taxes by $288 billion.25﻿ Obamacare slowed the [growth of health care costs](https://www.thebalance.com/causes-of-rising-healthcare-costs-4064878).

New Keynesian Theory

In the 1970s, rational expectations theorists argued against the Keynesian theory. They said that taxpayers would anticipate the debt caused by deficit spending. Consumers would save today to pay off future debt. Deficit spending would spur savings, not increase demand or economic growth.18﻿

The rational expectations theory inspired the New Keynesians. They said that monetary policy is more potent than fiscal policy. If done right, expansionary monetary policy would negate the need for deficit spending. Central banks don't need politicians’ help to manage the economy. They would merely adjust the money supply.19