

Borrow and build is a good strategy



Reserve Bank governor Glenn Stevens has said it would be "perfectly possible" for the federal government to borrow for a steady long-term program of spending on our transport networks ("Stevens calls for infrastructure projects", *AFR*, June 11.)

He has also suggested that "an agreed story" is necessary if this program is to be brought into action.

As an independent economist concentrating on transport infrastructure, I believe that I have produced the basis of such an agreed story. In broad, the possibility (outlined in a paper on my website www.borrowandbuild.com.au) is that we should enter into a 20-year

commitment to borrow 0.6 per cent of gross domestic product, \$10 billion in the first year, and to give part of this as grants to otherwise unworkable private projects. Overall this would generate a total of \$15 billion a year in extra spending on transport infrastructure, virtually doubling the current rate of expenditure.

With a likely multiplier of 1.5, this would generate \$22.5 billion of extra expenditure in the community, create 150,000 new, steady full-time jobs, and lift GDP by about 1.3 per cent.

I believe such an ongoing boost to be exactly what the country needs at present. Very importantly, it would also give a tax feedback during

construction of \$6 billion a year.

Debt-servicing costs would be more than offset early on by these tax feedbacks from building activities, and later by tax feedbacks from the new transport infrastructure's further contributions to economic growth.

The program would give us an up-to-date transport system by 2035, scheme tolls and ticket prices on new projects would be about half full commercial rates and new debt shrinks to half as a percentage of GDP over 15 years. So the "debt burden for new generations" is less than one might think.

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Reserve Bank governor Glenn Stevens' recommendation for a long-term program of federal borrowing could lead to an exciting new era of rapid transport infrastructure building, and much lower prices to the consumer. Let us not lose this wonderful opportunity to create new jobs, improve national productivity, and transform the lives of millions of Australian commuters.

We must borrow and build.

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