AFR Thursday 13 March 2014
www.afr.com | The Australian Financial Review

Letters

▸ Write to us at edletters@afr.com.au or www.afr.com/edletters or fax +61 2 9282 3137

Infrastructure investment is the way to go

Finance 101 tells us that current expenses should be met from current revenue, and long-term economic infrastructure should be funded by borrowing.

An ongoing 20-year federal borrow-and-build program for road and rail could give Australian commuters worthwhile benefits within a few years, transformative changes within a decade, and a complete transport infrastructure solution by 2034. The program would also generate up to 150,000 new steady full-time jobs, and lift gross domestic product materially. The extra tax generated by this lift in GDP would help support government budgets across the nation.

Off-budget infrastructure debt at the end of 20 years would be approximately 8 per cent of the then GDP. The business case for the program involves borrowing of 0.6 per cent of GDP, $10 billion in the first year. Some half of this would then be used for free grants to private projects. Major projects now unworkable would be made commercially viable by this federal contribution, and the result would be total new expenditure on road and rail of $15 billion per year.

With this level of transport infrastructure spending, and a likely fiscal multiplier of 1.5, total annual expenditure in the community would increase by $22.5 billion: 1.3 per cent of GDP. The tax feedback implications of this are extraordinarily favourable. Each year's borrowing would generate extra annual tax revenue of $6 billion.

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

Ian Spring
Chiswick, NSW