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Spatial Economics Research Centre

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Time for a no risk £30bn stimulus package?

I haven't been heavily engaged in arguments about whether the government should currently be borrowing more to try to stimulate the economy. My simplistic take on the argument is that some people think 'the cost of borrowing is low so we should borrow and invest' while others think that 'borrowing more will raise the cost of borrowing'. Distinguishing between these two arguments requires [taking a stance on sentiments in the bond markets](#) - a subject on which there appears to be plenty of strong opinion, but precious little evidence.

This has led the SMF (and others) to call for a ['balanced budget'](#) plan for growth. This involves making cuts to low growth areas and recycling to high growth areas. If government wants to go beyond this - say to fund [Jonathan Portes' £30bn infrastructure package](#) - it would need to borrow more and are back on to concerns about what this would do to the costs of borrowing (even if the costs of serving that debt are currently low).

But what if the UK had very publicly committed itself to some large amount of spending on a low return project that would only pay off very many years the future? Couldn't we take the money from that and spend it now on a fiscal stimulus without affecting the cost of borrowing? After all, if investors were concerned about the borrowing for the project they should already be factoring that in to our cost of borrowing given the fact that the government is committed to it.

Step forward high speed 2. [Costly, controversial and offering poor returns over a very long time period](#). Wouldn't a decision to scrap HS2 (made credible by the winding up of HS2 Ltd) allow us to spend more money now without having to worry about the impact on the cost of borrowing? Sure, scrapping HS2 would involve the government changing direction on something they have previously supported. But changing direction on one contentious infrastructure project has got to be easier for the coalition than selling a wholesale shift from plan A to plan B. And in a happy coincidence, the costs of HS2 are predicted to be about £30bn so scrapping HS2 would nicely fund Portes' infrastructure package without us even needing to resort to additional taxes.

Posted by [Prof Henry G. Overman](#) on [Thursday, May 24, 2012](#)

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