

Headline: Economics of Airport Development

Publication: Searchlight

Paper Date: May 26, 2006

By Line: Dr. Rudy Matthias

“The role of governments in the economy”

The government has taken a decision to build a new international airport at Argyle, at a cost of about EC\$500 million. This is a huge investment, relative to the economic size of the country. Citizens would naturally therefore raise questions about this investment. And when they do, we must answer truthfully and forthrightly in every regard. The people of the country always have the right to know how the country's resources are spent and what benefits the present and future generations could reasonably expect to derive from government investments.

I intend to use this column in the coming months to share with readers my own thoughts on the economics of the international airport project on mainland St. Vincent.

As the first article in this series, I would start by exploring, in a general way, the role of governments in the economy and later on move to deal specifically with the range of issues touching on the economic impact of the government's decision to invest in the airport.

There are two main views on the role of governments in economic development. On one hand, there is a view that economies in which governments spending is comparatively small tend to be more efficient than those in which governments spend more. Large public spending is usually seen as creating distortionary economic effects, as the public sector in most countries is inherently inefficient and therefore, the bigger the size of the government relative to rest of the economy, the more inefficient that economy. We all know that efficiency means higher rates of productivity and faster rates of wealth accumulation, meaning that people become wealthier faster.

Another concern with a government's expanded role in the economy is the tendency for “big” governments to run large and persistent fiscal deficits, accumulate large public debts, and often times these spending tend to overheat the economy, creating rising and high levels of inflation, but generate at times only marginal welfare gains. People who hold this view often argue that governments should limit their roles to a core set of functions that most people would normally expect the government to provide. This view is also consistent with the belief that free market economies with “small” governments are more efficient at organising for the distribution and allocation of the country's scarce resources.

These views are not only held by the public. Government policies in many countries are also shaped by this thinking. In those cases, governments try to ensure that current public spending does not burden future generations unduly. Governments do this by organising their budgets so that recurrent expenditures, as far as possible, are paid from recurrent revenues. This means that these governments strive for a balanced budget, at least on the recurrent side of the fiscal accounts. On the capital side of the accounts though, government may take the view that a mix of debt and savings from the recurrent budget would be an appropriate way of financing the capital budget, that is, the large government projects that are likely to provide benefits to the country over a number of years. Of course, when debt financing is used for capital projects, both current and future generations are made to pay for those projects through taxation.

There are others who view the role of government in a different way. These people support an active public spending programme, arguing that smaller government spending as a policy goal makes little sense, since governments can play a pivotal role in the economy, through both the size and allocation of their expenditure. In the Caribbean, for example, we live in small countries where governments are often times required to take the leading role in the economy, either because of the absence of a vibrant private sector or because there are goods and services that must be provided to the populace, but the returns from which are too small to attract private investment in the provision of those goods and services.

In addition, everyone would agree that governments in all countries have an obligation to provide for the maintenance of law and order, and in most countries of the world, governments are also expected to play a leading role in the provision of education and health services. For instance, governments, in my view, have a responsibility to promote social equity, which they may do through their spending on reducing unemployment levels and on programmes in education and health. Again, as an example, investment in the education of women, especially in the poorest countries of the world, are usually associated with lower fertility rates, lower infant mortality rates, increasing life expectancy, and generally a better quality of family life.

Governments that have socialist agendas also use their budgetary allocations to influence income distribution. We all know that investment in education, or as some would say, human resource development, can play a meaningful role in raising the productivity of each worker, generating higher personal incomes and helping to alleviate poverty.

The points raised so far point to a social developmental role for government, but also suggest that government spending should be well targeted at the maintenance of law and order, income distribution, raising the productivity of labour, and providing goods and services that the market would not normally provide because the returns from such do not justify the investment made.

Perhaps one of the best examples of a service that is needed in this country, but for which the returns are not likely to attract the private sector, is an international airport on mainland St. Vincent. In the next article, I would attempt to justify government's investment in this kind of infrastructure.