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### **“The Stubbs Consultation Revisited”**

On Thursday 4<sup>th</sup> September, JEMS held a consultation at Stubbs on the airport project. The discussion was, in my view, fairly reported on by Hawkins Nanton in the *Searchlight* of Friday 12<sup>th</sup> September. But I want to continue a debate started by one of the presenters at that forum.

The main theme of that panellist’s presentation was that the Argyle International Airport was not likely to be profitable, and for that reason, he could not support the project.

In response, and under time constraint, I pointed out that our government should not be too concerned about whether the airport project makes a profit, but rather should focus on the spins-offs that are likely to be generated by the new airport. By spin-offs I mean the new investments attracted to this country, the employment created as a result and the overall increase in economic activity generated, all of which lead to higher taxes in the coffers of the government, as a result of its decision to build the Argyle International Airport.

Today, I want to explain in greater detail, why the viability of the airport project should not be the government’s, nor any citizen’s, main focus.

In making this argument, it is important to contrast the point of view of a private investor and that of the government. A private investor will invest in an airport mainly to make a profit. For this investor, the revenues generated from airport operations over the life cycle of the project must be some factor over the operating costs, in order for him to make a profit. If, as most of us expect, the operating costs of Argyle International are higher than the revenues in the early years, we know the investor will make a loss in those years. But as more planes and passengers use the airport, the revenues will grow, and over time, the investor’s bottom line will turn positive. It is anybody’s guess though, when Argyle International would make a profit.

The thing is, the Argyle International Airport is NOT being built by a private investor; it is being built by the Government of St. Vincent and the Grenadines. And the main reason for building the airport is NOT simply to make a profit, but rather that the airport helps the whole country to develop and grow.

Hence, the government’s decision to invest in the Argyle International Airport is based on much broader considerations than that of a private businessman. And the reason is simple too. Unlike the private investor, who only gets revenues from the airport operations, the government benefits tremendously from increased economic activity in the country. Government gets more tax revenue from businesses that set up here and make profits, it gets tax revenues from PAYE when more people are employed by these businesses, and it makes money from VAT, when business activity increases. All of these sources of income are new tax income for the government, and these new sources of income accrue only because of its decision to invest in the Argyle International Airport. A private investor does not collect taxes!

So that, even if Argyle International does not make a profit on its own operations, government would have collected new revenue from new investments and increased business activity that it could use, if need be, to subsidise Argyle airport operations. In simple economics, we can view the Argyle International Airport as a potential loss leader, meaning here, that it might make a loss in the early years, but even so, it could bring in so much business into the country that, on a whole, the entire country is that much better off. Investments, such as the one at Buccament, would now find St Vincent attractive because of international air access at Argyle.

And the argument can be taken further. Does anyone really think the government could make a profit on its investment in rebuilding the Windward Highway? Should the government ponder over how much profit it must make on new hospitals, before it builds them? Are we making any profit on the operation of the Milton Cato Memorial Hospital, and should we be unduly concerned about that? Should the government stop investing in education because it is not making a profit, in the short term, from its investment in education, which by any measure, is now a tidy sum, as it should be?

There are clearly some things on which the government must spend, whether or not it makes a profit in the short term. The good thing about the Argyle International Airport is that it will make a profit at some stage. But even if it does not, we will build it anyway. Because we are not building it simply for the profit that it might make. We are building it to help St. Vincent and the Grenadines develop and grow. And that is good reason enough for the investment.