

The unbelievable benefits of a third runway at Heathrow

Putting the Airports Commission's doubtful claimed benefits into perspective

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General

- The economic benefits are highly uncertain, whereas the financial and environmental costs are huge and certain.

Economics

- **Doubtful model.** Many eminent economists are sceptical of the model used to forecast the benefits for the wider economy, including the Commission's own specialist economic advisers Prof Mackie and Brian Pearce, whose unambiguous reservations¹ were not addressed (or even mentioned) in the final report.
- **Unbelievable wider benefits.** Rather than the headline Airports Commission figure of £147bn over 60 years, traditional modelling suggests £69bn (£60bn for Gatwick).² After costs, that is £11.8bn (£10.bn for Gatwick)³, or 0.01% of GDP, or less than a cup of coffee per passenger.
- **Zero net effect.** Mackie and Pearce also believe the third runway would simply suck in resources which would otherwise be profitably used elsewhere, so the net effect is close to zero.⁴
- **Over-heated South-East.** A third runway would further overheat the already crowded London and the South-East, with knock-on effects on housing and other services.
- **Forecasting.**
 - The economic benefits are uncertain. Who can forecast over 60 years with any accuracy at all? Think what the world was like in 1955. No computers let alone smartphones just for one thing! Who would have imagined that Dubai would now be the world's busiest international airport? Prof John Kay, the founder of the Institute of Fiscal Studies makes the fundamental objection that it is ridiculous to attempt such a forecast, especially in a technological world, and criticizes the Airports Commission for simply forecasting more of the present into the future.⁵
 - The financial costs are likely to be underestimated – for example, the cost of the new airport in Berlin soared to more than 300% of the original estimate.
 - The surface transport costs of up to £20 billion have not been included, and are likely to over-run significantly.
 - Provisions for compensation look minimal.
 - What airlines will use it? It would be the most expensive runway in the world.

People

- **A minority activity.** 70% of flights last year were taken by just 15% of the population. 50% did not fly at all. Only 12% of flights were for business; the rest were for leisure.⁶ Moreover, at Heathrow in 2014, 36% of passengers were transit passengers.⁷
- **A disproportionate effect.** Heathrow *already* accounts for 28% of all those affected by aircraft noise in the whole of the EU.⁸ A third runway would extend the affected area to include around a further 300,000 people, making over 1,000,000 people in total.⁹
- **People matter.** “Not pounds and pence, plans and policies, but people.” (David Cameron, Annual Conference speech, 2015).

Conclusion

- If more capacity is really needed, it should be located where the impact on people is proportionate to the costs and benefits.

Jane Davison/Len Skerratt, February 2016

The views expressed are the authors' own.

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¹ “Overall, therefore, we counsel caution in attaching significant weight either to the absolute or relative results of the GDP/GVA S-CGE approach (PwC report) within the Economic Case.” A note from expert advisors Prof Peter Mackie and Mr Brian Pearce, on key issues considering the Airports Commission economic case, May 2015, page 7.

² Hacan, (September, 2015). What if Davies got his sums wrong?

³ Table 7.1: Net present value and social benefit calculation, *assessment of need*, £ billion, 2014 prices, Airports Commission: Final Report, July 2015, page 147

⁴ “A key feature of PWC’s model is that of general imperfect markets and apparent underutilisation of resources, so that the project represents a net injection into the economy *relative to the reference case*. If resources are fully utilized, which is not an unusual assumption to make for a 45-year appraisal, then demand shocks will over the long term simply pull resources from other regions and/or drive wages and prices higher, leaving national GDP unchanged.” A note from expert advisors Prof Peter Mackie and Mr Brian Pearce, on key issues considering the Airports Commission economic case, May 2015, page 6.

⁵ Kay, J. (3rd November, 2015). Heathrow v Gatwick: the flawed case for expansion. *Financial Times*.

⁶ Hacan (June, 2015). <http://hacan.org.uk/hacan-backs-frequent-flyers-levy-to-replace-air-passenger-duty-as-both-green-and-equitable/> The proportion of business travellers at Heathrow is higher at 30%.

<http://www.heathrow.com/company/company-news-and-information/company-information/facts-and-figures>

⁷ Heathrow (2014). <http://www.heathrow.com/company/company-news-and-information/company-information/facts-and-figures>

⁸ CAA Report (2011). <http://hacan.org.uk/caa-report-28-of-people-in-europe-affected-by-aircraft-noise-live-under-the-heathrow-flight-paths-2/>

⁹ Zac Goldsmith (2015). <http://www.no3rdrunway.co.uk/>