

The Heathrow test

Blog post by Chief Economist Gregor Irwin, 06 July 2016

The political manoeuvring over Heathrow expansion is a case study in political risk and the final decision, recently postponed once again, will present an important test for David Cameron's successor.

The first serious proposal to expand the UK's largest airport came after the Department of Transport estimated in 2000 that the passengers using UK airports would more than double by 2020, raising questions about capacity. In 2001 the Labour government agreed to consider a third runway at Heathrow. A white paper and a public consultation followed, along with controversy over the environmental and noise impacts of the project.

In 2008 the Conservatives said they would block Heathrow expansion. Although the Labour government gave the go-ahead in 2009, the stance of the official opposition was enough to put the project on hold until after the election. Then in 2010 the newly elected coalition government came out against expansion.

The Labour Party in opposition withdrew its support, for a while at least, just as Chancellor George Osborne's position was shifting, in the face of growing business criticism of the government's inaction. A major barrier was then removed in 2012 when the anti-expansion Transport Secretary Justine Greening was re-shuffled into another department. That opened the door for the independent Davies commission to be asked to assess the economic case for Heathrow expansion and the alternatives.

The Davies commission has since backed three candidate schemes - while strongly favouring a third runway at Heathrow. Since then the government has pushed back the final decision twice as it has struggled to find a politically opportune moment to deliver its verdict. And now it risks being entwined in a Conservative leadership contest that seemed a remote prospect just a few weeks ago.

What conclusions should investors draw from this? First, a compelling economic case is not enough to secure political support. The biggest losers from Heathrow expansion are people in the neighbourhood and under the flight path. They are vocal and politically influential, as many live in Conservative-held marginals. The beneficiaries may be greater in number, but the gains are spread thinly, reducing the incentive to create a political fuss about the delay.

Second, opposition parties are unreliable proponents, as both the Conservatives and Labour have shown. The temptation to support popular opposition is strong when you are not burdened by policy responsibility.

Third, white papers and expert commissions can buy time, but when the time comes the political environment may not necessarily be better for taking difficult decisions. It certainly is not now, as opponents of Heathrow expansion are likely to seek commitments from the Conservative leadership candidates to block the project.

The case for Heathrow as made by Davis is compelling by any objective standard. The decision will therefore be a test for the next prime minister. It will tell us whether the new government is serious about taking economic decisions in the public interest - based on credible, independent expert advice - even when the politics are difficult. If it does it might draw a line under the scorn poured on expert advice during the referendum campaign. If it does not it will signal more volatile policymaking and higher political risk for investors and businesses under the new government.