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‘The Green Belt - London’s Natural Capital’

I have one disappointment to announce and one caveat. The disappointment is I am not in the league of Octavia Hill and I will never achieve as much as that person did, which lives with us for a century and more beyond. Therefore, that is my disappointment; there may be others. I should also say that these remarks are personal remarks; they are not remarks on behalf of the Natural Capital Committee, though I suspect that many of them would not conflict with Natural Capital Committee views.

What I would like to do for 20 minutes or so and then engage in questions is, first of all, set the green belt debate in a - forgive me for putting it in this way - proper economic context. I have observed over decades an almost entirely fruitless debate between people who think that the economy is on one side and the environment is on the other. That the environment is about stopping things, blocking things, creating barriers and trying to hold back the forces of progress and, on the other hand, the economy is much more important than the environment and it is much more important to focus on those things in the manufacturing and services sector, and the environment is a nice luxury that people can have when they are richer, perhaps, but it is a luxury that often mainstream economists would argue we cannot afford. I think it is an entirely sterile debate. It is entirely the wrong way to think about economics and it misses out enormous economic opportunities by thinking of the environment as part of the economy. A key part? We can debate about whether it is *the* key part.

What I would like to do is, first of all, set out what the natural capital approach is about. It is a hard concept, it is a measurable concept, it has core concepts, it has proper accounting, it has proper balance sheets, and it brings all assets into a common currency. Then I want to tell you what it is. I want to explain to you why natural capital really needs to be right next to people to maximise the benefits and you will see immediately the link to the green belt. The green belt is in exactly the right place to expand the economic benefits from natural capital. It does not at the moment and I am going to go through four myths about the green belt, which is part of the popular debate - all too popular - and reflects the interests of the parties around it rather than the public interest and the broader reflections.

I wish to knock out four common misconceptions about the green belt. Then I want to end by thinking about how we can really get much greater economic benefit from the green belt, what the opportunities out there are and how can we build a green belt for this century as people did in the middle of the last century so that when my students come to the end of their lives at the end of this century they will be in a place to bequeath to the next generation in the next century a green belt which makes this planet worth living on, which makes this country worth living in, it makes this city worth living in and makes our economy actually function.

Just in the background, have in mind we are not on a sustainable economic path. Climate change issues are profound and serious. Talking to my students last night, towards the end of their lives they will be living in the world of a much warmer planet, probably. Just remember, in this century we are, as a planet, wiping out about 25% to 30%, maybe 50%, of species on this planet, we are on schedule for 3 billion more people and, at current economic gross domestic product (GDP) growth rates, we are going to be consuming about 20 times more as a planet than we are currently consuming. Therefore, you just need to have a context when you think about economics and economic growth of the context it is set in.

Let me just quickly tell you about the natural capital approach. It is set out in the third report - the clearest version - of the Natural Capital Committee's first term of office. In January 2015 we set out in more details and - sorry, for the plug but it is meant to be helpful - I set out in my book on natural capital the intention is to explain what the concepts are, not to technical economists, but to explain to a wider audience how this concept works and how it functions. I want to explain this before I take us through the other component parts.

Natural capital has at its heart the idea that the environment is a set of assets in ecosystems in a number of different dimensions overlapping which are as important and to be taken into account alongside other assets in any economy. For those who are economists, an economy is just a series of factor inputs and they produce outputs. Therefore, what is our economy? There are factories, there are buildings, there is all this out here; built capital. There is human capital, everything that is in your brains and the ideas that come from that, entrepreneurship and so on, which is by far our most important form of capital, and increasingly so with the new technologies rolling forward, and there are natural assets. You can combine these assets in different ways to get different kinds of economies, and we do, but why the natural capital assets are especially important is, just think about it, you cannot breathe, you will not have any water; just to start with. Indeed, it is pretty hard to breathe out there on some days now already because the natural capital of this city is in such a poor state. Therefore, these are things we take into account.

The twist here is - and this is in Government policy, and it was in the manifestos of each of the then three major parties at the last election - the Labour Party, the Liberal Democrats and the Conservatives are all committed to the 2011 white paper, which says that the aim is to be the first generation to leave the natural environment in a better place than we found it. The Natural Capital Committee is part of this process and the 25-year plan comes out towards the end of this year. This is a big ask, by the way. Nearly every Government leaves the environment in a worse state than they found it and that is not surprising. Therefore, even holding the line is difficult.

Moreover, if you want to hold the line you have to know what assets you are going to hold the line about, therefore, you have to know what natural capital you have and you have to know what the capital maintenance requirement is - the spend - that is necessary to maintain those assets at least intact. You can borrow to invest, but to maintain the current assets is a charge on the current generation so that those assets are available for future generations going

forward. Therefore, you need the assets, you need a balance sheet, you need to work out the capital maintenance and you have to work out which bits of the natural environment would produce the highest net present value to people by enhancing it. That is the framework within which the 25-year plan is set and it is very sensible economics.

For those of this mind, just as you would look at Transport for London's (TfL) accounts or you would look at any company's accounts, you want to know what the assets are, you want to have current cost accounting, you want assets in perpetuity, you want capital maintenance not depreciation, etc. I could bore you for hours about how to do this, but what I want to steer you towards is the idea this is not something woolly like sustainability, this is hard concepts with hard measurements and put in a clear place. I do not criticise sustainability in that basis, I simply say sustainability has ended up meaning nearly anything to anybody and not any interested party can claim that what they are doing is sustainable. You cannot get away with it on natural capital. You either are or are not enhancing assets. I could explain at some length which assets matter most, they are renewable assets, assets that nature gives us for free in perpetuity provided we do not deplete them below thresholds. Most of the assets will look after themselves, therefore, we do not need to worry too much about them and for the non-renewables - the oil, gas, and all those things that nature gave us for free - we should be setting aside revenues from the depletion of those for the future generation.

Go down the river a bit and have a look out at the North Sea. My generation has squandered the whole damn lot and the benefits left for the future generation are very limited. That is an example of non-renewable natural resources for which the economic rents for depletion should have been set in a wealth fund for future generations to share with my generation so we had something left. Natural capital has a lot to say about that as well. That is the concept and, as I say, it can be articulated in some considerable detail but it forces people interested in environmental issues to engage directly in accounting for what they are doing, in company accounts, in national accounts and in maintenance for those assets.

The benefits from the green belt considered as a piece of natural capital are multiple, like they are for most assets, and they come in a variety of different forms. I will explain why the forms they come in are most relevant to being located next to people in a moment. However, with any asset you look at the spread of things that it delivers, you look at the cost of maintaining it, you look at whether it is renewable and you look whether those benefits could be bigger if we invest in enhancing it more.

As I will come to in a bit, at the moment just observing that the green belt is full of intensive agriculture, horses and golf courses, which is the kind of glib remark that people make, and then immediately come to the conclusion, "Wouldn't houses be better?" is an extraordinarily naive way of thinking about this problem. You have an asset, it has multiple potential uses, the current uses are not very good, and therefore, you should put houses on it. Now, there may be a case for putting houses on it, there is an argument for doing that, but you do not simply dismiss other alternative things you could do with the green belt. That includes treating it as serious natural capital, investing in it and then you want to know are the benefits for doing that

better than the benefits of having, for example, housing on the green belt, or industry plant on the green belt, compared with agriculture and the other uses that are there. Therefore, multiple uses. Think about the alternatives, weigh them up and then work out which have the greatest impact on sustainable economic growth.

I keep stressing the word 'sustainable'. GDP is not sustainable economic growth. Even most economists now accept that to be the case. Just remember one simple point about sustainable economic growth, if your growth is not sustainable it follows it will not be sustained. People never draw that conclusion. They realise that many of the things we are doing around the world are not sustainable, they just cannot be carried on indefinitely without very serious consequences. However, they never, therefore, conclude, "Therefore, there won't be the economic growth if you do not have the assets in place in a proper state to deliver those particular outcomes." I have explained the 25-year plan within that approach. Therefore, there are complicated components of this, complicated economics, but then you would not want to talk about building in London factories, services or Brexit without doing serious economic analysis, therefore, why should you not do it for the environment? Why should you opt out of that framework?

I mentioned location. One of my colleagues on the Natural Capital Committee has done a lot of research on benefits by location and one of the examples that was looked at was - this is not the Natural Capital Committee; this is just independent research - the relative benefits of putting accessible woodland on the margins of Cardiff or doing it in the middle of Wales. Many environmentalists would say, "Let's preserve the middle of Wales, it is a lovely area to build up natural capital," the trouble is nobody goes there; not many anyway compared with the rim of Cardiff. This is an analogy for thinking about the green belt. If you have natural assets, the benefits of which include air quality, recreation, leisure, health, the huge benefits from just simply the experience of nature. If you have these benefits they have got to be accessible to people. Most of our society lives in urban and, therefore, we need to think about the urban spaces inside the urban area - the parks, the gardens, the rights of access for children to play, the quality of the streets, the trees on the streets, etc - and we need to think about accessing natural areas within the bounds of what people can reach in their normal everyday lives. It is not just about cost. It is about time and it is about familiarity, etc.

Therefore, if you wanted in any economic study of the benefits of natural capital to think of a location, it is virtually impossible to think of one which is potentially better than on the margins of cities. That is where the green belts are and the green belts were not necessarily constructed in this economic way. They were to stop urban sprawl and all those kinds of things, but they have this effect. Therefore, if we want in our 25-year plan to think about how to protect and enhance the natural environment for the maximum economic bang, you start with the green belt, you start right next to cities. You think about thinking about new forests along the M62 around the cities of the north and you think about areas around Birmingham and you think about the green belt around London.

London starts off with some quite good advantages. There are lots and lots of green spaces in London. It is remarkably dense in terms of the amount of London which is actually green. I heard or read somewhere, which I cannot remember the source and cannot substantiate it, but it might be something like 40% of London is actually green. This is fantastically valuable. This is hugely important natural capital. Some of it is in good state, some of it is in bad state but much of it could yield much higher resources. However, in addition, we have this green belt and it is a big area. People say, "Oh well, lose 1%, who cares, you know, plenty of it left. We filled in a lot of it already once you look at it and what does it matter if we add a little bit more to it?"

The point I want to make in this slide, and it comes on to my response to the criticisms, is this is a system. Nearly all economics looks at a particular project. Let us take a corner of St James' Park and think about the net present value of building a house on it. It does not ask, "Do you want St James' Park?" Environmentalist scientists, something I have learned greatly while I have been chairing the Natural Capital Committee, see the environment and see assets not as marginal incremental pluses and minuses; they see them as systems. That is why the Lawton report [led by Professor John Lawton; an independent review of England's wildlife sites and the connections between them] looked at landscape-wide projects. That is why scientists point out that small islands by their nature are very poor in their benefits compared with larger areas. They point to wildlife corridors to connectivity.

As I will explain in a minute, if you think about the world in marginal terms, which is the terms in which almost all the cases being made for building on the green belt have been made, you have missed the fundamental economic characteristic, which is you either have one or you do not. It is a system. Now, of course, that does not mean you cannot make marginal changes at the edge and it does not mean that there is not a case for having less or more green belt, but it does mean you must get the unit of analysis correct.

Therefore, in this argument we should be thinking about the green belt system now, its benefits now, and the greater benefits we can get from the system in the future and what kind of green belt system we want to leave for the future. That is exactly what the Labour Government did in 1945 to 1951 in setting up these frameworks and it is exactly what Octavia Hill and others had in mind, and it is exactly what the National Trust does. Of course there is room for manoeuvre, of course there is flexibility, but remember it a system. That is why cost-benefit analysis, which economists roll out to look at natural capital and these kinds of assets, is, at best, of minor benefit. It is the benefit assessment of systems that counts and that is why so much of what economists do in this territory is actually, I would argue - and I mean this in a serious sense - very poor economics. We need to get the economics right as well as get the assets right.

Those who object to the green belt, and in particular want to build upon it, have put aside perfectly legitimate vested interests, who see economic returns from getting planning permission, going to make a lot of money out of it, just as I put aside the National Farmers Union (NFU) who wants subsidies after Brexit of a particular form to be paid to owned land, and I put aside the RenewableUK [not for profit renewable energy trade association] that want

renewables built for their members to make money. All of that is totally legitimate but what I want to do is just focus on the arguments that they mount to not improve and expand the green belt and get these economic opportunities, but to reduce it.

There are basically four, although in the paper I have written on the subject there are a few more. One is: well, we just have to. We want to build these houses, QED (Latin phrase '*quod erat demonstrandum*' which means 'which was to be demonstrated'), population is going to go up 10 million in the country over the next two to three decades, owner-occupation rate of about 3 to 3.5, you can work out how many houses in addition to what is demand at the moment, "Hey, where are we going to put them?" "The green belt is the right place." Therefore, the housing necessity should overwhelm all other considerations.

The second one is that most of it - and I will use the technical term - is crap. It is intensive agriculture, inaccessible, golf courses, horsiculture is one of the words used - although I have not seen much evidence of exactly how many horses there are, and I am not against horses or the causes of horses necessarily - but the argument is crap. Therefore, we would get better returns by replacing crap with houses. The third one is it does not matter if you take a few hectares out because there are loads of the stuff. The fourth one is it is a major barrier to economic growth, and you will see this trotted out in an article in *The Times* this week. It is repeatedly trotted out in the public domain these four points. Therefore, let me quickly go through them.

It just is not true that there are no other alternatives for building houses. It is perfectly legitimate to consider green belt among the options of building houses but it is not a legitimate argument to say QED we should build on the green belt. It is also not unreasonable to say there may be particular occasions in particular locations where there really are no alternatives and this really is a good idea, and then you should really think about how to do it green. However, the idea we have run out of space and we just need to concrete it over gets conflated with this is the most profitable place for people to build houses for housing, business and, obviously, they want to do it and, obviously, people want to live there. I would like to have a house in St James' Park. I would like to live right in the middle of London but there is a public good here and a private good, and my decisions about where I live have impacts on other people. That is why it is a planning issue. Therefore, we have lots of alternatives but there is also the question about the economics of time and location.

Around Oxford, the argument is, "Oh well, you know, people have to commute from the outside villages and there are traffic jams to get into Oxford, why don't we build east and west of Oxford on the green belt?" The question is how you think about how people are going to be located in the next 20, 30, 50 and 100 years going forward. Everything in the economy is being digitalised, therefore, everything is going to be electric by the way. We have only just begun to think what artificial intelligence (AI) means. It is going to gut huge areas of the economy for jobs. What you see out here in the skyline of London - or you would going probably that way - is a landscape built in a world where there are lots and lots of service jobs that AI are going to do. Let us just think about the economy not today but over the period over which this green

belt will not be there because it will have been concreted on, what that economy looks like in that frame.

Therefore, there are lots of alternatives to where to put houses, there are lots of alternatives about the designs of houses, there are lots of issues about density. From purely a narrow environmental argument density has a great deal going for it. Indeed, if we do not have dense populations this planet will not survive 3 billion more people and have an atmosphere and a biodiversity to support it.

The second argument is that it has got poor environmental value and for a lot of it it is absolutely true. As I said, a lot of it is - the technical term - crap. However, absolutely nothing follows from that. We have intensive agriculture, inaccessible to people where the farmers receive payments for owning the land. Agriculture receives £3 billion of subsidies to produce £9 billion of output in this country and does not pay for many of the other pollutants that are there. That is a reason for having a good post-Brexit serious British agricultural policy where public money is used for public goods. Instead of paying farmers to do what they are doing we can use those revenues to get much greater economic bucks for the wider population.

The green belt is, of course, to be considered in the context not just of the current air quality debate but what is coming forward from it. Therefore, we have it in a context in which we are not getting the benefits from the environment in terms of exercise, leisure, health and all those other things because that countryside is not being used for these benefits. You just have to think about things like obesity to realise what the costs of not doing this properly would be. There is no excuse for poor environmental standards on golf courses or horses, or whatever it is, but you do have to say, "So what? What is the alternative?" The alternative is very exciting and very positive.

I quickly want to cover argument number three, which is a really important one, and I have touched on it earlier, which is that we do not need to worry about marginal losses because there is going to be a lot left. It is a big graph, take a bit out of the corner, who cares? In my book I use an example to illustrate the fallacy involved in this notion. It is really about systems versus marginal analysis. If someone came along - let us call him/her, actually they are mainly him, a Russian plutocrat - who arrives with cases loads of cash taken from the natural resources, non-renewables in Russia from the depletion of those and arrives in London and says, "My mate's got a bigger yacht than me down in Monte Carlo harbour. I want the best house location in Britain and I'll pay whatever it costs." You say, "Where would you put it?" "I tell you what, what about on the corner of St James' Park?" People will say, "Oh no, no, no, you cannot do that since King James preserved this for the benefit of Londoners, despite all the assaults by people upon it, we have actually maintained this bit of green space and it is fantastically highly used. However, this guy says, "No, I'll pay you £200 million. I'll pay you £1 billion for this to be the only person in the world that has this spot," and you say, "Wow, London could do stuff to the Jubilee line, we could do stuff to Crossrail, we could have a new hospital with that, surely we would have all the rest of St James' Park left if we just took a little corner out and gave this to this guy? Look at the wealth we would have." Very seductive.

We do it and a little corner has gone of St James' Park and you walk passed and you see this plutocrat and you probably get some pleasure out of just not liking him as you go passed and looking at the wealth, etc. However, the next person comes along and says, "I know you built that house there and I know you said it was going to be the only one but you did say that St James' Park was not going to be built on, therefore, you do renege on things so you don't have any credibility in this game. You built a few houses in this bit of the green belt, therefore, hey, now we've got that built up let's add a bit more." What you discover is that the marginal analysis of each of those decisions leads you to no park very quickly. It also leads you to no green belt in the long run because once you have built some on it, you build the next and then you build the next, and then you build the next because there is always a marginal argument which is a winning marginal argument for building on bits of the green belt. It is quite wrong. It is the wrong way to think about assets. There is always a good marginal asset for pumping out a bit from our coal power stations, "Hey, the atmosphere can absorb a bit more marginal components." That is why we are not dealing with climate change. There is always a marginal argument for having a few more fish caught and suddenly you have got no fish stocks. This marginal argument is pernicious and it cuts across why we want a green belt.

The fourth one is economic growth, which I think I have made these points already. It has to be sustainable growth, it is not GDP. You have to think about the environment as an integral part of the economy. We have lots and lots of losses and examples of losses where we treat our natural capital badly and you just go out in that atmosphere there and reduce your life when you do so, and think about the deaths across the urban areas to just get a small picture of what the real underlying economic costs are to our society and to our economy of not looking after these assets. Then there are other dimensions of the economic growth about distance and time. If you use the agricultural subsidies more sensibly even GDP would go up and sustainable growth would increase. Broadband, digital, all kinds of components fit into this framework which will allow people to enjoy the benefits that flow from our natural environment.

I do not think any of those four arguments stack up. That does not mean there is not a legitimate argument. It does not mean that all cases are like my St James' example, but it does put in front of us - not in my view, having cleared away this debris of economic arguments to get sound economics to this - a really huge economic opportunity. We think about new digital businesses as economic opportunities, we think about the northern powerhouse. We should think about quite a lot of our environment as one of our really big economic opportunities out there. It should be a central part of a budget when the explanations are given as to where the growth is going to come from in the future. To do this you need the imagination of people in here, who are vastly more knowledgeable than I am about the green belt. What could it look like? What is the prize that we could have which we could leave to the next generation? Let us start with a blank piece of paper, how could we use this space for maximum economic return? We would do a lot of things that we do not do now. The agricultural subsidies would go. We would make the land accessible. We would produce more areas of woodland, mixed woodland. We would use places for kids to go. We would use places for people to engage in all sorts of



activities and we would ensure that the green belt is put on a sustainable basis which means the green belt is maintained and it has a capital maintenance to go with that.

Exactly what that looks like, again, that is not my expertise. Other people know. However, I suspect there is virtually nobody in this room who thinks that the current state is a good state to be and we cannot do better than this. I was going to say there might be no one in the room who could think that with what we have we could make it worse, but unfortunately there are people who would, if they carried through what they are proposing, do serious damage to our economy going forward. This should be core and part and parcel of the 15-year environment plan. The white paper is due at the end of this year and this covers the English area, which is what the framework is for; it covers urban areas. We have pilots going in water catchments in Manchester; London ought to be doing the same thing. Most people live in urban areas. It is the urban benefits we are considering here and that is where the green belt fits in.

We should do that, but really we should just think about that as one of the natural assets of London. We should go beyond the green belt and think inside the city as well as out and connect these things together. I should say air pollution; it has to be addressed. This is economically one of the most costly things that London confronts; the damage done to its people by inhaling this stuff that is out there on a regular basis. You have to think inside too constructively. Urban trees have a big role to play, provided, I am told, they are the right trees for absorbing pollution. I am not suggesting this as a practical policy but just imagine you thought every street in London had trees in it. How much would that cost? Not a lot actually. Would that improve the air quality? What would the economic benefits be? What would be these new kinds of natural assets created? If you walk through parks - I tried to walk nearly everywhere I can in London - compared with what you could do with Hyde Park, with St James' Park, with Green Park, the side of London I know, the opportunities are enormous. Hard to do it worse. They are really quite boring. You think what people could get out of these things by maximising the benefit.

All these things are out in front, therefore, what I would say in conclusion is this is a big economic plus. This is a big economic opportunity to contribute to economic growth and these assets are underutilised, have enormous opportunities going forward and the housing debate should be one of several debates set in the context of those economic opportunities and those benefits. Thank you very much.

**Dieter's book ['Natural Capital – Valuing the Planet'](#) is out now.**