VICTORIA HARBOUR: marginal valuation & un-priced values

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- ECONOMICS is about VALUE
 - Some values are denominated in money terms, others are un-priced
 - Un-priced values:
 - may be assigned *shadow prices*, *alternatively*
 - *Implicit threshold* levels for un-priced values may be determined via tradeoff decisions
 - (i.e., what are we <u>actually</u> willing to give up in terms of X
 \$ to get Y in un-priced benefits?)

1

 TOTAL ECONOMIC VALUE = priced (monetized) + un-priced values

Key Points

- (1) AMENITIES & ENVIRONMENTAL SERVICES have value though often un-priced
- (2) For the Harbour HK government seems to ignore changes in MARGINAL VALUATIONS
- (3) Need more transparent & participatory ASSESSMENT OF TRADEOFFS between priced & un-priced values for harbour/waterfront
 - Too important to be left to preferences of bureaucrats alone

Economic VALUATION: putting surrogate prices on un-priced values

- Number of techniques for developing specific shadow price for un-priced value
 - DIRECT COSTS
 - HEDONIC PRICING
 - CONTINGENT VALAUTION, e.g.,
 - WILLINGNESS TO PAY
 - WILLINGNESS TO ACCEPT
- Useful, but each has important limitations

DIRECT COSTS

- Reflect, at best, a bare minimum of the true value
- HEDONIC PRICING
 - Restricted to what the market can offer as a choice
- CONTINGENT VALUATION
 - Challenges in framing the questions and in validity of answers

Another Approach

- In many development situations
 - There's a straightforward TRADEOFF
 - between spending more (or obtaining less in \$) from the development
 - to protect or enhance particular un-priced values
- We can do this through
 - Decisions about *whether to proceed or not* with a development project and if we proceed
 - By deciding which to select from among alternative project designs
 - each design having different net monetized benefits and a different set of un-priced benefits

Marginal Valuation: the key to maximizing total value

- The value we place on *another* UNIT of almost anything depends in large part on,
 - how much or how little we already have of it (concept of declining marginal utility).
- In market transactions we increase our overall well being

 when we *exchange* something in relative abundance for something in relative scarcity.

Water and Land

 Reclamation: *always* been part of Hong Kong history

 In the past we had little buildable land and the harbour was wide.

 Exchanging a bit of all that water for a bit of precious land was arguably a good and necessary bargain

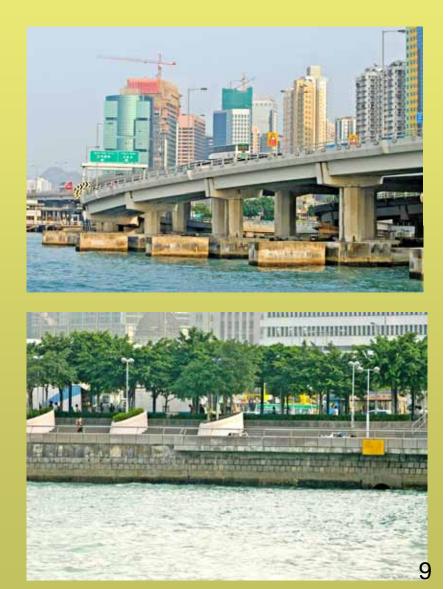
Times Have Changed

- Even since mid 1990s with Airport Core projects (including IFC II) harbour shrunk dramatically while buildable land now not so scarce
 - Much of reclamation is for roads not buildings
 - why not faster redevelopment of rundown older urban areas?
- Meanwhile HK has become wealthy
 - greater wealth brings greater desire for amenities
- Today, have much more land and much less harbour, and we can afford/want more amenities

But what are getting?





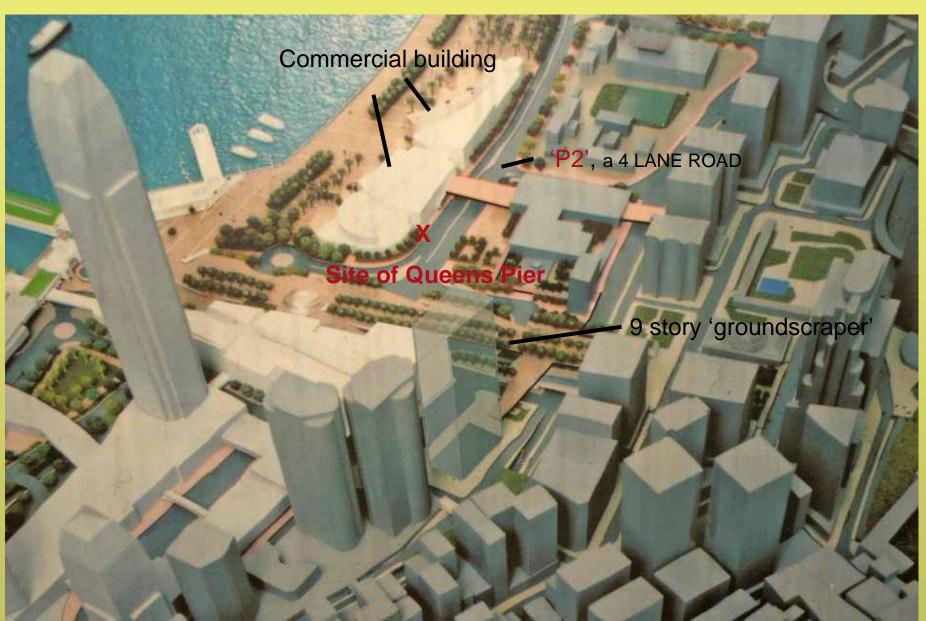


ENVIRONMENTAL SERVICES

- Thermal differences between water & land create cooling air flows
- Air flows also dilute pollution reducing health risk
- Today with urban heat island effect, climate change, and high roadside pollution
 - Wider/open harbour provides natural cooling
 - we want (and in fact need) more these air flows but we are getting less due to gov. planning decisions
- Probably NOT EFFICIENT in MAXIMIZING TOTAL Economic VALUE

A BAD BARGAIN

- Despite existing heavy imbalance in favour of UTILITARIAN uses versus AMENITIES & ENV. SERVICES
 - Government continues push new harbourfront roads, and buildings
- Amenities almost an afterthought
 - and when provided often of poor design.
- Environmental Services largely ignored
 - Gov. even reluctant to admit they are important



WE CAN (and occasionally) DO BETTER







And Yet \downarrow



Alternative Project Designs

- For assessment of tradeoffs between priced and unpriced values there must be enough design alternatives (offering clear choices re priced and unpriced benefits) put forward
- E.g.,
 - if Version I NPV = \$100m
 - while Version II NPV = 80m + Amenity A₁ + Env. Ser (E₁)
 - Ask Public: is A₁+E₁ worth at least \$20m? (in foregone \$)
- Can't do this for everything, but now hardly at all
- This is probably what government is doing internally but public not informed

To Recap

 UN-PRICED VALUES MUST BE CONSIDERED TO MAXIMIZE TOTAL VALUE

Amenity, environment services, bequest, option values

 VALUE OF EACH UNIT OF SOMETHING DEPENDS ON HOW PLENTIFUL OR SCARCE IT IS

Gov. as been ignoring marginal valuation of unpriced resources

- NEED TO REDRESS IMBALANCE of utilitarian & unpriced uses of harbour
 - stop making such bad bargains





Much More of this, not much more of that

