

# VICTORIA HARBOUR: marginal valuation & un-priced values

Bill Barron, PhD

For Harbour Business Forum

- *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 actually willing to give up in terms of X \$ to get Y in un-priced benefits?)
- **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



Commercial building

'P2', a 4 LANE ROAD

X  
Site of Queens Pier

9 story 'groundscraper'

# WE CAN (and occasionally) DO BETTER



And Yet ↓



## 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  $A_1$  + Env. Ser ( $E_1$ )
    - Ask Public: is  $A_1+E_1$  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

