

**VICTORIA HARBOUR'S
TOTAL ECONOMIC VALUE:
accounting for un-priced values**

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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 prices for un-priced values may be determined via tradeoff decisions
 - (i.e., are we actually willing to give up \$X to get Y un-priced benefits?)
- **TOTAL ECONOMIC VALUE** = priced (monetized) + un-priced values

Key Points

- (1) AMENITIES & ENVIRONMENTAL SERVICES have value though un-priced
- (2) For Harbour government seems to ignore changes in MARGINAL VALUATIONS
- (3) Need more transparent & participatory ASSESSMENT OF TRADEOFFS between priced & un-priced values for harbour and waterfronts
 - 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, from the development
 - So as 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 **selecting from among alternative project designs**
 - each with 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 for which we have a relative abundance for something in relative scarcity.

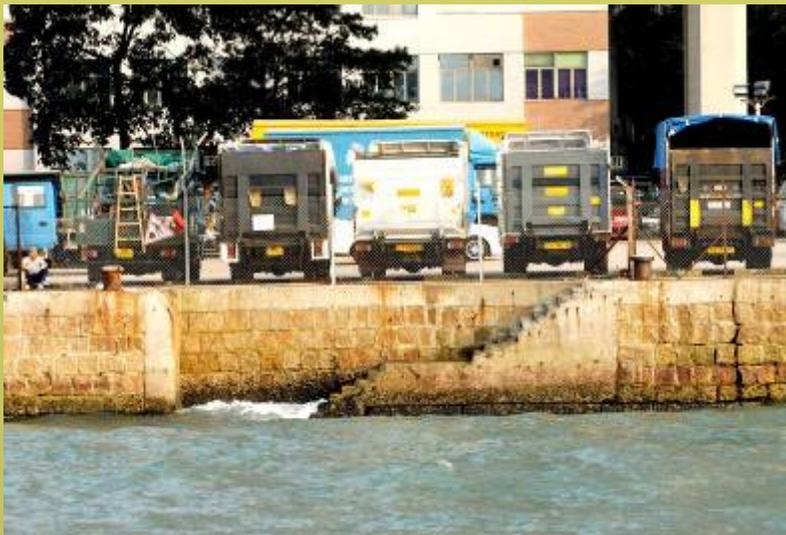
Water and Land

- Reclamation has been part of Hong Kong history from the start
- **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 to allow economic development

Times Have Changed

- Even since mid 1990s with Airport Core projects (including the IFC II) **harbour has shrunk dramatically while buildable land not so scarce**
 - Much of reclamation is for roads not buildings
 - Also consider poorly utilized older urban area
- Meanwhile HK has become wealthy
 - greater wealth brings desire for more amenities
- Compared to past have much more land and much less harbour
 - Yet we can afford and **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
 - we **want more of these flows but getting less** due to gov. planning decisions
- **NOT EFFICIENT** from perspective of **MAXIMIZING TOTAL Economic VALUE**

A BAD BARGAIN

- Despite **existing heavy imbalance** in favour of UTILITARIAN uses versus AMENITIES & ENV. SERVICES
 - Government continues push new harbour front roads, and land development
- Amenities almost an afterthought
 - and when provided the design is often poor.
- 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 and clear enough alternative designs 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?
- Can't do this for everything, but now hardly at all
- Also what government should be doing (and presumably 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
 - 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

