

Summary

Economic efficiency and regional equity concerns

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Regional equity seems to play an important role in decisions regarding large government investments, but Norway lacks guidelines on how to analyse and assess distributional impacts of such project. As a result of this, it is not clear to what extent there is a trade-off between equity concerns and economic efficiency. Some countries, like the United Kingdom and Sweden, have more detailed guidelines on this. Such guidelines should be developed also for Norway. In Norway, criteria for regional equity should be linked to the stated goals of Norwegian regional policy.

Background and scope

This report is a review of existing knowledge regarding methods for analysing and assessing distributional impacts of large government investments and combining this with appraisal based on economic return. Regional equity is of particular concern. It is well documented that many public investment projects in Norway have low economic return, but it is unclear to what extent this can be explained by a conflict of goals between net return and equity concerns. Distributional impacts is relevant for assessment both in the case of a single investment project and for a portfolio of projects.

This point of departure of this study is the Norwegian model for appraisal of large government investments, in which the recommendation by planners is based on net economic return. If the recommendation also is to be based on equity concerns, this requires a solid scientific foundation. When considering large government investments, regional equity is of particular relevance, either in terms of the distribution between large geographic units like counties or regions or in terms of the distribution between central areas and remote and rural areas. This report covers transport investments in particular, but the findings are relevant also for other sectors.

Literature on project appraisal

According to Norwegian guidelines, project appraisal should include analyses of (1) of economic return – including both monetized and non-monetized impacts, (2) goal achievement and (3) distributional impacts. The recommendation of an alternative should be based on (1) only. Economic return is based on individual willingness-to-pay without distributional weights, which implies higher weight put on the utility of those with high income or wealth.

A study covering a sample of Norwegian appraisal reports (Bull-Berg et al 2014) shows that in practice, the distinction between non-monetized impacts, goal achievement and distributional impacts is often unclear. One reason for this could be a lack of guidelines on how to analyse and report distributional impacts. The official guidelines by the Norwegian

Government Agency for Financial Management (DFØ) only gives a suggestion of relevant groups than can be included in such an analysis.

Both the United Kingdom and Sweden – in particular the UK – have more detailed guidelines on how to analyse and report distributional impacts of transport projects. In both cases, the analysis shows which groups in particular benefit or lose from the project. The methods are less suitable for showing whether the distributional impacts are large or small in absolute terms. In the Swedish template, the distribution of impacts between geographic areas is included. The British guidelines focus more on disadvantaged groups, and geography is not included as a dimension in itself. Reviews of guidelines and practice across countries suggest that most other countries do not have detailed guidelines regarding equity in appraisal, but there is a need for more updated studies of this.

Regional policy in Norway

The stated goals of Norwegian regional policy have developed somewhat over time, but a key concern has been contributing to preserving the main characteristics of the settlement pattern. The Ministry of Local Government and Modernisation has published guidelines on analysing the regional policy impacts of public policies. These state that such impacts are to be assessed when relevant and that if such impacts are significant, the Ministry should be involved in the decision process.

To what extent an area is a target for regional policy is defined by the Regional Policy Index. This is used to decide which areas are eligible for various kinds of government support and in the allocation of tax income to local governments. The index captures to which extent an area faces challenges that are typical for remote and rural areas, and is based on travel distances combined with economic and social indicators. The new index recently suggested is to a large extent based on the centrality index by Statistics Norway.

Literature on transport and equity

There is a large literature on transport and equity which is partly based on normative theories on distributive justice. This literature seems to mainly address equity on a very disaggregated geographic level or along other dimensions than geography, and often also other policies than government investment projects. Few studies among these conclude on how to make trade-offs between equity and economic return in project appraisal.

There is also a literature within regional economics that shows actual distributional impacts of certain policies, but which to a lesser extent addresses what distribution is desirable. One exception is the study by Mouter et al. (2017), who investigate citizens' preferences for how to allocate benefits from transport investments between two Dutch regions. Apart from this, studies based on historical data of actual decisions suggest that policy-makers prefer an even or stable geographical allocation. However, these studies focus less on the economic impacts of policies.

Recommendations

Since Norway currently lacks an established practice for analysing equity effects as part of project appraisal, the first step should be to develop guidelines on this before considering whether planners should include these impacts in their basis for recommendation. The direction and magnitude of equity effects should be comparable across projects such that the results also can be used for evaluating the equity effects of a portfolio of projects. On the portfolio level, equity concerns could also be included as minimum requirements (constraints) that need to be satisfied.

Ideally, the analysis of equity effects should be based on the same impacts that are included in the analysis of net economic return and show how these impacts are distributed across different groups. However, it could be that equity concerns are related to more long-term impacts (like settlement pattern) than those that are reflected in the user benefits of a projects, and that one therefore needs to use other models when evaluating equity. Comparability across projects requires a common standard for how to analyse and report equity effects.

There are large knowledge needs within this research topic. Updated reviews of appraisal practice both across countries and across projects within countries are needed in order to document current practice with respect to the treatment of equity effects. One should also conduct more descriptive studies that show the distributional impacts of policies that have been implemented, and to what extent these are in line with the perceptions and preferences of policy-makers and citizens.