

Uses & Misuses of Economic Impact Analysis: *After the Benefit-Cost Analysis*

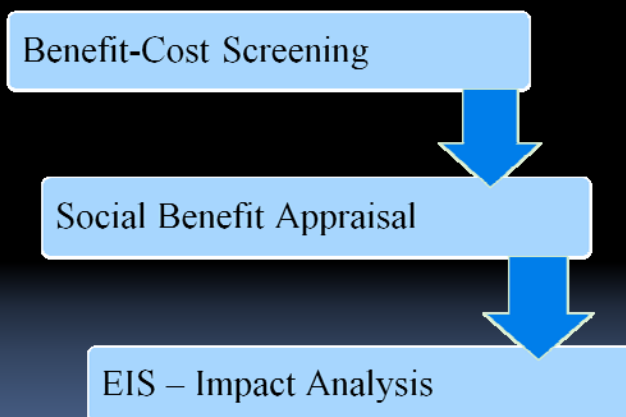
Glen Weisbrod, Economic Development Research Group
gweisbrod@edrgroup.com

*Asset Management and Economic Analysis conference
November 6, 2007
New Orleans, Louisiana*



1

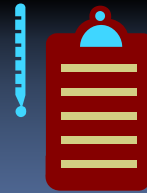
Overall Bang for the Buck: -- *"After" the Benefit-Cost Analysis*



2

Benefit-Cost Analysis

- Economic Efficiency of spending:
return on investment
- Screening to avoid waste of money
- Not a substitute for broader appraisal of important societal goals:
*unmeasured econ benefits,
distributive effects,
and protective goals*



3

Societal Benefit Appraisal

Benefits Beyond Benefit-Cost Analysis

- Unmeasured econ efficiency benefits (\$)
 - Environment, other “quality of life” elements
 - Economic productivity & independence
 - Cumulative consistency with policy
- Distributive Impacts
 - Spending shifts
 - Economic development shifts
 - Land use shifts



4

How Other Benefits are Handled

- Attempt to quantify and add to BCA
- Analyze separately in terms of *Appraisal Summary Table* (Europe) or *Cost-effectiveness for targeted goals* (US)
 - Preservation of system connectivity
 - Congestion mitigation & air quality
 - Economic development
 - International borders
 - Rural access
 - Safety



100,000	
70,000	
70,000	
2,000,000	

5

EIS Process

Concerns beyond benefits

- Economic impact - *efficiency + distributive impact hitting vulnerable & protected parties*
- Social/cultural impact - *distributive impact hitting vulnerable & protected parties*
- Environmental impact - *distributive impact hitting vulnerable & protected parties*

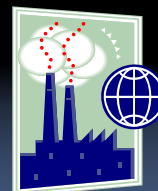
6

Regional Economic Growth Impact

= Impact on the Economy

- Output (Business Sales Activity)
- Income (Personal or GDP Value Added)
- Jobs

Economic growth models traced how direct effects on transport users lead to indirect & induced effects throughout the economy .



Very useful information; but NOT Benefit-Cost Analysis

7

Regional Econ Growth vs BCA

- Econ. Dev. Impact incl. effects of construction & attracting business from other regions.
→ *NOT ECON EFFICIENCY BENEFITS!*
- Econ. Dev. Impact shows safety improvement as loss of jobs in health care & insurance
→ *NO ECON GROWTH*
- Personal time & air quality changes do not directly affect money flow
→ *NO MATCH OF ECON IMPACT TO SOCIAL VALUE*

8

Importance of the Econ Devel View

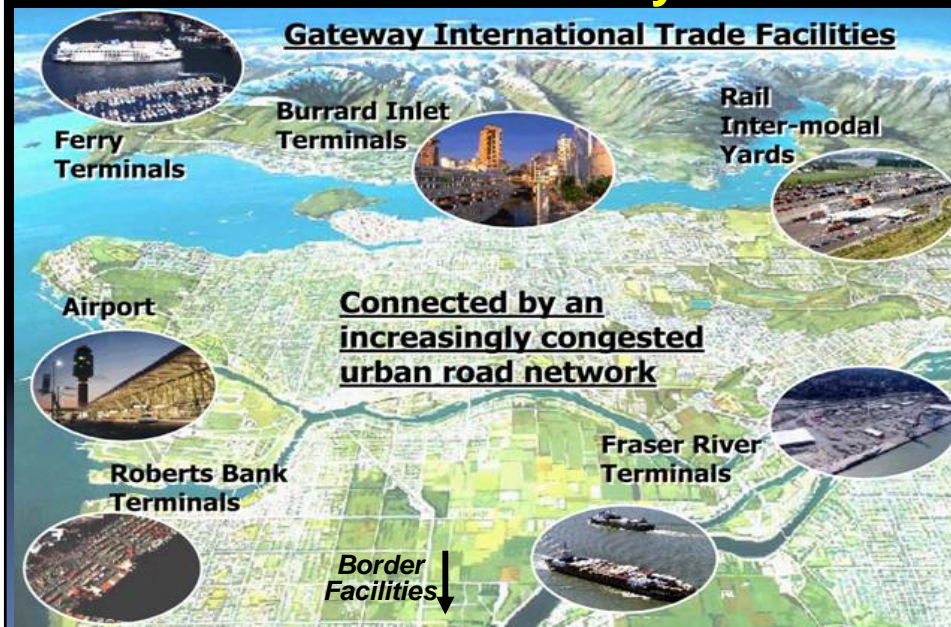
- Rural isolation/market access
- International competitiveness
- Job opportunities & income

Legitimate public goals



9

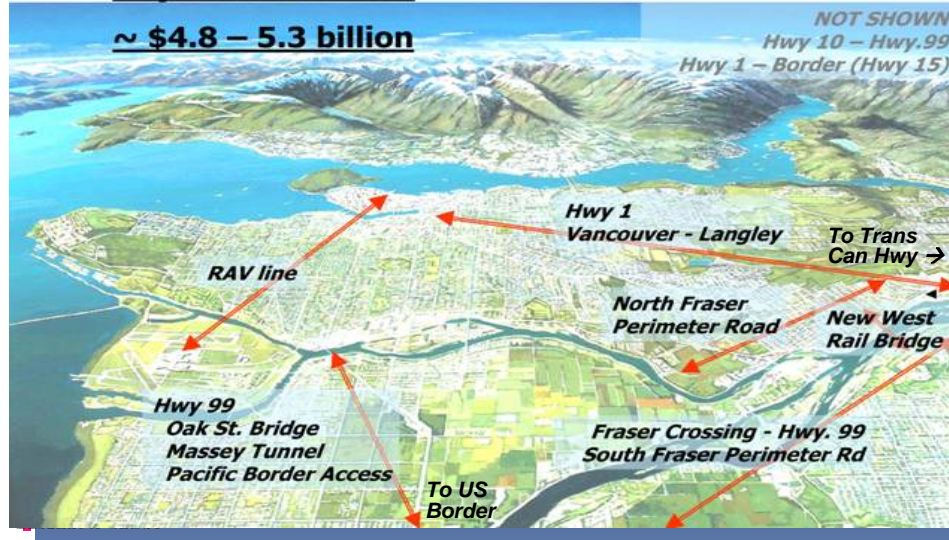
International Trade – Key Roles



International Trade – Strategic Plan

Major Investments

~ \$4.8 – 5.3 billion



Multiple Objectives of Public \$\$

Efficiency

(User Functionality,
Econ. Productivity)

Public Welfare

(Quality of Air, Water,
Time, Jobs,)

Public
Investment
Decisions

Strategy

(Competitive Position,
Technology, Institutions)

Equity

(Areas, Econ Sectors,
Population Groups)

Ways that transport can support economic development goals (ARC)

1. Resource-Based Development
2. Tourism-Based Development
3. Trade Center-Based Development
4. Export-Based Development
5. Cluster (Agglomeration)-Based Development
6. Supply Chain (Dispersion) Development
7. Inter-modal Distribution Development
8. Producer Services Development

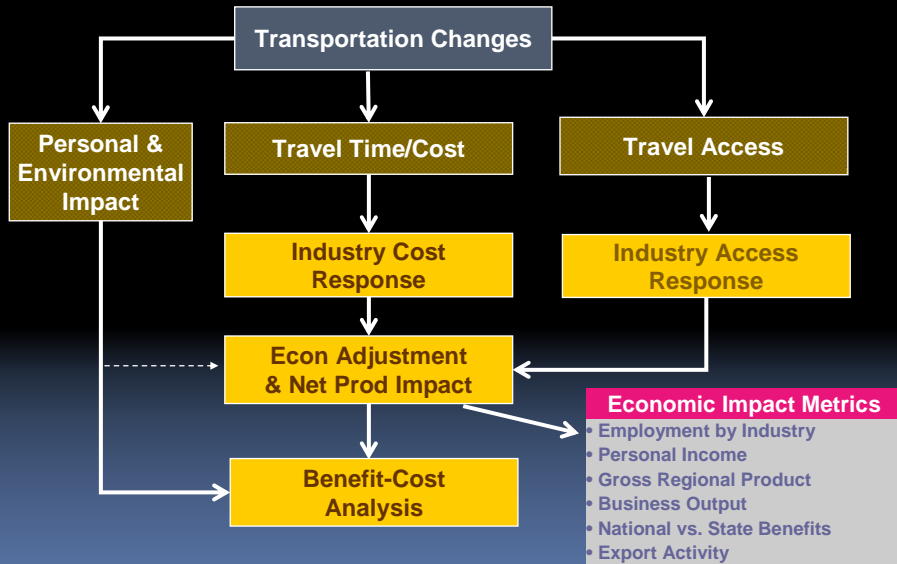
13

Needs for Econ Devel Models

- Capture **Multi-modal** implications
- Industry reliance on **specific modes, corridors**
- Data on Travel time/cost *plus* **access & reliability**
- Consideration of **local factors** (utilities, land, buildings)
- Separation of **\$ flow impacts** from other benefits
- Distinguishing **economic, social, environmental** impact
- Distinguishing **local, state, national, global** impact
- Distinguishing B/C **perspective** (traveler, resident, etc.)

14

TREDIS Analysis Elements



Lessons: Overall Bang for the Buck

Don't ignore the *adequacy* and *quality* of facilities & services; they can dramatically affect economic development.



Right order for analysis –
 First decide on the *Policy Issue*.
 Then apply appropriate analysis tools to fit the policy issue.

For Further Information...

EDRG Web Download Library

www.edrgroup.com/edr1/library

FHWA Econ Devel Links

www.fhwa.dot.gov/planning/econdev

TRB Econ Devel Committee Links

www.tedcommittee.com