

QUALITY OF LIFE AND ITS IMPACT ON LOUISIANA'S ECONOMY

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The quality of life available to residents of Louisiana can have significant impacts on the state's economy by influencing the locational decisions of workers, households, and firms who desire a healthy, enjoyable place to live, work, and do business. The quality of life available in a community, state, or region is determined by the existence of location-specific amenities. There are many types of amenities: social, cultural, and environmental. When amenities are concentrated in one place, then the nearer people live to the site the better their access and ability to take advantage of them. The benefits consumers realize from these amenities, minus the cost (if any) of accessing them, leaves the consumers with a surplus value.

This surplus value has been likened to a "second paycheck" that residents receive from living in a place where they have easy access to amenities, so that the total economic welfare of local residents is the sum of this "second paycheck" plus the purchasing power of their money income. As people decide whether to stay in one place or move to another, they seek to maximize their total economic welfare and, hence, the existence of location-specific consumption amenities can have an important influence on the residential location decisions of workers and households.

In general, areas with high levels of amenities attract more workers and households than areas with low amenities. The resulting expansion in the supply of workers tends to cause wages to be lower in high-amenity areas (or, alternatively, employers have to pay workers more to live in low-amenity areas). The expansion in the number of households increases the demand for housing and other land developments, so that housing rents in high-amenity areas tend to be higher than in low-amenity areas. Economists, recognizing the difficulties associated with measuring the values of amenities directly, have attempted to measure them indirectly by looking at the differences in wages and rents among states metropolitan areas, and counties. They have found that the range is quite large. For example, one study found a range of more than \$5,000 per year per household for 253 urban counties in 1980.¹ For technical reasons, this probably overestimates the true range. But, since the median personal income per household in the nation in 1980 was \$17,710, it is clear that the "second paycheck" can be a significant fraction of money income.

Studies of differences in wages and rents estimate the total value of all the components of the "second paycheck"—social, cultural, and environmental. It is difficult to separate the different components, but easy to generally recognize the importance of each component. The value of environmental amenities, for example, can be seen insofar as housing prices in places with high levels of environmental amenities may be large multiples of prices of structurally similar housing in less desirable locations.

The interaction between environmental amenities and residential location decisions has important implications for economic-development policy in Louisiana and elsewhere. As both households and firms become more footloose, the natural resources of a place increasingly will contribute to the structure and growth of the local economy through their influence on household location. In relative, if not absolute terms, the use of natural resources as a source of raw material for industrial production will become less important.

As areas with high-amenity levels attract and hold workers, employers will be able to hire workers for less than competing firms in low-amenity areas. All else equal, this will give them a competitive advantage and enable them to prosper. Hence, the protection and enhancement of amenities, such as clean

air and water, productive recreational fisheries, and scenic natural environments, can serve as the fuel for the generation of jobs and incomes in an era of footloose workers, households, and firms. This view is distinctly different from those of past eras, when environmental protection was seen as an impediment to economic development.

The relationship between environmental amenities and economic growth is not carefree. In particular, the very nature of most environmental amenities is that, as they attract more and more people, they can become congested. Indeed, without explicit intervention to prevent it, the level of congestion will become so severe that it diminishes an amenity's overall attractiveness, and the over-congestion will have a dampening effect on the economy.

No single study, or set of studies, provides a definitive evaluation of Louisiana's amenities relative to other states'. Similarly, there is no assessment of how the state's "second paycheck" has changed over time. One study, however, does provide a useful reference point.² By looking at migration patterns for 1971–87 across the fifty states, it sought to determine the relative strength of two primary motives workers and households have for moving: to earn a higher wage (the "first paycheck") and to have access to the particular amenities of the individual states (the "second paycheck"). The authors found that the amenities in Louisiana are sufficiently unattractive to those who work in the state that, on average, workers would remain in Louisiana only if their wages are 3–6 percent higher than what they would receive elsewhere. This amount does not reflect the value that those other than in-state workers, such as retirees and visitors, place on the state's amenities.

These findings cannot be disassembled to estimate the relative importance of the different components—social, cultural, and environmental—of Louisiana's amenities. It seems reasonable, however, given the state's poor showing regarding levels of crime, the effectiveness of its schools, and other social indicators, to assume that the state's distinctive cultural and environmental amenities make the most important contribution.

What does all this mean for the economic-development options facing Louisiana? If Louisianians (1) accept the notion that households and firms will become even more footloose; and (2) want to use their cultural and environmental amenities to increase the levels of jobs and incomes, then they must make certain that the protection and enhancement of these amenities become a centerpiece of their economic-development strategies. Furthermore, they must give special scrutiny to activities, such as resource-extraction, emission of pollutants, and unwise land development, that would diminish these amenities, recognizing that, in a footloose world, these activities can seriously damage the state's economic comparative advantage.

Whitelaw, W.E., and E.G. Niemi. 1989. "The Greening of the Economy." *Old Oregon*. 68 (3): 26-27.

¹ Blomquist, G.C., M.C. Berger, and J.P. Hoehn. 1988. "New Estimates of Quality of Life in Urban Areas." *American Economic Review*. 78 (1): 89-107.

² Greenwood, M.J., G.L. Hunt, D.S. Rickman, and G.I. Treyz. 1991. "Migration, Regional Equilibrium, and the Estimation of Compensating Differentials." *American Economic Review*. 81 (5): 1382-1390.

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