Adding grads and going green can brighten economic outlook

29 March 2017

Attracting college graduates and boosting natural amenities may give communities a double shot of economic growth potential, according to economists.

In a study, the share of college graduates—often referred to as human capital—and the quality of life in a community were found to significantly contribute to economic growth, said Stephan Goetz, professor of agricultural and regional economics, Penn State and director of the Northeast Regional Center for Rural Development.

"We've always known that human capital is important for economic growth and we are also learning that counties that have good amenities and quality of life factors—mountain views, lakes, shores, and clean environment, for example—are doing quite well, but we haven't looked at having both of these together in a county at the same time and what the policy implications might be," said Goetz. "It turns out they are mutually reinforcing. If you have more human capital in an area with better amenities that gives growth an additional boost."

According to the researchers, both quality of life—including amenities such as clean air, hiking trails, beaches and a temperate climate—and the number of college-educated citizens can positively affect wage growth.

The growth effect from quality of life and human capital is more pronounced in rural—nonmetro—counties, the researchers said.

"The rural counties are often the places struggling to find ways to boost growth, so this may be important news for them," said Goetz.

He added that quality of life and human capital can be interrelated and mutually supporting in communities.

"If you attract educated individuals they may want to influence environmental policy, or find ways to improve the local quality of life, thus reinforcing the effects of quality of life on economic growth," said Goetz. "Likewise, you may see that places with improving quality of life may attract educated people."

Communities may want to take advantage of the combined effect of human capital and natural amenities to create programs that attract and retain college graduates and improve the environment, said study co-author Qin Fan, assistant professor of economics, California State University, Fresno.

"Our study suggests that the effect of human capital on economic growth is larger in high-quality-of-life counties—natural amenities such as clean air and temperate climate, could potentially attract human capital and perhaps increase labor productivity, thus boosting the effect of human capital on growth," said Fan. "Our results provide empirical support for community development strategies through preserving or promoting natural amenities that improve quality of life and retain human capital."

The researchers, who reported their findings in a recent issue of *Applied Economics*, also said that a temperate climate is better for wage growth, which suggests that climate change may have an economic spillover effect.

Extreme weather conditions can affect wage growth, which is the increase in average county wages. As the mean temperature rises, for instance, wage growth is significantly suppressed, said Goetz, who also worked with and Jiaochen Liang, assistant professor of agricultural business, California State University, Fresno.

"Also, heavy precipitation can suppress growth," he added. "We are experiencing more abnormal weather events—think of the recent flooding in

California—and that can suppress wage growth."

While communities often use tax breaks to attract business, the researchers suggest that instead reinvesting some of that money into infrastructure and natural enhancements may attract entrepreneurs and business owners.

"There's often this idea that businesses will only locate in places with the lowest taxes, but when that means that the roads deteriorate and bridges fall apart that doesn't attract businesses," said Goetz. "One of the implications of this study is that if quality of life is tied to public services and public spending, then cutting taxes needlessly is counter-productive."

Provided by Pennsylvania State University

APA citation: Adding grads and going green can brighten economic outlook (2017, March 29) retrieved 26 June 2019 from https://phys.org/news/2017-03-adding-grads-green-brighten-economic.html