Promoting Prosperity in Mississippi

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Preface

What creates prosperity? Why are some states rich and others poor? Why does Mississippi consistently rank as one of the poorest states in the nation? Can anything be done to move Mississippi 'out of last place'? These questions are often raised by our students and fellow Mississippians. This book addresses each of these questions by identifying areas in which Mississippi can improve its economic conditions.

In this book, we identify key areas for Mississippi economic policy reform. Twenty-one scholars, ten of which are from or work in Mississippi, have contributed original policy research. All twenty chapters were written specifically for Mississippi with a shared goal to promote prosperity in the state. While some of the chapters contain complex policy reforms, we have made every effort to present the concepts and ideas in a way that is understandable to the average citizen, the person who can benefit the most from this information.

The first three chapters of the text summarize the basic economic principles necessary to achieve economic prosperity. These three chapters present the principles behind the reforms proposed in the subsequent seventeen chapters. Each chapter was written independently and offers unique insight into different areas of state policy reform. While the topics covered range from tax reform, education reform, healthcare, corporate welfare, occupational licensing and business regulatory reform to criminal justice reform, and natural disaster recovery efforts, there is a clear unifying framework underlying the conclusions reached in each chapter. The theme throughout is that economic growth is best achieved through free market policies, policies which are based on limited government, lower regulations, lower taxes, minimal infringement on contracting and labor markets, secure private property rights, low subsidies, and privatization. Policy based on these principles allows Mississippians to have more rights and more choices in their lives.

We hope that readers come away with a better understanding of capitalism's true potential to generate the long-run economic growth necessary to make Mississippi more prosperous, as well as ideas for policy reforms that could accomplish it in our lifetimes. This book illustrates that if Mississippi embraces economic freedom, the state will experience more entrepreneurship, increased business and capital formation, higher labor productivity and wages, and overall economic growth. Our main goal is to provide the scholarly, academic research that can inform state policy decisions and open a much needed dialogue on growth-oriented policy reform in Mississippi.

We focus on long-run policy improvements. Thus, the analysis is not an assessment of any particular administration or political party. Instead, this book can be thought of as a blueprint of possible economic reform proposals that use scientific evidence as a guiding principle. We emphasize that our unifying framework, which shapes the conclusions drawn in each chapter, is based on economic science, not politics. All authors address their respective topics by relying on academic research. Topics and policy conclusions were not based on any particular political agenda, political party, or political expediency. Instead, the authors relied on cold, hard facts and data with references to published academic literature to develop policy reform suggestions specific for Mississippi. In fact, many reforms suggested may not be politically possible.

The inspiration for this book came from *Unleashing Capitalism*, a series of books using economic logic to improve state policy in West Virginia, South Carolina, and Tennessee. We owe thanks to more people

than we could possibly list. We are indebted to our colleagues and the Finance and Economics advisory board at Mississippi State University who helped review chapters and provide invaluable feedback. We thank Ken and Randy Kendrick, Earnest W. and Mary Ann Deavenport, and the Pure Water Foundation for the funding necessary to embark on a project of this magnitude. We also thank our friends and family for their support, and for putting up with the long working hours that went into conducting this research. Most importantly, we would like to thank the staff and supporters of the Institute for Market Studies at Mississippi State University for publishing this book. Without their support, this book would not have been possible.

Let's start promoting prosperity in Mississippi!

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Prosperity Districts: A Ladder Out of Last Place

Trey Goff

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Prosperity Districts: A Ladder Out of Last Place

Trey Goff

It is well known throughout popular culture and illustrated in the opening chapters of this book that Mississippi is not exactly an economic powerhouse. However, most people are unaware of how bad Mississippi's economic malaise truly is: Mississippi has had the lowest per capita personal income (PCPI) in all but two years since 1929.[1] Mississippi is and has always been at the bottom of the economic ladder in the United States. However, it doesn't have to be that way.

An innovative, unique policy reform to address Mississippi's economic woes can be found in prosperity districts. Prosperity districts are geographically self-contained areas that reduce or eliminate unnecessary government restrictions on business activity, including regulation, taxation, and private subsidization. These districts allow for radical policy transformation by those who consent to it without the necessity of reform in the whole state, rendering their realization more politically feasible. These districts also allow for policy experimentation to better figure out what works best for a local area. Imagine the pure theoretical definition of economic freedom, discussed in Chapter 2, turned into reality through prosperity districts in Mississippi.

Prosperity district analogs have been utilized with massive success in China and Singapore, and they could have a powerful impact here in Mississippi. No American state has yet adopted prosperity district legislation, but Mississippi could finally be ahead of, rather than behind, the curve by being the first state to take this step toward economic freedom with prosperity districts.

1 BEA, SA1 Personal Income Summary: Personal Income, Population, Per Capita Personal Income, 2016

Mississippi Works Hard for the Money

Mississippi's economic woes would be hard to overstate. As stated previously, Mississippi's PCPI is and has nearly always been 50th. Many government actions like occupational licensing (see Chapter 9) and excessive regulation create perverse incentives for individuals to attain gainful employment. This could play a large part in explaining the economic malaise of Mississippi.

Take, for example, the labor force participation rate (LFPR). LFPR is the percentage of those eligible to work (i.e. those who aren't disabled, in school, too young, or too old) who are, in fact, working. Mississippi's labor force participation rate is currently 54.6%, which is significantly less than the national average of 62.7%.[2,3] Mississippi is behind all of its surrounding states with Alabama at 54.9%, Arkansas at 56.6%, Louisiana at 58.8%, and Tennessee at 57%. Moreover, Mississippi's labor force participation rate is lower today than it was in 1976. Fewer individuals working can perhaps explain Mississippi's low income per capita. Taken together, Mississippi's PCPI and LFPR indicate that too few Mississippians are working relative to other states, and that those who are working are earning less than their counterparts.

A possible explanation for Mississippi's economic gap is that Mississippians simply work fewer hours. The data, however, paints the exact opposite picture: Mississippians employed full time work, on average, 39.3 hours per week, which is more than individuals in other states.[4] This puts Mississippi at 9th in the nation for average hours worked per week. Compared to surrounding states, Mississippians work longer than most. The exception is Louisianans who average 39.5 hours. Louisiana outpaces Mississippi in terms of PCPI, with the average worker in Louisiana earning almost $10,000 more than the average Mississippi worker.[5] An increase of a mere 0.2 hours worked per week cannot possibly explain this massive income gap between Mississippi and Louisiana. Even the number 49th ranked state in PCPI, West Virginia, works fewer hours, on average, than Mississippians.

Mississippi is, however, ranked first in one labor category: percentage of the population earning minimum wage.[6] Mississippi is tied with Idaho, Kentucky, Louisiana, and South Carolina for first place in that category, with 5% of the labor force earning the minimum wage.

In summary: Mississippians who work full-time work more hours than workers in other states, yet earn far less money from it. Mississippi does not have a disproportionate share of individuals working part-time, but it does have a low labor force participation rate. Overall, too few Mississippians are working, and those that are working are not making nearly enough money to close the gap between Mississippi and everyone else.

Why might this be so? Government policies could create the lack of incentives to work and the ability to find high wage jobs. For example, transfer payments, such as welfare, alter the incentives for individuals to work, especially in a state as poor as Mississippi. Mississippi has almost 651,000 food stamp recipients, which is 21.74% of the entire state's population.[7] In fact, transfer payments in Mississippi total to 26.3% of total state GDP.[8] As such, these large amounts of benefits distort incentives to work.

These large benefit levels create what is known as a "welfare cliff." At certain income levels, most welfare programs fall off. This means that the higher one's income rises, the lower one's welfare benefits

2 Local area employment statistics, Bureau of Labor Statistics, April 19, 2017
3 Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, June 13, 2017
4 Geographic Profile of Employment and Unemployment 2015, Bureau of Labor Statistics
5 BEA, SA1 Personal Income Summary: Personal Income, Population, Per Capita Personal Income, 2016
6 "Characteristics of Minimum Wage Workers, 2016," BLS reports, Bureau of Labor Statistics, April 2017
7 "States with the Most People on Food Stamps," USA Today, January 17, 2015
8 "13 Things You Need To Know About the State Economy," Clarion Ledger, February 16, 2016

become. Sometimes, this can create an income "cliff" wherein a small pay raise is more than offset by a concomitant large loss in welfare benefits. In order to keep from falling off of this welfare-induced income "cliff," some individuals may choose to forgo the pay raise and maintain welfare benefits so as to keep a higher overall income level. This can clearly dissuade people from attempting to move up the economic ladder and earn more, or dissuade them from taking a potentially more lucrative job.

Mississippi has the 4th highest government spending per capita of any state in the US. It is not hard to illustrate that government spending does not equate to prosperity. Government spending is often absorbed by the myriad of bureaucracies, bureaucrats, and technocrats that make up a state government, as well as disseminated through the variety of government-related private contractors. It is unclear how much of this expenditure actually benefits Mississippians. Very little government expenditure has a tangible, meaningful impact on the day-to-day lives of the citizens of a state. As illustrated throughout this book, government spending can detract, not add, to individual wellbeing with its burdensome costs and labor market distortions created by bad policies. Rather than continual reliance upon ineffectual government policies, removal of cumbersome and growth suppressing institutions, such as onerous taxation and regulation, may stimulate growth and unleash the productive capacities of Mississippians.

Prosperity Districts Framework

In order to lift Mississippi up out of last place economically, more Mississippians need to be working, and those that do work need to be earning more money. Prosperity districts offer a potential way to do both. A prosperity district is, in its most basic and ideal form, simply an exemption from most regulation and taxation within a small, given geographic area. However, the ideal prosperity district has a number of other unique features that make it the optimal form of special jurisdiction creation.[9]

First and foremost, a prosperity district is consent-based. All residents of a given area must consent to the creation of the district for it to become a reality. This makes it such that a prosperity district cannot be foisted upon a population that does not desire one, and it gives the district a sense of political legitimacy that few other entities can claim. The governance to which they will be consenting is one of ultimate individual liberty to pursue economic prosperity. These districts will act as a "reset" to state law. All legislation above the foundation of the state constitution, common law, and mens rea criminal law, will be invalid within these districts. This is the primary mechanism by which prosperity districts can encourage accelerated economic growth: they clear away the labyrinthine and oppressive scheme of state regulation and replace it with a "regulatory best practices" regime, a regime where only absolutely essential and low cost regulations are kept. Prosperity districts will operate as the "sole governing political subdivision" within that geographic area.[10] Think of a prosperity district as a new city government, but with far less authority than an actual city government would ordinarily be expected to have.

The limitation of the prosperity district's authority is as follows:

- No eminent domain or civil forfeiture power (see Chapter 17);
- No taxing power (see Chapters 4 and 5);
- Police powers restricted to criminal law, common law of least restrictive regulation (see Chapter 16);
- No subsidization of private enterprise (see Chapter 6);

9 Prosperity States Fact Sheet, Compact for America, 2017
10 Ibid.

- Municipal services limited to competitively contracted public-private partnerships;
- Borrowing capacity limited to net assets and no possibility of state or federal bailout;
- Regulatory authority limited to impede cronyism (see Chapters 8, 9).

This means that prosperity districts are given a "clean slate" from which to craft public institutions completely free from the burden of decades of already extant legislation. Because of these limitations, a prosperity district is guaranteed to have far more business and entrepreneur-friendly institutions than the rest of the state within which it is located. Although the prosperity district will be exempted from most all state taxation, it will tailor a revenue agreement with the state that is at least equal to the district's state tax revenue prior to its creation.

Better Institutions for a Better Economy, One District At a Time

The theory behind prosperity districts is a simple one: crafting better economic institutions will result in accelerated economic growth and a flourishing economy. Recall the discussion of economic institutions in Chapter 2. The most important of these institutions are private property rights. The French economist John-Baptiste Say (1880) put it most succinctly: "Political economy recognises the right of property solely as the most powerful of all encouragements to the multiplication of wealth."[11]

It is only through private property institutions that the price system may be born, and it is only through the price system—the spontaneous ordering of the disparate, specific, and specialized knowledge of all individuals pursuing their own self-interest[12]—that the wide scale coordination and adaptability required to create anything, even something as simple as a wooden pencil, can possibly occur.[13] The magnificence and beauty of such seemingly magical emergent order can only occur, and indeed does occur, within the institutional framework of private property rights. Property rights institutions are the foundation upon which the wealth of civilization is constructed.

There is more than theoretical support for this assertion. Chapter 2 provides an overview of the relevant empirical research, which overwhelmingly indicates that both in the U.S. and across the world, stronger property rights institutions cause economic growth and prosperity. Nearly every conceivable measure of human well-being is improved with a higher degree of property rights protection and economic freedom. Simply put, no matter how one cares to parse the data, strong property rights institutions and general human prosperity are inextricably intertwined. The Cato Institute puts it succinctly in their 2015 Economic Freedom of the World report:

> Nations in the top quartile of economic freedom had an average per capita GDP of US$38,601 in 2013, compared to US$6,986 for bottom quartile nations. Moreover, the average income of the poorest 10% in the most economically free nations is about 50% greater than the overall average income in the least free nations. Life expectancy is 80.1 years in the top quartile compared to 63.1 years in the bottom quartile, and political and civil liberties are considerably higher in economically free nations than in unfree nations.[14]

It is thus incontrovertible that increases in human well-being increase concomitantly with increases in economic freedom in a given jurisdiction. Recall the discussion from Chapter 2 that Mississippi is at

11 *A Treatise on Political Economy,* pg. 127, Jean-Baptiste Say, Augustus M. Kelly Publishers, 1971

12 *Individualism and Economic Order*, F.A. Hayek, pg. 77-92, The University of Chicago Press, 1948

13 See *I, Pencil*, Leonard Read, Foundation for Economic Education for more on the marvel of interconnectivity

14 "Economic Freedom of the World 2015," Cato Institute

least 40th or lower on nearly any measure of economic freedom and institutional quality. Thus, there is much room for improvement in Mississippi's economic institutions. This begs the obvious question: how can Mississippi improve its economic freedom in order to improve its poor economic performance?

Prosperity districts represent an opportunity for Mississippi to greatly improve its institutional environment by carving out an enclave of maximal economic freedom within the state. Within a prosperity district, all state taxation would effectively be removed and replaced with one simple fee to the prosperity district's governing entity, as outlined in a revenue agreement with the state government. Thus, this particular region would avoid the costliness of taxation, as discussed in Chapter 4. Furthermore, increases in economic activity will follow as businesses flood into the area to take advantage of the elimination of the income tax, property tax, payroll tax, and inventory tax, just to name a few (see Chapter 5). By relying on one fee to generate public revenue, prosperity districts eliminate many of the indirect costs of taxation, such as lobbying costs, behavioral changes, and enforcement and administrative costs. The district begins anew, free of the constraints of state tax policy and traditional local taxes, and as such can craft a tax regime that maximizes economic activity while minimizing compliance costs and overall tax levels.

Prosperity districts likewise strengthen property rights institutions and economic freedom by stripping all state regulation from the region. Government regulation increases the costs of doing business by inducing compliance costs which, in turn, can keep new competitors out of the marketplace; this type of regulation can even be encouraged by larger firms within an industry, effectively allowing large firms to dictate regulations to their own advantage--a phenomena known as "regulatory capture."[15] Regulation also weakens property rights institutions by enacting barriers and qualifications to how property owners may utilize their property, thus diminishing economic freedom and economic prosperity in the process.[16] These 'regulatory takings' are discussed in Chapter 17.

Prosperity districts will avoid the growth-crushing impact regulations can have by ensuring that only a minimal level of absolutely necessary regulation is enacted within the district. It will recraft business oversight by creating its own "regulatory best practices."[17] The regulatory best practices model is a framework wherein only the absolutely necessary and least costly regulations survive.

Regulations within the district will be enacted at the behest of an independent regulatory authority stipulated in the prosperity district legislation. This regulatory authority takes full responsibility for all regulation in the district. However, it is heavily restricted in the scope of its regulatory activities. It can never, under any circumstances, exercise eminent domain authority, which strengthens property rights institutions. It may not authorize any monopoly or cartel for the provision of any good or service, and it may not accept any gifts or grants whatsoever, effectively safeguarding it from regulatory capture. It cannot, under any circumstances, subsidize any private enterprise, further protecting it from rent-seeking and the encroachment of regulatory capture. Any regulation it promulgates must protect a measurable, tangible threat to the life, liberty, or property of a resident of the prosperity district.

Any potential regulation must be subject to thorough regulatory impact statements, both before and after adoption. These impact statements must consider all the costs and benefits of the regulation, including unintended consequences. Further, the authority must "demonstrate consideration of a wide variety of alternate and less restrictive or burdensome regulatory approaches consistent with the hierarchy of regulation contemplated, including, but not limited to, expressly assessing whether the regulation has

15 "The Theory of Economic Regulation," George Stigler, *Bell Journal of Economics and Management Science*, 1971

16 According to the most accurate modelling procedures, if US federal regulation were to have been frozen in the year 1980, the "model predicts that the economy would have been nearly 25 percent larger by 2012 (i.e., regulatory growth since 1980 cost GDP $4 trillion in 2012, or about $13,000 per capita)." Source: "The Cumulative Cost of Regulations," Coffey et al., Mercatus Center, April 2016.

17 "Cut the Red Tape," Adrain Moore, Compact for America Policy Brief, December 5, 2016. This entire section borrows heavily from that article and should be accredited in its entirety to her.

a negative effect on competition, whether the regulation can be modified to reduce its anti-competitive effects, and determining whether and how private voluntary action can reduce the risks addressed by the regulation."[18] Finally, if it is decided that the benefits of the regulation outweigh the costs of doing nothing at all, then the authority must demonstrate that it is pursuing the least costly, least intrusive way to enact the regulation. All regulation promulgated by the regulating authority has an automatic sunset provision of five years. Thus, all regulation expires in 5 years from the time it is enacted and must again go through the entire process outlined here to become law once more.

This onerous and lengthy process is created to ensure that no unnecessary, costly regulations will be enacted within the district, and that those which are enacted will only be the most effective and necessary regulations possible. The combination of such a regulatory regime coupled with tax abatement will ensure that property rights institutions are as strong as possible, economic freedom is maximized, and the associated economic growth and prosperity can occur unfettered by state intervention.

Another advantage of prosperity districts lies in their governance flexibility. Prosperity district governance institutions can take a variety of experimental forms contingent upon the desires of the citizens organizing the district. In this way, prosperity districts can have adaptable governance structures that can be tailored to the individual constituency and geography. For example, a small district with an active citizenry may opt for a model of democracy resembling the direct democracy of ancient Athens, while others may opt for a more representative style of governance. This is similar to economist Paul Romer's idea of a charter city.[19] Charter cities work in approximately the same fashion as prosperity districts in that they are able to evolve and develop governance institutions however they please underneath the umbrella of the foundational law of the country wherein they are located. For this reason, it is hypothesized that charter cities, much like prosperity districts, could have a powerful impact on the alleviation of poverty wherever they are implemented, and some have even argued on these grounds that they are a moral imperative.[20]

Evidence of Success

Up to this point, the discussion here has primarily centered on a theoretical explanation of how and why prosperity districts would bolster the Mississippi economy. Now, I will lay out evidence to show that prosperity districts and their analogues have a proven track record of success in unleashing economic growth and prosperity.

Although a prosperity zone has yet to be instituted anywhere in the United States, the potential impact of such a district on Mississippi's economy has been estimated.[21] In order to do so, economist Mark Lutter determined what the economic freedom index rating would be for a proposed prosperity district, then plugged that number into an equation which estimated—with statistical rigor—the impact of economic freedom on economic growth amongst the 50 states.[22] The results are persuasive:

> I find that an individual in state level Prosperity Districts with an annual income of $35,000 would see, over a five-year period, their income increase by $1,330 - $,1729 more than the increase of the national average. I additionally find that, compared to a

18 Ibid.

19 "Technology, Rules, and Progress: The Case for Charter Cities," Paul Romer, Center for Global Development, March 2010

20 "Cosmopolitanism Within Borders: On Behalf of Charter Cities," Christopher Freiman, Journal of Applied Philosophy, 2013

21 "Mississippi Prosperity District Economic Impact Estimate," Mark Lutter, unpublished manuscript, November 28, 2016

22 "Panel Evidence on Economic Freedom and Growth in the United States," Compton, Giedeman, and Hoover, *European Journal of Political Economy,* January 2011

> comparable city, Prosperity Districts with 100,000 residents would see 2,800 new jobs added over a decade, Prosperity Districts with a population of 400,000 residents would see 11,000 new jobs added over a decade, and Prosperity Districts with a population of 2 million residents would see 56,000 new jobs created over a decade.
>
> State level Prosperity Districts with 100,000 residents would have an annual spillover between $134 million and $175 million more GDP at the end of a five-year period. The annual spillover of Prosperity Districts with 400,000 residents would be between $537 million and $699 million more GDP at the end of a five-year period. The annual spillover of Prosperity Districts with 2,000,000 residents would be between $2.7 billion and $3.5 billion more GDP at the end of a five-year period.[23]

These estimates show that the impact of a prosperity district could produce real, effective levels of economic growth in Mississippi. According to these estimates, a prosperity district of 400,000 residents could get Mississippi out of last place in income rankings in less than 7 years. Furthermore, this doesn't account for the potential impact of other districts forming in the wake of the success of the original, meaning that the impact of the spread of prosperity districts across the state could be even greater than the estimate above.

Although the evidence of a prosperity district's impact in America specifically rests on a foundation of sound theoretical predictions, there is ample direct, empirical evidence of the astounding successes of prosperity district's closely related cousin, special economic zones. Special economic zones are analogous to prosperity districts in that they exempt certain geographic regions from a high degree of taxation and regulation.[24] Much like a prosperity district, special economic zones exist as an oasis of economic freedom in an otherwise (relatively) unfree country. The economic successes of special economic zones have been nothing short of incredible.

Shenzen, China's first special economic zone, was founded in 1980 and has seen its GDP per capita grow by an unimaginable 24,569%.[25] Its population has boomed from 30,000 to nearly 12 million. This mind boggling economic growth was due to the fact that Shenzhen was given exemptions to a wide range of taxation and regulation, massively strengthening property rights institutions and economic freedom in the process.

Or consider the story of Hong Kong. Although not a directly intentional prosperity district or special economic zone, it has been roughly equivalent to one since WWII as a result of it being a British colony possessing institutions with high degrees of economic freedom.[26] Recall from Chapter 1 the discussion of Hong Kong's growth from a small, impoverished rock island to the wealth levels of the United States in a matter of 40 years.

To further illustrate this point, let's look at Singapore. Singapore gained its independence in 1965, enabling it to enjoy political and economic autonomy. At that time, Singapore was as poor as any developing nation with a GDP almost half that of the world average. Singapore has utilized its autonomy to pursue economic freedom in much the same way as Hong Kong (the two jurisdictions often take turns at the number 1 and 2 spots on economic freedom indices). Because of this, the World Bank rates Singapore as one of the best places in the world to conduct business.[27]

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23 "Mississippi Prosperity District Economic Impact Estimate," Mark Lutter, unpublished manuscript, November 28, 2016

24 *Special Economic Zones,* Thomas Farole and Gokhan Ekinci, The World Bank, 2011

25 "China's New Special Economic Zone Evokes Memories of Shenzhen," Frank Holmes, *Forbes*, April 21, 2017

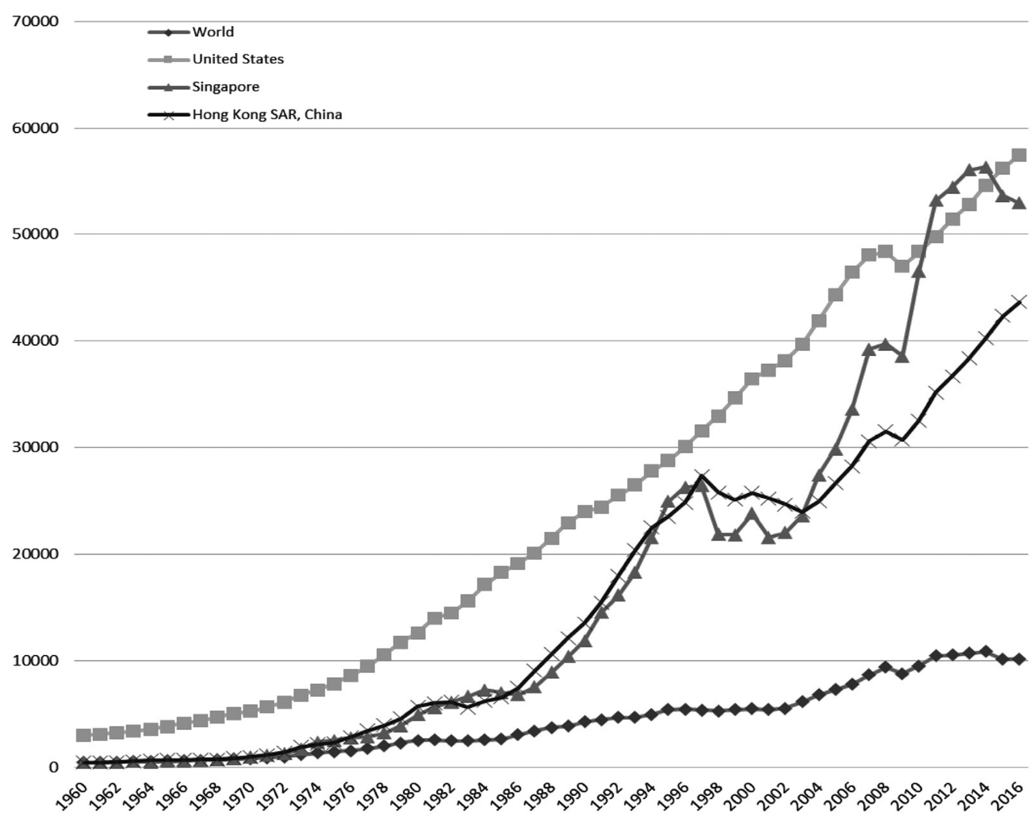
26 "The Hong Kong Experiment," Milton Friedman, The Hoover Institution, July 1998

Such a commitment to economic freedom has yielded astonishing results for the small island nation. Singapore went from having a GDP per capita less than 20% of the US in 1965 to over 100% of the US in 2015, or an increase from $3,905 in 1965 to $51,855 in 2015 (in constant 2010 USD).[28] However, even this magnitudinous growth understates what Singapore has accomplished because the small island's population has ballooned from 1.7 million in 1960 to 5.6 million today. This means that over the very time period in which its population more than tripled, Singapore's GDP per capita multiplied by a factor of over 13. Likewise, Singapore's unemployment rate hovers near 2%, while their labor force participation rate is nearly 70% (recall from above that Mississippi's numbers are 5.6% and 54.6%, respectively).[29]

Singapore went from being a place of destitute poverty to the wealth level of the United States in a mere 40-year time span by embracing private property, free enterprise, and voluntary exchange to the utmost degree. Hong Kong and Shenzhen also stand as shining examples of the kind of economic growth that can be catalyzed by improving institutions of property rights and economic freedom as a prosperity district aims to do.

Figure 10.1 displays this astoundingly rapid wealth growth graphically, with GDP per capita on the vertical axis and year on the horizontal axis. Notice how rapidly both Singapore and Hong Kong grew, as well as how powerfully their growth path diverged from the world average.

Figure 10.1: Hong Kong, Singapore, United States, and World Average, GDP per capita 1965-2015



Note: GDP per capita in current US$

Source: WorldBank national accounts data, and OECD National Accounts data files: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=SG-HK-US-1W

27 "Doing Business," World Bank, 2016

28 World Bank national accounts data, and OECD National Accounts data files

29 Singapore Department of Statistics

The impact such a massive degree of economic growth has on human prosperity and wellbeing in these two locations would be difficult to overstate. Residents of Singapore and Hong Kong have seen their countries go from destitute, developing world living conditions to decadent, ostentatious wealth in the short duration of a single lifetime. Such is the power of economic freedom and voluntary exchange, buttressed by strong property rights institutions, and unfettered, unshackled, and unrestricted by the weighty chains of state action. This is the power that prosperity districts seek to unleash.

Conclusion

Mississippi ranks either last or almost last among the 50 states in nearly every metric of economic growth and well-being. Fewer Mississippians are working than surrounding states, and those who are working are earning less money. Clearly, something has to change in order for Mississippi to ascend out of last place economically.

The answer can be found in prosperity districts. Prosperity districts will give Mississippians the opportunity to unburden themselves of the weight of state taxation and regulation, greatly improving their economic freedom in the process. Such a strategy has deep roots in sound economic theory and has been proven an effective strategy for unimaginable growth, prosperity, and wealth all over the globe. This radical economic reform strategy has the unique advantage, however, of also being politically feasible because of the small geographic size of a prosperity district.

Rather than begrudgingly accepting its last place station in the world as an inevitability, Mississippi should take a bold step forward by unleashing the creative and productive capacities of its people with prosperity districts. Prosperity districts could provide the solution that Mississippi needs to promote prosperity.

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Summary of Chapter Conclusions

PART 1. Introduction: The Role of Government and Economic Growth

Chapter 1: The Case for Growth—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- Mississippi is the poorest state in the United States in terms of per capita income. Mississippi underperforms economically relative to all of its bordering states.
- Focusing on policies that generate economic growth is the most viable pathway to alleviating Mississippi's weak economic condition.
- Very small changes in economic growth rates may yield vast positive changes in the quality of life for Mississippi residents within as little time as one to two generations.
- Focusing on economic growth does not mean that other important policy goals such as improving health and education and reducing crime are neglected.

Chapter 2: The Sources of Economic Growth—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- The economic activity of a state necessarily occurs within that area's institutional context, including the legal, regulatory, and tax environments, as well as the degree of private property rights. The quality of these institutions affects the output of economic activity.
- Capitalism is an economic system based on the private ownership of productive assets within an economy.
- Abundant evidence demonstrates that areas with institutions that allow capitalism to thrive experience much higher levels of prosperity relative to areas that do not rely upon capitalism.

Chapter 3: Why Capitalism Works—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- The prosperity of an area is determined by the total quantity of production and quality of goods and services that individuals value. This prosperity is influenced by factors such as the degree of specialization of labor, capital investment, and entrepreneurship.
- Capitalism is an economic system that generates prosperity because its decentralized nature supports the specialization of labor, capital investment, and entrepreneurship.
- Government policies, even when well-intentioned, often create harmful unintended consequences. This is often due to the more centralized nature of government decisions.

PART 2: Promoting Prosperity One Issue at a Time

Chapter 4: Why are Taxes so Taxing? —Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- High taxes can be extremely costly. In addition to the cost of the tax itself, taxes create indirect costs including enforcement costs, administrative costs, and costs incurred from distortions of the market economy.
- Mississippi has a higher tax burden compared to its bordering states. This may negatively affect the location decisions of businesses and individuals, causing them to leave the state.
- Empirical evidence demonstrates that high tax rates significantly damper rates of economic growth.

Chapter 5: Make Business Taxes More Competitive—Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- State and local taxes represent a significant cost for businesses. These tax costs affect the location decisions of businesses and deter them from operating in Mississippi.
- In addition to corporate income taxes, there are a myriad of other taxes businesses pay, such as property taxes and inventory taxes. Some taxes such as the inventory tax and intangible property tax do not exist in the majority of other U.S. states.
- To generate more prosperity within the state, Mississippi should consider reducing its tax burden upon businesses.

Chapter 6: "Selective Incentives," Crony Capitalism and Economic Development— Thomas A. Garrett, University of Mississippi, and William F. Shughart II, Utah State University

- This chapter evaluates the costs and benefits of targeted tax incentives designed to lure new private business enterprises to Mississippi.
- Our analysis demonstrates that Mississippi is poorer, not richer, by funding incentive programs.
- Reasons that incentive packages fail include no new employment since many individuals hired were previously employed, the additional tax cost to accommodate the new population growth, and resources allocated to funding the subsidies could have been spent on better schools, roads, or used to finance a reduction in tax rates for all.
- The funds now being spent to benefit a handful of private business owners could be used to finance broad-based reductions in tax rates and lightening the regulatory burden on all Mississippians.

Chapter 7: Incentive-Based Compensation and Economic Growth— Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- Incentive based compensation is a payment method where an individual's pay is in some way tied to their performance. Economic literatures studying incentive based pay for executives show that use of incentive based pay improves company performance and by extension state economies.
- Empirical data shows that firms in Mississippi use incentive-based compensation less than similar firms in other states.
- Mississippi can help improve its economic position by restructuring parts of its tax code to allow for greater use of incentive based executive compensation.

Chapter 8: Mississippi Shadow Economies: A Symptom of Over-Regulated Markets and Measure of Missed Opportunities—Travis Wiseman, Mississippi State University

- This chapter discusses Mississippi's regulatory environment and the state's cumbersome habit of maintaining outdated and burdensome regulation, far longer than other states.
- Several sensible and low-cost reforms are introduced that can help curtail unwanted shadow economic activity, and promote prosperity in Mississippi.
- A case study of one industry that Mississippi over-regulates – the brewing industry – is discussed.

Chapter 9: Occupational Licensing in Mississippi—Daniel J. Smith, Troy University

- Occupational licensing, the regulation of individual entry to a profession, enables industry practitioners to restrict entry to their profession and raise prices on consumers.
- The effects of occupational licensing fall heaviest on low-income residents who must pay higher prices or resort to lower-quality home-production or black market provision.
- Mississippi has at least 118 different occupational categories with licensing, representing nearly 20 percent of Mississippi's labor force.
- The total estimated initial licensing costs in Mississippi exceed \$48 million and the estimated annual renewal costs add up to over \$13.5 million.
- Mississippi policymakers can promote prosperity in Mississippi by removing unnecessary and overtly burdensome licensing laws.

Chapter 10: Prosperity Districts: A Ladder Out of Last Place—Trey Goff, Out of Last Place Alliance

- Prosperity districts are geographically self-contained areas that reduce or eliminate unnecessary government restrictions on business activity, including regulation, taxation, and private subsidization
- Prosperity districts can be a unique and promising solution to the state's economic woes by allowing specific areas to be exempt from unproductive policies.
- Prosperity districts allow experimentation to determine which policies work best.
- Real world examples of the potential success of prosperity districts can be seen in the closely related concept of special economic zones, which have seen tremendous economic growth and development in places such as Singapore.

Chapter 11: Promoting Prosperity in Mississippi through Investing in Communities—Ken B. Cyree, University of Mississippi, and Jon Maynard, Oxford Economic Development Foundation

- We investigate the impact of investing in community livability and the relation to the change in total employment to promote prosperity in Mississippi.
- We document the decline in Mississippi employment, on average, from 2007-2016, and especially the decline in manufacturing employment.
- Our analysis shows that increased employment is significantly related to better school rankings, higher changes in wages, and higher changes in per capita retail sales. New business creation is not statistically related to employment.
- Our results suggest that in order to promote prosperity in Mississippi, we should invest in quality of life for the community.

Chapter 12: Local Governments Run Amok? A Guide for State Officials Considering Local Preemption—Michael D. Farren, George Mason University, and Adam A. Millsap, Florida State University

- Local governments sometimes implement regulations and ordinances that stifle economic growth.
- Preemption is a legal doctrine asserting that state law takes precedence over local law. In some cases it should be used by state governments to overrule local governments.
- State officials should consider preemption when local rules violate the principles of generality or free exchange. Such policies often involve barriers to entry, price controls, or business practice mandates.
- Violations of generality and free exchange harm economic growth because they inhibit economic activity and the efficient allocation of resources. Conversely, preempting such policies promotes economic growth.

Chapter 13: School Choice: How To Unleash the Market in Education—Brett Kittredge, Empower Mississippi

- The United States has fallen behind other countries in K-12 education. One study found that American students ranked 38th out of 71 countries when tested in math, reading, and science.
- A government monopoly has existed in our delivery of education in the United States. Students are assigned to a school based on their zip code and the year they were born.
- Because students are assigned to a school based on a district line, real estate prices naturally rise in neighborhoods within a desirable school district. This has the effect of pricing out many families and forcing them to live in areas with less desirable schools.
- To improve quality, our education system should be student centered and market based. Parents should have options available to craft a custom education for their child based on their specific learning needs.
- The legislature can adopt a market based education through a universal school choice program that has broad eligibility, autonomy for all schools, and level funding across the various educational sectors.

Chapter 14: Medicaid: A Government Monopoly That Hurts the Poor—Jameson Taylor, MS Center for Public Policy

- State health care policy revolves around Medicaid, which is a government-subsidized insurance program consuming one-third of Mississippi's budget.
- Health outcomes for Medicaid insurance patients are very poor; patients with no insurance at all fare better.
- Medicaid's number one problem, like that of many American insurance plans, is that it incentivizes the over utilization of health care while insulating recipients from the financial consequences of poor lifestyle choices.

- Medicaid is crowding out the development of innovative products and policy ideas.
- Reforms aimed at unleashing the power of health care pricing including large HSAs, direct surgical care, and comparative shopping incentives can begin to disrupt Medicaid's monopoly.

Chapter 15: Tipping the Scales: Curbing Mississippi's Obesity Problem—Raymond J. March, San Jose State University

- Widespread obesity has serious health and financial consequences in Mississippi.
- Government policy, although well intended, is associated with increased levels of obesity especially for lower-income households.
- State-led efforts to reduce obesity are costly and unlikely to succeed because they fail to address the underlying causes of why less healthy food options are consumed.
- Private and local solutions are more effective in promoting health and reducing obesity.
- The most effective way to combat widespread obesity is the market, not the government.

Chapter 16: Criminal Justice Reform in Mississippi—Trey Goff, Out of Last Place Alliance

- Despite decreasing rates of both violent and property crime since 1996, Mississippi incarceration rates have steadily increased.
- Mississippi has an incarceration rate that is among the highest in the world, most due to incarcerating non-violent crimes.
- The economic drain from this level of mass incarceration is extremely detrimental for the state economy in terms of both the cost of maintaining incarceration and the negative effects of incarceration upon individuals in the labor market.
- Reevaluating and restructuring the criminal justice system in Mississippi to reduce incarceration rates would be an extremely effective tool to increase the economic strength and wellbeing of the state.

Chapter 17: Property Takings: Eminent Domain and Civil Asset Forfeiture—Carrie B. Kerekes, Florida Gulf Coast University

- Secure private property rights provide incentives for individuals to undertake investments and make capital improvements to their property and businesses. To promote prosperity, Mississippi policy makers should continue to improve laws and policies to restrict property takings.
- Following reforms passed in 2011 to protect against development takings, property owners in Mississippi are reasonably protected from eminent domain takings.
- Citizens are significantly less protected in the case of civil asset forfeiture. Civil asset forfeiture laws in Mississippi provide incentives for law enforcement agencies to seize private property.

Chapter 18: The Small-Dollar Loan Landscape in Mississippi: Products, Regulations, Examples, and Research Findings on Interest Rate Caps—Thomas (Tom) William Miller, Jr., Mississippi State University

- The best fuel for economic growth and prosperity is free market prices, including interest rates.
- Despite the goal of improving consumer welfare, interest rate caps often harm the very people legislatures intend to help–especially users of small-dollar loan products.
- Despite their well-known harmful effects on consumers, laws continue to fetter consumer credit markets with interest rate caps.
- Setting good rules governing how legitimate businesses provide access to consumer credit is important for everyone living in Mississippi.
- The Mississippi legislature can greatly help consumers by eliminating, or greatly raising, interest rate caps in all small-dollar loan markets.

Chapter 19: Natural Disasters and Prosperity in Mississippi—Daniel Sutter, Troy University

- Extreme weather poses a severe financial risk for a state economy. Mississippi is particularly exposed to the threat of damage from natural disasters.
- Free market practices often perform better at meeting the challenges posed by natural disasters rather than government policies. Removal of harmful policies such as occupational licensing and building codes during disaster may better allow the market to speed disaster recovery.
- Some government policies such as flood and wind insurance may exacerbate exposure to natural disasters. Other policies slow recovery time by creating uncertainty after the occurrence of a natural disaster.

Chapter 20: Learning from Disasters in Mississippi—Stefanie Haeffele and Virgil Henry Storr, George Mason University

- This chapter examines disaster recovery in Mississippi and how policies that foster entrepreneurship might help spur disaster recovery going forward.
- Entrepreneurs can spur disaster recovery by providing needed goods and services, restoring disrupted social networks, and acting as focal points around which other residents can coordinate their recovery efforts.
- To promote prosperity in Mississippi, officials should develop policies that ensure that entrepreneurs have the space to act in the wake of disaster.

About the Institute for Market Studies at Mississippi State University

The Institute for Market Studies (IMS) at Mississippi State University, created in 2015, is a nonprofit research and educational organization conducting scholarly research and providing educational opportunities to advance the study of free enterprise.

The IMS's mission is to support the study of markets and provide a deeper understanding regarding the role of markets in creating widely shared prosperity. This includes advancing sound policies based on the principles of free enterprise, individual liberty, and limited government. The IMS pursues its mission by bringing together leading scholars to conduct timely research on current economic and financial issues.

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"*Promoting Prosperity in Mississippi* contains transformative ideas for Mississippi on virtually every page. If Ideas have consequences, I hope the consequences of these ideas spread like wildfire across Mississippi, spurring economic prosperity, entrepreneurship, and human flourishing. Every policymaker and citizen should read this book."

— **GRANT CALLEN**, President of Empower Mississippi

"Individual initiative is an infinitely more powerful and productive economic force than government action.

In some ways, it is easy to see how people would think government is a good source for building wealth in a community or state. It's easier to grasp the concept of expanding a government program than it is to comprehend how the private sector could piece together a cohesive economy. And yet, it's that wonderful mystery of private sector initiative that has made ours the most productive and resilient economy the world has ever known!

The authors of this book understand that truth and have written, in easy-to-comprehend language, not only how to sharpen our concept of free markets, but how to implement policies which will allow them to thrive.

This book is not just for policy wonks. It is for anyone who believes — or who is willing to consider — that economic freedom is an essential but threatened component of political freedom that today requires our active engagement if it is to survive."

— **FOREST THIGPEN**, Former President & CEO, Mississippi Center for Public Policy

"This book is an excellent contribution to the policy debate that could give Mississippi the ammunition it truly needs to finally move out of last place. It is only through unleashing the ingenuity and entrepreneurship of Mississippians that true economic growth and prosperity can finally be realized. This book contains the blueprint to do just that, and is a valuable read for every Mississippian, not just legislators and policy experts. If you want to truly understand how Mississippi can finally climb up the economic ladder, then this is the book for you!"

— **JOEL BOMGAR**, Founder of Bomgar Corporation and Mississippi State Representative

"Economic freedom has been the greatest catalyst of innovation, prosperity and wellbeing in human history. People free to use their gifts and pursue their passions have created endless value and improved countless lives. *Promoting Prosperity in Mississippi* is a clarion call to all who love Mississippi, and her people, to embrace the transformative policies of free enterprise and reject a rigged economy that limits our potential. The compilation articulates a practical path forward—one of hope and opportunity for all Mississippians."

— **RUSSELL LATINO**, MS State Director of Americans for Prosperity

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