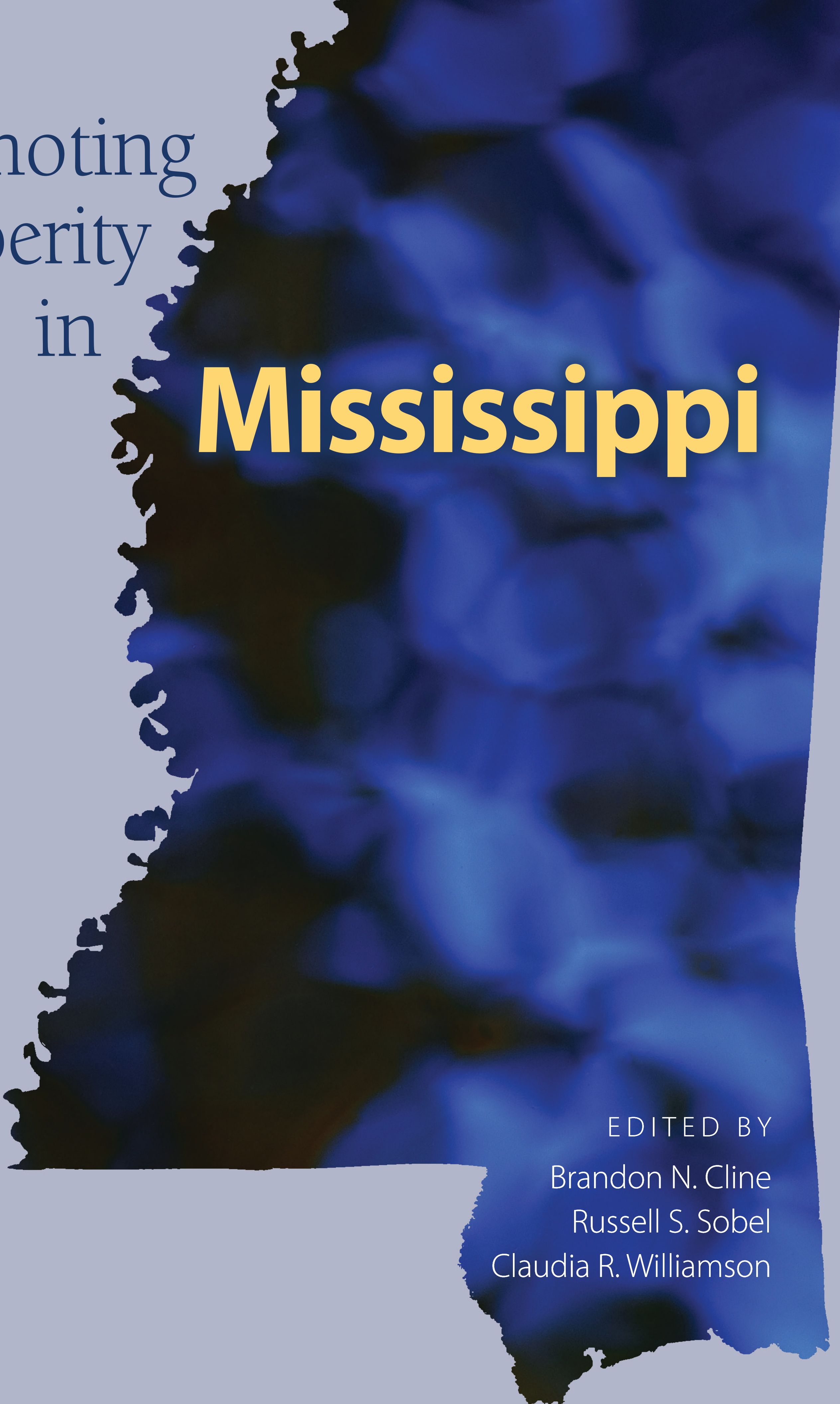
Promoting Prosperity in Mississippi



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The Institute for Market Studies at Mississippi State University was created in 2015 to support the study of markets in order to provide a deeper understanding regarding the role of markets in creating widely shared prosperity.

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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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Natural Disasters and Prosperity in Mississippi

Daniel Sutter

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Natural Disasters and Prosperity in Mississippi

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Introduction

Extreme weather poses a risk for economic activity. History offers cases where hurricanes disrupted the exploration and settlement of the New World by Europeans, impacted military campaigns, or submerged an entire city. The potential loss to life and property from hurricanes, tornadoes, floods, winter storms, droughts, and heat waves threatens the economic health of communities and states. Economists like to use extreme weather as a textbook example of a negative supply shock, subjecting students to test questions which begin, "A freeze devastates the Florida orange crop...." Mississippi is vulnerable to a wide range of extreme weather and suffered from two of the worst weather disasters in U.S. history, the Great Flood of 1927, and Hurricane Katrina in 2005. Hurricanes and floods pose a further complication for high risk geographic areas: coastal zones for hurricanes and the flood plains of rivers. The high risk zones, however, also provide immense economic value; transportation and manufacturing frequently use water, while people value living and vacationing along coastlines.

Public policy affects where households and businesses locate and how they build. Government also provides or regulates much of the infrastructure necessary for economic use, like roads, bridges, highways, canals, and utilities. Households' and businesses' decisions, as influenced by policy, determine whether the economic benefits of hazard-prone areas will be realized and if the costs of extreme weather will be efficiently managed. Government policies affect the vulnerability of our communities when extreme weather occurs, the response to assist victims immediately afterwards, and the prospects for long term recovery by victims and communities.

A prosperous economy must overcome the challenges of extreme weather. The burden of extreme weather is typically managed through sharing of the costs, which can be done in three ways: through markets, primarily meaning insurance; through charitable assistance to the victims; and through government aid. The sharing of risks can also encourage excessive risk exposure; the Samaritan's Dilemma (Buchanan 1975, Coate 1995) looms large in any discussion of weather risk. The tale of the Good Samaritan teaches us to assist strangers who have suffered misfortune. The dilemma arises because knowledge that a Good Samaritan will be there to assist makes us more likely to put ourselves into positions where we get into trouble. Thus, while we want to care for those who have suffered from natural disasters, doing so may increase the number who suffer from such disasters in the first place. The societal impact of hurricanes, floods, and tornadoes is never exclusively due to nature, but rather a complex interaction of weather and peoples' choices to put themselves, and their property, in locations likely to be exposed to these extreme weather events.

The Affordability of Insurance, Development, and Fairness

Collectively, our wants and desires for goods and services exceed our production capacity, so we will never be able to afford everything we want. We experience our choice to do without a good we would like to have as a problem of affordability: if the price were a little lower, or if we had a little more money, we could buy the item. Concerns about people being unable to afford some goods are inevitable. Affordability of any good is not a market failure; indeed, affordability is essentially the rationing function of prices in the market. Unfortunately, a lack of understanding of this concept has led to the affordability of insurance being used to justify policy interventions. Advocates of the use of government aid to subsidize the high cost of wind or flood insurance often cite two specific negative impacts, disruptions to economic development and the well-being of families with modest incomes. Both concerns are worth exploring, and provide a background perspective on the problems posed by extreme weather.

Economic development is about persons, not places. People must live and work somewhere, but prosperity in a state never requires development of a specific locale, even if some locales have natural economic advantages. Hurricanes and floods increase the real opportunity or economic cost of building on the Gulf Coast or along a river relative to a safer location. Repair costs will be greater in a vulnerable location, or more costly construction will be needed to avoid destruction. These higher costs will be worth incurring if the hazard-prone location provides enough additional economic value to justify the cost. Higher insurance rates tell people that they should have a good reason to question building in a hazard-prone area. On the margin, higher insurance rates will reduce development in a high-risk locale, but the deterred or relocated development will be that for which the hazardous location does not provide corresponding extra value.

Wind and flood insurance is sometimes criticized as taxpayer subsidies for the wealthy. There is some truth to this; Census tracts immediately along the Gulf Coast do have higher incomes than the remainder of Mississippi (Sutter 2007). But not all coastal residents are rich by any stretch of the imagination. Mississippi's twelve Gulf Coast casinos employ around 10,000 people in total, and many of these families' budgets would be significantly impacted by a steep increase in insurance rates (Mississippi Gaming & Hospitality Association 2017). To keep wind insurance premiums low, the state appropriated almost $180 million to the Mississippi Windstorm Underwriting Association after Hurricane Katrina, while the Mississippi Insurance Commissioner sued the Federal government over proposed increases in National Flood Insurance premiums under the 2012 Biggert-Waters Act (Mississippi Insurance Department 2015). These policy actions raise an important question. Should affordability concerns for Mississippi families being able to live in disaster prone areas be an important policy goal?

A comprehensive answer to this question would depend on ethics, not just economics. But it is important to consider unintended consequences of such a policy. Research clearly demonstrates that low income households are less likely to evacuate in advance of an approaching hurricane (Dash and Gladwin 2007), for many reasons. For instance, low income households are less likely to have a car, may not have the savings to cover evacuation expenses, and are more likely to be hourly employees and lose earnings if they evacuate. I do not wish to judge or second guess these decisions, but they raise the question of whether public policy should be justified based on encouraging specifically those people who may lack the means to evacuate to live in dangerous areas and put their lives at risk.

If affordability is an important policy goal, assistance for low income individuals to pay market insurance premiums would be a better means to achieve this goal. Addressing affordability concerns only requires assisting the relatively small number of persons needing assistance, not distorting the price of insurance for everyone. Higher rates based on risk are an important signal that should affect location decisions.

Price Gouging and the Response to Disaster

Price gouging refers to charging a higher price than "normal" for items, or a price well in excess of cost. The term is often used to refer to high prices that might be charged for standard items in the aftermath of a disaster. Thirty-four states, including Mississippi, have passed laws criminalizing price gouging, and these laws affect the immediate response to a disaster. Mississippi's law does not allow the prices of goods to rise above the level charged prior to the declared emergency zone, except to cover additional costs of selling.[1]

Many economists have written on price gouging, which illustrates the effects of price ceilings and highlights the importance of time and space in economics.[2] Disasters can affect both the demand and supply sides of the market. On the demand side, disasters cause significant increases in demand for selected goods and services such as plywood, tarps, generators, building supplies, gasoline, and ice. Disasters typically reduce supply as well, through damage to retailers, disruption of the utilities businesses need to operate, and interference with transportation to the disaster area. Increases in demand and decreases in supply both increase the equilibrium price, meaning the price at which the available quantity of a good equals the quantity that consumers wish to buy *at that price*. Economic theory can easily rationalize huge increases in the equilibrium prices during the period of the distortion of demand and supply.

The post-disaster period highlights how valuable knowledge in economics depends on time and place, as Hayek (1945) first explained. While knowledge in the natural sciences is general (meaning it applies across different places) and timeless (the law of gravity holds each day), valuable knowledge in economics varies. Normally one cannot plan to sell ice for more than about $2 a bag, which is very close to the cost of making, storing, and shipping it to grocery and convenience stores. But on August 30, 2005, the day after Katrina's landfall, economic conditions in Mississippi were no longer normal. Mississippians had a great need for, and were willing to pay a lot for, ice, generators, and gasoline on that day and very near their homes. The fact that ice could be purchased for $2 a bag in Atlanta or Houston was irrelevant. Ice when and where it was needed was worth more than $2 a bag.

Although economists can understand why the post-disaster equilibrium price of ice might be $8 or $12 a bag, such a price shocks and appalls many people. The term price gouging suggests the equivalent

1 A list of state laws against price gouging (as of 2012) is available at: https://knowledgeproblem.com/2012/11/03/list-of-price-gouging-laws/

2 For economists' analyses of price gouging see Sowell (2004), Gibberson (2011), and Lee (2015).

at least of gouging a person's eyes out; President George W. Bush compared price gougers with looters after Katrina.[3] Philosopher Michael Sandel (2009, p.7) states the objection quite succinctly:

> In times of trouble, a good society pulls together. Rather than press for maximum advantage, people look out for one another. A society in which people exploit their neighbors for financial gain in times of crisis is not a good society.

Laws prohibiting this behavior signal society's disapproval of this behavior.

The cost of supplying ice to communities across Mississippi was certainly more than $2 a bag after Katrina. Let's say it was $8 a bag. I would agree with Professor Sandel that selling ice for $12 a bag instead of $8 a bag (the current cost) is ethically questionable. An economic case for this can be made (Sowell 2004), but the persistence of laws against price gouging might show that perhaps morality is trumping economics on this issue. However, the more significant point is that prohibiting price gouging does *nothing* to provide victims with ice and other badly needed supplies. The harm and suffering of victims is due to the hurricane, tornado, or ice storm. Nature produces conditions under which victims willingly pay $12 a bag for ice. Competition in markets if often the best way for dealing with many anti-social behaviors. We can keep someone from selling ice to victims for $12 instead of $8 a bag by letting other sellers undercut their price. The ultimate goal after a disaster is to get the needed supplies to people at the lowest price possible. Higher prices for needed goods would incentive more individuals to supply these goods to the affected area, simultaneously providing needed goods more quickly and through competition putting downward pressure on prices for these same products. The information generated by the market response is critical in providing the supplies actually needed. The important role of economic knowledge in successfully assisting victims is illustrated by FEMA's poor performance after Katrina (Sobel and Leeson 2006, Leeson and Sobel 2007). Instead of simply prohibiting price increases after weather disasters, Mississippi could offer tax credits to retailers for losses incurred selling below cost after emergencies.

Post Disaster Reconstruction and Occupational Licensing

Natural disasters can place an enormous strain on the capacity of the construction industry. The stock of housing stock is large, but houses are long-lived investments, so the amount of new housing constructed in any given year is much smaller. Mississippi has 1.3 million housing units, and yet over the past five years, an average of less than 6,700 housing units and 5,500 single family homes have been built. Construction requires both specialized equipment and skilled workers in a variety of trades; expanding this capacity takes time. The building capacity in any one community is even more limited naturally. For example, an average of 197 total housing units and 87 single family homes have been built annually in the Hattiesburg metro, a community hit hard by Katrina and several recent tornadoes. The capacity of experienced contractors to repair damaged homes and buildings is similarly limited.

Hurricane Katrina resulted in 483,000 insurance claims state wide, with 236,000 just in the three coastal counties (Hancock, Harrison, and Jackson; Mississippi Insurance Department, 2015). Significant extreme weather events can definitely produce a demand for construction and contractors exceeding the capacity of the state's builders. A shortage of builders and contractors can lead to long delays in reconstruction forcing residents to seek alternative living arrangements or live in an unrepaired home longer. This increases the cost and hardship of a disaster.

3 Julie Mason, "Bush: 'Zero tolerance' for looters, price gougers," September 1, 2005, available at: http://www.chron.com/news/hurricanes/article/Bush-Zero-tolerance-for-looters-price-gouging-1923045.php

Markets can help meet such demand surges. Building supplies can be reallocated from other states, and contractors can also temporarily relocate as well. Occupational licensing can limit the mobility of contractors (and other professionals). As was discussed in Chapter 9, Mississippi licenses too many professions; indeed, the state licenses all 28 residential and commercial contractor trades reported by the Institute for Justice (Carpenter et al. 2012). Licensing can restrict the ability of contractors licensed in other states from moving to Mississippi. While rolling back occupational licensing requirements in the state would be the best way to deal with any artificial restriction in the supply of builders, a temporary relaxation of licensing after a disaster should be a priority. Florida allowed contractors licensed in other states to work in the state after four major hurricanes struck in 2004. A study found that customer complaints were not higher for the out-of-state contractors than for Florida licensed contractors (Skarbek 2008).

Property Insurance

Coastal properties exposed to hurricane risk pose a particular challenge for property insurers, for two reasons. First, hurricane risk is correlated. Insurance normally works through the pooling of independent risks. For example, property insurance covers house fires, and even though every house in Mississippi faces a risk of fire, something which causes a fire in one home, say faulty electric wiring, does not make fires more likely in other homes. House fires will happen every year, but the chance of say 100,000 house fires in a given year is extremely remote. Insurers promise to have the funds needed to pay off all covered losses incurred by their customers. Consequently, they face a risk of bankruptcy typically only if a large proportion of covered homes have fire losses in the same year. Since this is unlikely, house fires and similar risks like auto accidents or lightning strikes can be insured relatively easily.

A hurricane is dramatically different. In most years, Mississippi will not be hit by a hurricane and insurers will have no losses for this hazard, but when a major hurricane hits, such as Camille in 1969 or Katrina in 2005, a large proportion of policy holders will suffer a loss, especially those in the coastal counties. The insurance company must pay all of these losses at the same time - they must have access to tens or hundreds of millions of dollars to pay the claims. Insurance companies use reinsurance contracts and other financial instruments to ensure that they can pay catastrophe claims, but reinsurance is costly. Insuring correlated risks like hurricanes is more financially challenging than insuring against house fires or auto accidents.

Furthermore, extreme weather events, as the name suggests, occur relatively infrequently. For example, a major hurricane (Categories 3, 4 and 5 on the Saffir-Simpson Scale) has not made landfall in the United States since October 2005. Insurers learn from losses, which allows them to better estimate future losses. Weather records extend back at most only to the latter half of the 1800s, which is a short sample to estimate the exact likelihood of events occurring once every ten, twenty, or hundred years. Insurers can use risk models to try to refine estimates of occurrence probabilities, but there will be ambiguity concerning the underlying risk, which insurers do not like to have to price (Kunreuther et. al 1995). There will be more potential for learning after an event, which might reveal that a company was underestimating losses, leading them to want to write less of a type of insurance in a state.

Consequently, hurricane wind insurance can be subject to periodic shortfalls of capacity, meaning insurers will not want to write as many policies as the number of coastal zone structures needing insurance (Born and Viscusi 2006). Furthermore, modest increases in premiums may not induce insurers to write additional policies in the near term, yet mortgagees and businesses legally must maintain insurance, creating a problem. States maintain "residual" markets to deal with such shortfalls for auto and property insurance. Insurance is a highly regulated industry, and regulated primarily by the states. When a state faces a significant residual risk, like hurricane winds, a dedicated residual market mechanism is often established. Mississippi and six other Southeastern states have hurricane pools, or Fair Access to Insurance Requirements (FAIR) plans. FAIR plans are established under the authority of a 1968 act of Congress addressing a shortage of insurance produced by the urban riots of the 1960s. Mississippi's wind pool is the Mississippi Windstorm Underwriting Association (MWUA 2011), created in 1987 and authorized to write wind policies in six coastal counties (Hancock, Harrison, Jackson, Pearl River, Stone, and George). MWUA and other wind pools are mixed public-private sector entities ultimately under state insurance regulators.

MWUA addresses the occasional, short term problems of availability, but creates a mechanism for subsidizing insurance for coastal properties. The subsidy is not explicit, so we must trace through the exact mechanism to recognize that it is equivalent to a government subsidy. State insurance commissions have regulatory authority over the setting of prices (premiums), in addition to other elements of an insurance contract. Mississippi regulates based on prior approval, meaning that companies must get rates approved by the Mississippi Insurance Department before they can charge them to customers. A large residual market persisting for any length of time almost always indicates premiums set too low by regulators: "But where residual markets grow large, it generally represents evidence that regulatory restrictions have prevented insurers from meeting consumers' needs by disallowing what would otherwise be market-clearing prices" (Lehmann 2016, p. 16). In other words, a large residual market reflects the shortage created by a price ceiling in the primary market.

The residual market becomes the means by which to get high risk coastal properties insured at these artificially low premiums, and this amounts to the subsidy. Charging higher premiums to customers will allow a company to purchase additional reinsurance at a market price, which is how insurance ends up paying for rebuilding after a disaster.[4] The MWUA, however, can remain in an exposed position because they possess the legal authority to impose assessments on insurance policies from across the state after a hurricane if needed. The assessments are imposed on insurance companies based on policies written in the state and are equivalent to a tax. Insurance buyers and companies across the state end up paying wind pool losses. Hurricane Katrina illustrates the operation of this mechanism. MWUA had $1.8 billion in exposure for the 2005 season and only $175 million in reinsurance and ended up with losses in Katrina exceeding $700 million (Mississippi Insurance Department 2015). A regular insurance company in such a circumstance would have, in all likelihood, had to declare bankruptcy. But before this, they likely would have purchased additional reinsurance or accumulated investments to pay the losses. The assessment mechanism allows purchase of less reinsurance to cover a given exposure, and shifts the losses after the next major hurricane to other policy holders.[5]

Ensuring the availability of insurance for the Mississippi Gulf Coast, even during capacity crises, is important to enable economic activity, but this does not require a permanent wind pool. The long term goal should be to phase out the MWUA and rely on a deregulated private market charging risk-based premiums. As mentioned, low income families could be given a subsidy to help afford coverage at market rates. If MWUA is retained, it should rely on reinsurance to cover events up to at least the 100 year (0.01 probability of annual occurrence) storm, and perhaps the 250 or 500 year storm.[6] Government assistance

4 Voluntary market insurance is not a subsidy, even though customers who experience a loss may receive a larger payment for a loss than they have (or ever will pay) in premiums. The nature of insurance involves such payments. If an insurance company voluntarily sells coverage, the company is not giving anything away - they are being adequately compensated for taking on the risk, even when they pass some of the risk on to others through reinsurance.

5 Or potentially state tax payers, because no state residual market has ever gone bankrupt (Lehmann 2016).

to the wind pool, if provided, should be through state appropriations to purchase reinsurance annually as opposed to hidden assessment taxes. The assessment mechanism obscures the commitment to effectively tax Mississippians to pay for hurricane losses. Such disguised forms of transfers exploit rational ignorance on the part of citizens (Boudreaux 1996). Requiring the legislature to appropriate funds to for reinsurance for MWUA is more explicit and consequently easier to potentially control. Indeed, $178 million in government funding was provided to MWUA for this purpose in the years after Katrina. Policy details should remain transparent so that citizens can readily become informed about an issue should they want to do so. Politicians who believe that all Mississippians should pay to keep wind insurance inexpensive should have to make the case annually for appropriations, not planting a time bomb that explodes after the next Katrina.

Flood Insurance

Flood insurance also affects vulnerability to extreme weather. Although the Federal government runs the National Flood Insurance Program (NFIP), states and local governments play a role in the overall system. Establishment of the NFIP in 1968 is best viewed as establishing government management of the nation's flood-prone areas. Policies sold under the NFIP are effectively subsidized by the Federal government, a factor which by itself promotes excessive building in flood plains.[7] The NFIP involves state and local governments in managing development in flood plains and controlling access to the subsidy. Communities must join the NFIP to allow residents to purchase policies, and this involves adopting government flood plain management. This injects politics into the decision about building in flood plains or rebuilding after a flood.

The separation of flood insurance from standard homeowners' insurance causes confusion and delay after hurricanes with significant storm surge like Katrina. Insurance companies and FEMA can go back and forth about what portion of losses will be covered by which policy, what Emily Chamlee-Wright (2010) labeled the flood - no flood tango. However, this dance is costly. Debate and litigation delays the payment of claims, increasing how long residents must fund alternative living arrangements. Homes rebuilt after a flood must be elevated to the base flood elevation (the level of the 100 year flood plain), adding to the cost of rebuilding which may not be covered by insurance. FEMA may seek to redraw flood plain maps, delaying establishment of the level for elevating structures. Political control over rebuilding would be unnecessary if flood insurance were provided in private markets, or if structures which were not flood proofed could purchase coverage at higher premiums. NFIP provides a reminder that government subsidies may not even benefit the recipients that much once the controls frequently accompanying the subsidies are factored in.

Building Codes and Mitigation

The quality of the built environment (homes, apartments, businesses, and infrastructure) affects the damage caused by natural disasters (Ryland 2006). Shoddy construction imposes both direct costs (repairing or replacing structures and damage to contents) and indirect costs like temporary housing, lost production, and longer driving times due to damaged roads. The story of The Three Little Pigs teaches children how higher quality construction will reduce losses when disasters occur. Indeed, engineers

6 Other options exist consistent with self-funding, including self-insurance by accumulating a large surplus, the use of post-event assessments but only applied to customers, and risk sharing pools with other states facing hurricane risk.

7 Unlike state wind pools, NFIP borrows from the U.S. Treasury if it has losses it cannot pay, without ever having to repay the loan.

know how to build structures to withstand even the strongest tornadoes and earthquakes, but mitigation (the term referring to designs and techniques for buildings better able to survive hazards) is costly and disasters incur frequently, so mitigation may never be "used" against a hazard.

Natural hazard mitigation is an important dimension on which individuals can reduce the impact of extreme weather on our lives. Consequently, efficient investment in mitigation is tremendously important in managing weather risk. Mitigation involves two quality assurance questions: first, whether a given design or product will reduce damage as promised; and second whether mitigation is installed correctly in a given structure. Communities across America rely on building codes enacted and enforced by local governments to assure the quality of both residential and commercial buildings, meaning public sector certification of the quality of the built environment. Building codes date to the early 20th Century, and were first adopted to deal with fire risk. In the 19th Century, wooden construction, narrow streets, and structures built closely together created the potential for city-wide fires like the Chicago Fire of 1871. This made early fire codes a public policy issue. Public certification of quality remains the norm today, even though contemporary building codes include many elements not connected to an externality.

Public sector assurance of the quality of the built environment through building codes has numerous problems. Perhaps the best recognized is the enforcement problem. Quality is always costly; ensuring the quality of construction requires multiple inspections by trained inspectors to ensure use of the specified materials and proper workmanship. This process does not occur automatically, and home buyers and insurers have difficulty observing if a finished home was built to code. Hurricane Andrew struck Miami in 1992. South Florida was regarded at the time by as having one of the best wind codes in the country. Research after the hurricane, however, found that 25% of the damage was due to poor enforcement of the existing building code (Mileti 1999). A number of factors contributed to this, including the hiring of too few inspectors and approval of inferior materials and techniques as meeting the code. Andrew was hardly unique; poor enforcement of California's seismic code increased damage in 1994's Northridge Earthquake.

Economics and public choice suggest that the problems with public sector quality assurance will be systemic and irremediable (Holcombe 1995). Adopting the International Building Code is relatively inexpensive for a government, requiring merely the passing of a law or an ordinance. The costs arise in supplying high quality enforcement of these laws, just as assuring the quality of cars or furniture is costly for the private sector. Adopting a building code allows elected officials to appear to act on behalf of the public. The details of enforcement are far less visible and are costly: hiring properly trained inspectors, using higher quality materials, halting work while waiting for an inspection, redoing work of poor quality. The incentive always exists to relax on quality assurance. Without a profit incentive, government officials will not incur the costs of quality.

Building codes continue to be poorly enforced. The Insurance Services Office developed a Building Code Effectiveness Grading Scale (BCEGS) after the problems revealed by Hurricane Andrew. The scale assigns grades on a scale from 1 (best) to 10 (worst) based on administration, review of building plans, and field inspections for participating communities.[8] The enforcement of residential and commercial codes is graded separately. Nationally only 6 out of 19,000 rated communities currently have a score of 1 for their residential code, and only 16% receive a score of 3 or better, and this is just among rated communities; ISO does not report the number of communities which do not participate, and thus have no effective enforcement program. The Mississippi State Rating Bureau performs its own BCEGS ratings for communities in the state, based on the same type of criteria as the ISO grades. Figure 19.1 reports the distribution of current ratings, and com-

8 For details on the BCEGS ratings see: https://www.isomitigation.com/bcegs/what-why-when-and-what-do-i-do.html

munities across Mississippi also have a building code enforcement problem. For personal lines, no community currently has a rating better than 4, and half of all the rated communities have a rating of 99, described as "does not meet minimum criteria for BCEGS program.[9] Mississippians buying homes across the state probably presume that they have been built to code, but the public sector is actually providing no assurance of this.

Figure 19.1: Building Code Effectiveness Grades for Mississippi

	Personal Lines		Commercial Lines	
Category	Number	Percent	Number	Percent
1	0	0	0	0
2	0	0	0	0
3	0	0	1	1.2
4	11	13.6	11	13.6
5	7	8.6	8	9.9
6	12	14.8	13	16.0
7	4	4.9	6	7.4
8	4	4.9	4	4.9
9	1	1.2	1	1.2
10	1	1.2	1	1.2
99	41	50.6	36	44.4

Scores range from 1 (best) to 10 (worst), and 99 represents "does not meet minimum criteria for BCEGS program."

Source: Authors' counts using Mississippi State Rating Bureau BCEGS scores available at: https://www.msratingbureau.com/bcegs-manual

Mississippi passed its first state-wide building code in 2014. Instead of trying to improve public sector performance, a better approach would be greater reliance on private sector quality certification for buildings and homes. This could occur either through builder reputation or third party quality certification on the model of the highly successful Underwriter's Laboratory (Holcombe 1995). Some efforts toward market-based quality assurance for homes are underway. The Institute for Business and Home Safety's Fortified for Safer Living program includes a number of building features which go beyond the current code and protect against a range of natural hazards.[10] Home builders can participate in this voluntary program. Homes certified as built to the Fortified for Safer Living standards are eligible for a premium discount of up to 25% on MWUA policies.[11] The Mississippi Insurance Board also allows homeowners in a community without an effective building code enforcement program to hire an engineer or architect to certify construction of a new home to the standards of the current International Residential Code. This certification allows the home to receive the same premium discount available for a home built in a community with a BCEGS score of 1 (25% on MWUA policies).[12]

A second approach to encouraging mitigation has been to offer tax-funded subsidies or mandate insurance premium discounts for mitigation. Subsidies have frequently been funded out of the hazard mitigation component of Federal disaster assistance. The rationale for this set-aside has been that spending dollars on mitigation after today's disaster will reduce future government disaster assistance. Some states have also invested in mitigation; Florida and South Carolina have funded state subsidies for wind storm mitigation. Although many mitigation measures are efficient, politics distorts disaster assistance (Garrett and Sobel 2003) and could easily lead to inefficient mitigation selection.

9 The Mississippi BCEGS ratings are available at: https://www.msratingbureau.com/bcegs-manual.

10 For more information on the Fortified for Safer Living program see: https://disastersafety.org/fortified/

11 See https://www.msplans.com/mwua/wind-mitigation-programs

12 Ibid.

Insurance premium discounts are the key to efficient mitigation investments by property owners. But will the politicized process of insurance regulation select the proper discounts? The danger exists that excessive, mandated discounts for mitigation can become a form of hidden subsidy. Regulators could set risk-based rates for coverage, and then mandate excessive discounts, resulting in below market rates. Mississippi currently mandates premium discounts of up to 25% for properties with a BCEGS score of 1. Whether this is appropriate or not is a challenging question.

Market competition provides the best way to determine the proper discount for specific mitigation measures. Insurance companies need freedom to both charge premiums and discounts for mitigation as they see fit. Insurers rely on their own proprietary formulas for assessing risk and charging premiums, when not restricted via regulation. Competition will push insurers to offer discounts reflecting their estimate of the expected savings from mitigation instead of simply pocketing the savings from homeowners' and businesses' investments. Furthermore, insurers have no incentive to offer discounts for ineffective mitigation measures or discounts in excess of losses avoided. The selection of which mitigation and design features to incentivize, and by how much, will be far more efficient if left to profit-and-loss incentives than the political process.

Recovery

As a community gets past the immediate aftermath of a hurricane, tornado, or flood, as retailers reopen, the basic necessities of life are available again, utilities restored and debris removed, emphasis turns to the long-term task of rebuilding lives, businesses, and communities. Long term recovery involves two specific policy-relevant questions: whether residents and businesses will have adequate resources to rebuild, and whether individuals' efforts will be coordinated enough to enable community recovery.

Insurance should provide the bulk of the resources for rebuilding. Encouraging homeowners and businesses to be adequately insured, including coverage for alternate living expenses or business interruption loss, assumes primary significance. To encourage individual savings, in 2015 Mississippi established Catastrophe Savings Accounts allowing residents to make (state) tax-exempt deposits to cover an insurance deductible or self-insure their primary residence. Beyond markets, many people have a natural desire to assist disaster victims, both through charitable organizations and through our governments. Charitable organizations like Habitat for Humanity and Samaritan's Purse will build new homes for victims of natural disasters to assist with recovery. Most government long term assistance comes in the form of subsidized loans from the Small Business Administration or supplemental Congressional appropriations and will not be considered here. However, research after Katrina found that Mississippians rated federal government and state and local governments as two of the least effective categories of assistance (Chappell et al. 2007). Government can provide large dollar amounts of assistance but appears to provide less bang for the buck than voluntary sector.

Long term recovery planning is a task increasingly viewed as requiring coordination and planning undertaken by governments. FEMA provides guidance for such a process through the National Disaster Recovery Framework (Department of Homeland Security 2016), which "defines how the whole community, including emergency managers, community development professionals, recovery practitioners, government agencies, private sector, nongovernmental organization (NGO) leaders, and the public will collaborate and coordinate..." (DHS 2016, p.1) Presidential disaster declarations under the Stafford Act require such a planning process (DHS 2016, p.3), usually undertaken by local governments.[13] Whether

13 This of course presumes that government-led planning and coordination is necessary to effectively accomplish these recovery tasks, meaning that they cannot be coordinated through a decentralized, market based process. For an assessment of market failure claims for long term recovery planning, see Smith and Sutter (2017).

the planning contributes to timely recovery is unclear. Chamlee-Wright (2010) discusses long term planning in New Orleans after Katrina. The plan initially designated certain neighborhoods to not be redeveloped, interfering with these residents' efforts to begin rebuilding. The plan was subject to change, and by joining the planning process, residents could attempt to protect what presumably should be part of their property rights. At a minimum, the long-term planning introduced extra uncertainty and diverted residents' scarce time, energy, and resources from rebuilding. While required for Federally-declared disasters, substantial variation exists across communities in the extent of such planning, and whether the planning process restricts the exercise of property rights (Smith and Sutter 2013). Governments should focus on restoring their services after a disaster and allow residents, businesses, churches, and others to proceed with returning their lives to normalcy.

Policy Uncertainty and Natural Disasters

Economic decisions inevitably involve considerable, irreducible uncertainty. Market forces are beyond anyone's control and nearly impossible to predict, and they can cause wages or home prices to rise or fall or render business investments uneconomic. Government policy can itself be a source of uncertainty (Higgs 1997), making economic decisions even more risky. More significantly, the uncertainty due to government policy is frequently avoidable. Unfortunately, government policy often contributes to uncertainty after natural disasters in Mississippi, impairing response and recovery. This section considers two cases of disaster-related policy uncertainty.

The first is Mississippi's law against price gouging. Mississippi's law declares unjustified price increases after disasters illegal. The Attorney General's office periodically reminds (one might say threatens) businesses about price gouging after disasters.[14] Consequently, businesses trying to respond to demand and supply shocks must also guess whether a price increase might attract the ire of the Attorney General or local prosecutors. The consequences of guessing wrong provides an incentive for businesses not to incur the extra costs of trying to open immediately after a disaster. Research on business closures has found that variables like the severity of a disaster and a business' pre-disaster preparations do not explain why businesses remain closed (Webb, Tierney and Dalhamer 2000). One explanation for these findings could be uncertainty due state laws against price gouging.

Insurance regulation also generates uncertainty. After Katrina, Mississippi Attorney General Jim Hood filed lawsuits to force insurance companies to pay for storm surge losses. At a philosophical level, the Attorney General might have had a case: the winds of Hurricane Katrina blew water from the Gulf toward the coast, and this produced the devastating storm surge. But legally the argument went directly against the common understanding of the flood exclusion on homeowners' policies. Courts rejected the argument (Hartwig and Wilkinson 2010). If successful, the suit would have saddled insurers with billions of dollars in losses they had not been collecting premiums to cover. The effort demonstrated a willingness of state politicians to rewrite contracts to benefit their constituents. Trying to estimate losses on infrequent extreme weather events is challenging enough, but it becomes almost impossible if elected officials might then try to change the rules based on politics. The total coverage of the MWUA increased to $12 billion after Katrina (Mississippi Insurance Department 2015), reflecting the poor environment for insurance. Furthermore, the policy uncertainty in this case has also plausibly contributed to popular confusion. Five years after Katrina, 35 % of residents of Mississippi and Louisiana still thought that homeowners' insurance covered storm surge flooding (Hartwig and Wilkinson 2010).

14 See http://www.ago.state.ms.us/releases/attorney-general-issues-price-gouging-reminder/

Conclusion

Rising losses from extreme weather have been offered as evidence that human-caused climate change is already starting to occur. Such a conclusion is unwarranted because a number of studies have shown no time trend in normalized losses various from extreme weather, including hurricanes (Pielke et al. 2008), floods (Downton, Miller and Pielke 2005), and tornadoes (Simmons, Sutter and Pielke 2013). Damage normalizations control for changes in population and wealth in addition to inflation. With a larger population and greater wealth per capita than fifty or one hundred years ago and every corner of the nation vulnerable to some type of extreme weather, America will inevitably see more large dollar losses today. The evidence is clear: increases in the number of persons and value of property in harm's way explains rising damages from extreme weather (Pielke 2014). Each and every weather event causes more damages than in the past, and affects more individuals.

Increasing societal vulnerability explains why extreme weather causes more costly disasters. It does not follow, however, that prosperity requires minimizing our exposure to extreme weather. Such a goal would not increase prosperity. To see the fallacy in this line of thinking, the United States could reduce traffic fatalities to zero by banning cars and trucks, but this would make us poorer. Prosperity requires a balancing: accepting and possibly mitigating the risk when this makes sense, while not encouraging excessive exposure to risk.

The key to this balancing is ensuring that the persons who chose to live in disaster prone areas *also bear the extra costs of their choices*. Only when their taking risks is subsidized and paid for by others does the problem become excessive. Market processes and economic freedom accomplish this extremely well in most instances. Insurance can share the costs of losses in a mutually agreeable manner and provide an incentive to relocate economic activity unless the high risk areas provide a commensurate benefit. Insurance also provides an incentive to invest in mitigation when the benefits (losses avoided) exceed the cost. Home prices will also reflect higher quality construction able to withstand disasters.[15]

Prices and profits provide businesses an incentive to supply goods and services needed by victims of a disaster, while competition will keep prices as low as possible. The generosity of Americans as channeled by the charitable sector can fill in many of the remaining gaps (Skarbek 2014). Large scale shifting of the costs of extreme weather, and thus incentives to take on excessive exposure, typically results from government policies, like the suppression of risk-based insurance premiums.

Economic freedom not only leads to prosperity, it also reduces conflict between persons in society. People differ in their tolerance of risk. Economic freedom allows people to assume the risk from extreme weather consistent with their personal preferences. A person who is scared of tornadoes can build a safe room in their home capable of withstanding even an EF-5 tornado. The cost of a safe room is considerable, but when people pay for their own decisions, one person's fear (or fearlessness) does not spill over to others. By contrast, government subsidies allow some peoples' choices to a financial burden on others, creating conflict. Subsidies almost always come with restrictions on personal choice to try to constrain such costs. We cannot stop extreme weather or eliminate its cost, but market-based policies can help to promote prosperity in Mississippi, making it more prosperous, resilient, and harmonious.

15 For documentation of price differentials and for safer construction, see Simmons, Kruse, and Smith (2002), Simmons and Sutter (2007), Sutter and Simmons (2007), and Dumm, Sirmans, and Smersh (2011, 2012).

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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."

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"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."

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"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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