Promoting Prosperity in Mississippi

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Russell S. Sobel
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# Promoting Prosperity in Mississippi

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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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The Citadel

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Why Are Taxes so Taxing?

Brandon N. Cline and Claudia R. Williamson
High taxes are tremendously costly to a state’s economy. Countless studies find that higher taxes significantly lower economic growth and reduce standards of living. This is partly due to the fact that the burden taxes place on an economy is not simply the amount of taxes collected. Instead, taxes cost an economy much more than the revenue they generate. These additional costs come in many forms, including enforcement costs, administrative costs, compliance costs, and market inefficiencies. Often overlooked are the resource costs associated with trying to avoid taxes. Individuals, groups, and businesses spend time, effort, and dollars, before a tax is implemented (lobbying) and after a tax is in place (evasion), trying to minimize or avoid paying taxes. This chapter explains the true costs of taxation, reviews the empirical literature on taxation and growth, and examines Mississippi’s overall tax burden relative to other states.1

**Why Taxes Are So Costly**

When a tax is levied on one specific group of individuals, such as consumers, this does not mean that they will bear the actual burden of the tax. In economics, this concept is known as ‘tax shifting’. A tax imposed on businesses, for example, can lead to higher prices for consumers. If so, consumers may bear more of the burden of the tax even though the tax is levied on businesses. Similarly, a tax imposed directly on consumers of a specific product will reduce demand for that product, shifting some of the tax burden back onto the businesses that produce the taxed product.2

We often say ‘businesses’ or ‘groups’ pay taxes, but one thing is definite: all tax burdens are paid by individuals. Only individuals bear tax burdens since all groups or entities, including businesses, are comprised of individuals. A ‘business’ does not bear the tax burden; instead, business taxes fall on the owners, suppliers, employees, and customers of those businesses.

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1 This chapter is based on Ross and Hall (2007), Ross, Hall, and Calcagno (2009), and Hall and Hoffer (2012).
2 For additional information on where the actual burdens of different taxes fall, see Pechman (1985) and Fullerton and Rogers (1993).
In 2013-2014, state and local governments around the country collected over $1.49 trillion dollars in combined tax revenue. Figure 4.1 illustrates that Mississippi’s combined state and local government tax revenue amounted to almost $10.5 billion dollars, with over $7.5 billion being levied at the state level. Over 62% of the state tax revenue was generated from sales tax, 22% from individual income tax, and 7% from corporate income tax. Local governments’ main revenue source was from property taxes (93.5%). Combined, state and local tax revenue was 46% sales tax, 26% property tax, 16% individual income tax, and 5% corporate income tax.

**Figure 4.1: Mississippi 2013-2014 Tax Revenue by Source**

<table>
<thead>
<tr>
<th></th>
<th>State</th>
<th>Local</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>$ 7,574,515,000</td>
<td>$ 2,907,640,000</td>
<td>$ 10,482,155,000</td>
</tr>
<tr>
<td>Property</td>
<td>$ 25,103,000</td>
<td>0.33%</td>
<td>26.17%</td>
</tr>
<tr>
<td>Sales and gross receipts</td>
<td>$ 4,704,955,000</td>
<td>$ 2,718,079,000</td>
<td>$ 7,423,034,000</td>
</tr>
<tr>
<td>General sales</td>
<td>$ 3,304,632,000</td>
<td>43.63%</td>
<td>45.90%</td>
</tr>
<tr>
<td>Selective sales</td>
<td>n/a</td>
<td>0.00%</td>
<td>31.53%</td>
</tr>
<tr>
<td>Motor fuel</td>
<td>$ 409,836,000</td>
<td>5.41%</td>
<td>3.98%</td>
</tr>
<tr>
<td>Alcoholic beverage</td>
<td>$ 42,402,000</td>
<td>0.56%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>$ 146,050,000</td>
<td>1.93%</td>
<td>1.39%</td>
</tr>
<tr>
<td>Public utilities</td>
<td>$ 4,384,000</td>
<td>0.06%</td>
<td>0.58%</td>
</tr>
<tr>
<td>Other</td>
<td>$ 797,651,000</td>
<td>10.53%</td>
<td>80.20%</td>
</tr>
<tr>
<td>Individual income</td>
<td>$ 1,667,344,000</td>
<td>22.01%</td>
<td>15.91%</td>
</tr>
<tr>
<td>Corporate income</td>
<td>$ 526,302,000</td>
<td>6.95%</td>
<td>5.02%</td>
</tr>
<tr>
<td>Motor vehicle license</td>
<td>$ 154,677,000</td>
<td>2.04%</td>
<td>1.48%</td>
</tr>
<tr>
<td>Other taxes</td>
<td>$ 496,134,000</td>
<td>6.55%</td>
<td>5.53%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2014).

Although these revenue numbers are large, what they actually exclude are the many distortions in economic activity and individual behavior that occur because of taxes. Figure 4.2 highlights these additional costs. The direct cost of taxation is the observable accounting cost—individuals who pay a tax have less money to spend elsewhere. The actual tax revenue collected only measures this reduction in private economic spending. There are, however, other significant indirect costs.

The first hidden cost stems from the political process. The indirect costs of lobbying and rent-seeking (expending resources to capture a ‘rent’) reflect the resources devoted by individuals attempting to alter tax policy in their favor. Individuals and special interest groups use the political process to fight against the imposition of new taxes, to resist increases in tax rates, and to reduce or repeal specific taxes. They do so by expending substantial time and money to avoid new taxes or rewrite existing tax codes in a way to reduce their tax bill.

To help illustrate this point, let’s suppose that the legislature is considering a proposal to levy a new tax on unhealthy fast food. McDonald’s calculates this new tax will cost the company $2 million. Clearly, it makes sense that McDonald’s would be willing to spend up to $2 million to fight this tax. To do so, McDonald’s might hire lobbyists, make campaign contributions, attract media attention, or fight the legality of the tax in court. Even if the tax is imposed, McDonald’s will find it beneficial to continue to devote resources toward repealing the tax, reducing it, or securing an exemption. Resources spent in this manner are wasteful. As discussed in Chapter 3, resources used for lobbying are resources that are taken away from productive activities, such as investing in new capital, hiring additional workers, and on the job training. Using the terminology from Chapter

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3 U.S. Census Bureau, available at: https://www.census.gov/govs/local/.
3, this is ‘unproductive entrepreneurship’. It is critical to realize that these hidden costs are present even if the tax is ultimately not imposed. Merely the threat of imposing new taxes creates these indirect costs.

To see the magnitude of tax policy lobbying, one only needs to peruse the Mississippi Department of Revenue’s website as it is littered with numerous exemptions to specific taxes. Using Sobel and Garrett’s (2002) estimated state-level costs of rent-seeking, between 3.8-5.4% of tax revenue, we can approximate the indirect costs of lobbying. In the 2013-2014 period alone, Mississippi incurred additional indirect costs of $398 to $566 million in wasted resources devoted to altering policy. To reduce such costs, many economists advocate broad-based uniform taxes instead of allowing rates and exemptions to vary among individuals, businesses, and different goods and services (Holcombe 2001). With uniform taxes, one particular group or industry is unable to reduce their individual tax bill; hence, any particular group or industry is less likely to expend resources lobbying for tax policy changes. On the contrary, a specific tax that explicitly targets one industry, such as Mississippi’s $0.09 per cigarette tax or a soda tax that has been considered in the Magnolia State, promotes larger indirect rent-seeking costs.

Figure 4.2: The Cost of Taxation

![Diagram showing the cost of taxation](image)

Notes: *Cost per dollar of tax revenue in parentheses. Based on studies of federal tax revenue, except in the case of rent seeking, which is based on the average of all state governments.

Sources: (1) Based on author calculations from estimates of state capital rent seeking in Sobel and Garrett (2002); (2) Feldstein’s (1999) estimate of the excess burden from the federal income tax; (3) Moody et al. (2005); (4) Payne (1993).

Moreover, unlike private markets in which you must pay for a good or service in order to receive benefit from it, with government, it is possible to receive benefits from government programs while making others pay for them. As a result, there will be additional lobbying costs associated with fighting over which

promoting prosperity in Mississippi programs will be funded from government expenditures. For example, Continental Tire successfully lobbied state lawmakers for $600 million in incentives to locate in Hinds County (more examples in Chapter 3). In order to secure this funding, they had to compete with other groups who also wanted to receive government funding. The sheer existence of this opportunity to rent-seek and alter tax codes, results in the allocation of government resources to those with the most political power, not those in need. Thus, the political process leads to funding programs that are not always welfare enhancing or helping individuals who are most in need (Holcombe 2001).

So far, we have covered the direct costs of taxation and the indirect lobbying costs associated with the political process. Unfortunately, we are not done. The tax itself creates other indirect costs, as shown in Figure 4.2. These include behavioral changes, compliance costs, enforcement costs, and administrative costs.

The first of these costs, behavioral changes, is the distortions created when producers and consumers respond to the tax. Economists refer to these costs as ‘deadweight loss’ or the ‘excess burden’ of taxation—a strange way of saying that taxes cause markets to be inefficient. When an activity is taxed, individuals will substitute away from the taxed activity to other activities that are now relatively cheaper. These inefficiencies can be quite significant, ranging from 32% to 52% of tax revenue.7

For example, let’s assume that Mississippi imposes a new $100 tax on each candy bar sold in the state, and this results in candy bar sales falling to zero. No tax revenue is collected, but this tax is clearly costly to the state. The producers of candy bars and the consumers who like eating them are now worse off. This tax creates a wedge between producers and consumers who otherwise would be selling and buying candy bars at a price satisfactory to both sides. When these transactions do not take place because of higher prices due to taxes, there is an economic loss to society. The forgone transactions result in unseen market inefficiencies.

Candy bar fanatics may find ways around the tax. Instead of forgoing the purchase of candy bars, these fanatics change where they make their purchase, or if possible, where they live. Mississippians living on the Alabama border will simply drive across the state line to purchase candy bars; real Snickers addicts may move to another state. These reactions to taxes must be included in the costs of taxation. The easier it is for consumers to buy substitute goods, move, or shop in other states, the larger are these indirect costs.

Businesses also have an incentive to change their behavior because of taxes. When a tax reduces the profitability of one particular use of a business’s resources, it means that other uses have become relatively more profitable by comparison. The business will react accordingly, producing in areas that are not subject to the tax. In our candy bar example, Mississippi candy makers will shift from making candy bars to other tasty treats like fudge, pralines, or caramels. This shift, however, further increases the behavioral costs of taxation. Similar to consumers, firms can also move to other states that impose lower taxes. Again, indirect behavioral costs will be larger the easier it is for businesses to alter their behavior in response to a tax.

The final indirect costs are the compliance, enforcement, and administrative costs. Taxes must be administered and enforced by a taxing authority, which results in additional costs. Ironically, these are typically the least expensive indirect costs, approximately 3% of tax revenue (Payne 2003). Compliance costs, including time spent book keeping, filling out tax forms, hiring accountants to deal with changes in tax laws, etc., are considerably much higher—about 22.2% of tax revenue (Moody et al. 2005).

Collectively, these indirect costs add up to $0.60 to $0.82 for every $1.00 of tax revenue collected. In other words, one tax dollar costs the Mississippi economy between $1.60 and $1.82. These estimates have significant implications when weighing the costs and benefits of undertaking government funded projects. For example, a project with estimated benefits of $150 million that requires $125 million in

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7 Behavioral costs are estimated to range from $0.32-$0.52 based on Feldstein’s (1999) estimate of the excess burden from federal income tax.
taxes appears to be a worthy undertaking; however, once the additional indirect taxation costs are taken into consideration, this project is not an efficient investment.

The true cost to the Mississippi economy to collect $10.5 billion tax dollars is $16.7 to $19 billion.

**Comparing Mississippi’s Tax Burden**

In 2014, Mississippi’s total tax bill averaged about $3,500 per person. This was well below the average across all states, which was approximately $4,675 per person. Compared to its neighbors, Mississippi’s per capita tax bill is lower than that of Arkansas and Louisiana by $250 and $380, respectively. However, Mississippi’s per capita taxes are considerably higher than Alabama ($3,000 taxes per person) and Tennessee ($3,100 taxes per person).\(^8\)

This is not, however, the best measure of the tax burden because some states are wealthier than others. Instead of measuring tax rates or taxes per person, a more appropriate measure of the tax burden is tax revenue as a percent of state income. Individuals or businesses may pay a lower tax dollar amount in Mississippi, but they also receive less income. In order to take this into account, we calculate taxes as a share of personal income.

According to the Tax Policy Center, Mississippi’s total tax burden ranks 20th compared to other states. Although Mississippi does better than a little more than half of the states, Mississippi’s tax burden is higher than all surrounding states. Alabama, Arkansas, and Tennessee are all in the top ten of states for lower tax burdens, with Tennessee ranking 3rd in the nation.\(^9\) Only New Hampshire and Florida have lower tax burdens as a share of personal income.

Figure 4.3 shows Mississippi’s taxes as a share of personal income relative to the overall U.S. average. The first set of columns show state taxes only, while the second set shows state and local taxes combined. A positive number in the difference column indicates that Mississippi’s taxes are higher than the U.S. average (in bold).

<table>
<thead>
<tr>
<th>State Only</th>
<th>State and Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MS</strong></td>
<td><strong>U.S. Avg.</strong></td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>7.41%</td>
</tr>
<tr>
<td>Property</td>
<td>0.02%</td>
</tr>
<tr>
<td>Sales and gross receipts</td>
<td>4.60%</td>
</tr>
<tr>
<td>General sales</td>
<td>3.23%</td>
</tr>
<tr>
<td>Selective sales</td>
<td>1.37%</td>
</tr>
<tr>
<td>Motor fuel</td>
<td>0.40%</td>
</tr>
<tr>
<td>Alcoholic beverage</td>
<td>0.04%</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>0.14%</td>
</tr>
<tr>
<td>Public utilities</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other</td>
<td>0.78%</td>
</tr>
<tr>
<td>Individual income</td>
<td>1.63%</td>
</tr>
<tr>
<td>Corporate income</td>
<td>0.52%</td>
</tr>
<tr>
<td>Motor vehicle license</td>
<td>0.15%</td>
</tr>
<tr>
<td>Other taxes</td>
<td>0.49%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2014)

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According to this measure, Mississippi's state tax burden is 7.41% of income—a difference of 1.55 percentage points, which is significantly higher than the U.S. average. This is a sizeable difference. Mississippi's state taxes are over one-fourth higher than the average state. When examining tax revenue sources, only four fall below the U.S. average, state property taxes, public utilities, income taxes, and motor vehicle license taxes. Corporate income tax, important for economic growth, is higher in Mississippi than the U.S. average.

When local taxes are included, the result is basically the same, with the exception of ‘other taxes’, which is now slightly below the U.S. average. The total tax burden in Mississippi remains higher than the U.S. average, although the difference is now smaller. This reduction in the difference results from Mississippi's relatively low individual income taxes and residential property taxes, and that many other states impose local sales taxes at higher rates than Mississippi.

**Run For The Border**

Earlier we described how the behavioral costs of taxation increases the easier it is for individuals and businesses to avoid the tax. According to the U.S. Census, 38.32% of the state's population lives in counties bordering other states. This has increased from 36.43% from the 2000 Census.

Mississippi is a relatively small state (48,430 sq. mi), bordering four other states. Jackson, MS, the state's capital and largest urban center, is located in the middle of the state. However, one can be in Louisiana in about an hour's drive (about 60 miles) or Arkansas in about 2 hours (about 120 miles). In addition, two of Mississippi's four Metropolitan Statistical Areas (MSAs), Memphis and Gulfport-Biloxi-Pascagoula, border or cross over into other states. A third MSA, Hattiesburg, is within 30 minutes of either Alabama or Louisiana. This implies that the indirect costs of taxation can be quite large in Mississippi, since the majority of the state's consumers, producers, and workers can easily cross the border to escape the state's high taxes.

We have seen that Mississippi’s tax burden is higher than the average state, but let’s examine more closely how Mississippi compares to its neighboring states. Figure 4.4 lists taxes as a percent of personal income for Mississippi, Alabama, Arkansas, Louisiana, and Tennessee.

When only state taxes are included, Mississippi’s tax burden is higher than that of three of the four of its neighboring states. Arkansas has a slightly higher tax burden by 0.60. Alabama, Louisiana, and Tennessee all have drastically lower tax burdens, averaging over 2.5 percentage points less than Mississippi. When both state and local

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**Figure 4.4: Taxes as a Percent of Personal Income: Mississippi versus Neighboring States, 2014**

<table>
<thead>
<tr>
<th>State Only</th>
<th>State and Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Burden %</td>
<td>Difference from MS</td>
</tr>
<tr>
<td>of Income</td>
<td></td>
</tr>
<tr>
<td>Alabama</td>
<td>5.19%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>8.01%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>4.99%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>7.41%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>4.48%</td>
</tr>
<tr>
<td>Average</td>
<td>-1.74%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2014) and Bureau of Economic Analysis (2017)

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10 The purpose of MSAs are to identify areas of high economic and social interaction, where component counties must have either 25 percent of employed residents commuting to the central county or at least 25 percent of the employment filled by a resident of the central county (Hammond 2003).

11 Source: [https://www2.census.gov/geo/maps/metroarea/stcbsa_pdf/Feb2013/cbsa2013_MS.pdf](https://www2.census.gov/geo/maps/metroarea/stcbsa_pdf/Feb2013/cbsa2013_MS.pdf)
taxes are included, Mississippi’s tax burden is higher than all surrounding states. On average, Mississi-
pipi’s tax burden is 1.48 percentage points higher than neighboring states.

Figure 4.5 summarizes individual income, corporate income, and sales tax rates comparing Mississippi and sur-
rounding states. Missis-
pipi does not have a strict tax advantage in individual income tax rates or sales tax rates. Mississippi’s top mar-
ginal income tax rate is lower than Arkansas and Louisiana; however, it ties Alabama at 5%. Tennessee has a clear advantage here as it does not tax earned income and only taxes dividends and interest income at 5% (to be phased out by 2022).

Mississippi ties Tennessee with the highest state sales tax rate of 7%; however, Tennessee allows food to be taxed at a lower rate and Mississippi does not. In fact, Mississippi and Alabama are the only two states in the country that do not allow food tax exemptions. Alabama and Louisiana both have much lower state sales tax rates than Mississippi. State sales tax rates, however, can be misleading due to local sales tax options. Alabama and Louisiana allow local sales tax up to 7% on top of the state sales tax rate. Mississippi caps local sales tax at 1%. Arkansas is capped at 5.1%. All of Mississippi’s neighboring states’ combined state and local sales tax rate is, on average, over 9%, while Mississippi’s is 7.1%. In fact, Loui-
siana has the highest combined sales tax rate in the country at 10%. This suggest that Mississippi may actually be more competitive in sales tax rates, implying that residents in bordering states, particularly Louisiana, have an incentive to shop in Mississippi.\(^{12}\)

Mississippi has the lowest top marginal corporate income tax rate (5%) compared to surrounding states. Arkansas starts taxing corporate income at a lower rate than Mississippi (1% compared to 3.05%), but it has a higher top marginal rate of 6.5%. Louisiana has the highest corporate income tax rate of 8%. Only looking at corporate income tax rates can give the impression that Mississippi does not tax businesses too heavily; however, as shown in the next chapter, Mississippi uses other additional businesses taxes that are costly to the state’s economy.

### Taxation and Economic Growth: The Empirical Evidence

A considerable amount of economic research is devoted to understanding the association between taxes and economic growth. In general, these studies conclude that while some level of government can support capitalism, and in the process generate growth and prosperity, governments almost always expand well beyond the optimal level. This expansion in government increases the tax burden on its citi-
zens and, perhaps worst of all, handicaps economic development.

Vedder and Gallaway (1998), for example, illustrate that the optimal amount of state and local spending to maximize economic growth is 11.42% of Gross Domestic Product (GDP). In 2014, Mississippi state and local spending accounted for almost 27% of Mississippi’s GDP, or about $12 million above the opti-

Focusing on taxes specifically, a large literature shows a strong negative association between taxes and economic growth. Mullen and Williams (1994) find that higher marginal income tax rates hurt economic growth. Helms (1985) finds that taxation to fund transfer payments significantly retards economic growth. Bartik (1992) concludes that state and local taxes have a consistently negative effect on state and city economic growth.

A study by Holcombe and Lacombe (2004) provides strong evidence of the cross-border effect of taxes. Through a comparison of counties sharing a state border, they control for geographic similarities such as climate, workforce, and proximity to markets, thus leaving only differences in state policy. Not surprisingly Holcombe and Lacombe find that states raising their income tax rates faster than their neighbors had slower economic growth, leading to an average decline in per capita income of 3.4%.

Besci (1996) examines how state and local taxes affect state economic growth. He finds a significant negative relation between state marginal tax rates and state growth from 1961 to 1992. More recently, Poulson and Kaplan (2008) find that higher marginal tax rates have a negative impact on economic growth, and states that rely more on an income tax instead of alternative taxes to generate revenue experience lower growth.

Plaut and Pluta (1983) find high taxes have a negative effect on employment. Interestingly, they find a positive relationship between property taxes and industrial growth. They hypothesize that firms prefer locally-dominated tax systems to state-dominated tax systems (like Mississippi) because the benefits related to the high local property taxes are likely to accrue locally. Conversely, firms may avoid states where most taxes are levied at the state level since the link between taxes paid and benefits received from the firm’s perspective is not clear. The link between business taxes and location decisions is explored in Chapter 5.

Taxes not only impact where businesses locate, but also where people locate. If taxes are too high relative to the benefits received from government spending, people will move. Cebula (1974) finds that migrants tend to move to areas with low property tax levels. Conway, Smith, and Houtenville (2001) look at migration by elderly Americans and find that elderly migration is motivated by low personal income taxes and estate taxes. Cebula (2009) updated his earlier work to examine the 2000-2005 period. He finds similar results, namely that individuals during this period ‘voted with their feet’ and were more likely to move to areas with lower tax burdens.

**Conclusion**

The purpose of this chapter is to explain the true costs of taxation on the Mississippi economy, and to explore how Mississippi’s taxes compare to its neighbors and the country. According to the best economic estimates, each dollar of tax revenue costs the Mississippi economy somewhere between $1.60 and $1.82. In addition, almost every measure of tax burden indicates that Mississippi places itself at a competitive disadvantage in attracting businesses and households when compared to other states.

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13 State GDP in 2014, according to the Bureau of Economic Analysis (2017), is $104,284,000,000. State and local government expenditures is $27,841,610,000, according to the U.S. Census. For a more recent look at the size of government and growth, see Taylor and Brown (2006).
14 Since 1981, the size of Mississippi’s government has increase over 40% (Source: Economic Freedom of North America, online: https://www.fraserinstitute.org/studies/economic-freedom-of-north-america-2016).
15 From Figure 4.1, over 72% of Mississippi’s total tax revenue is generated at the state level. This is significantly higher than the U.S. average of 58%, indicating that Mississippi is at a competitive disadvantage.
Empirical studies have a long history of consistently finding that state taxation hinders development and economic growth by constraining the forces of capitalism. To promote economic growth, Mississippi must find ways to significantly lower its overall tax burden. The next chapter will explore several specific tax reforms that can help accomplish this goal.

References


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.
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.
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