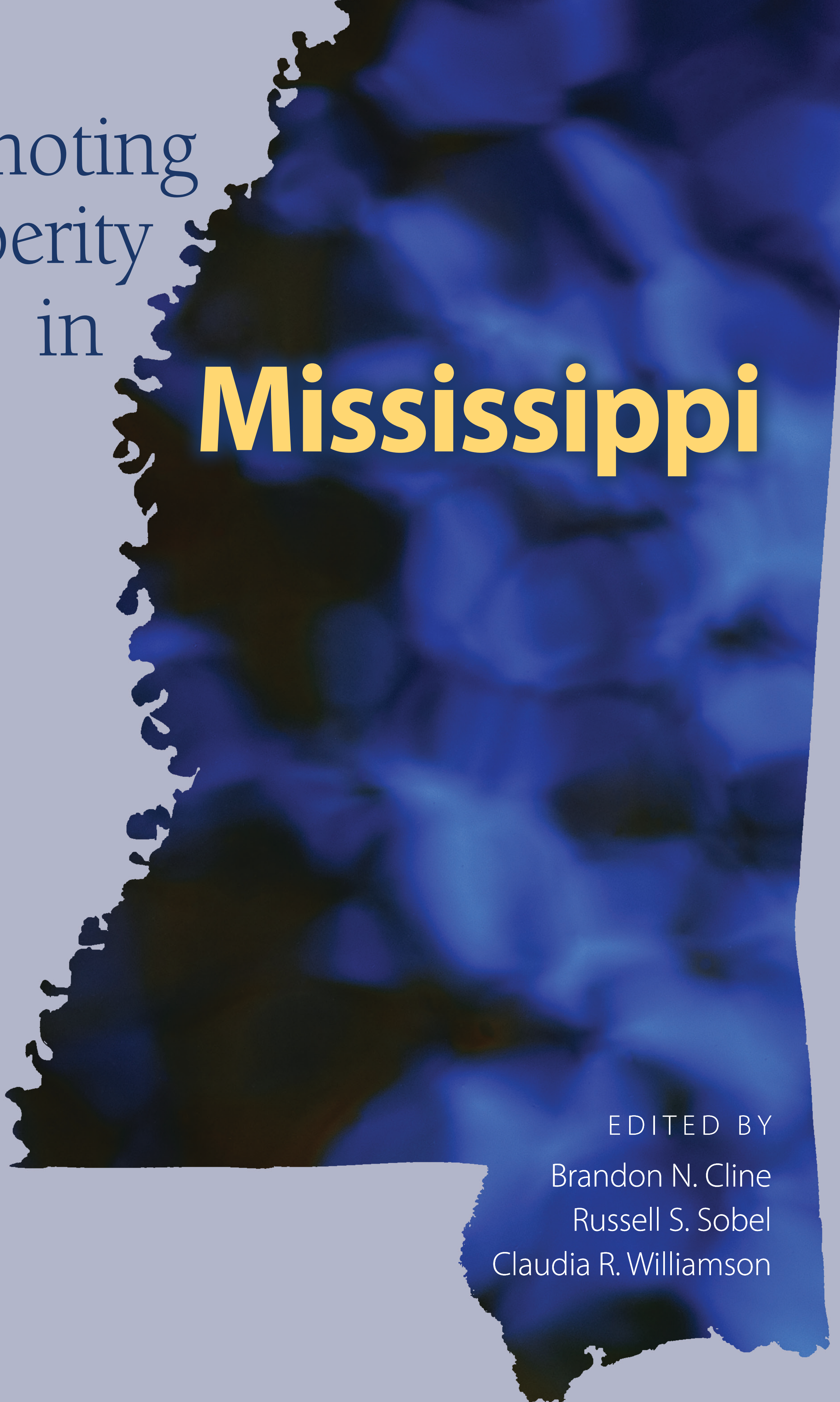
Promoting Prosperity in Mississippi



EDITED BY
Brandon N. Cline
Russell S. Sobel
Claudia R. Williamson

Promoting Prosperity in Mississippi

EDITORS:

Brandon N. Cline
Mississippi State University

Russell S. Sobel
The Citadel

Claudia R. Williamson
Mississippi State University

Published by the
Institute for Market Studies at Mississippi State University

MISSISSIPPI STATE UNIVERSITY™
INSTITUTE FOR MARKET STUDIES

admin@ims.edu
www.ims.msstate.edu

Published by the
Institute for Market Studies at Mississippi State University

MISSISSIPPI STATE UNIVERSITY™
INSTITUTE FOR MARKET STUDIES

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.

Institute for Market Studies, Mississippi State, MS
admin@ims.edu • www.ims.msstate.edu

Nothing in this publication should be construed as an attempt to aid or hinder passage of any legislation.

Book design by Finney Creative, Inc. © 2018

Printed in the United States of America

ISBN 978-1-7320353-0-0

Promoting Prosperity in Mississippi

Edited by Brandon N. Cline,
Russell S. Sobel, and
Claudia R. Williamson

TABLE OF CONTENTS

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!

Brandon N. Cline, Ph.D.
Associate Professor of Finance
Mississippi State University

Russell S. Sobel, Ph.D.
Professor of Economics and Entrepreneurship
The Citadel

Claudia R. Williamson, Ph.D.
Associate Professor of Economics
Mississippi State University

6

"Selective Incentives," Crony Capitalism and Economic Development

Thomas A. Garrett and William F. Shughart II

6

“Selective Incentives,” Crony Capitalism and Economic Development

Thomas A. Garrett and William F. Shughart II

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, *in his local situation*, judge much better than any statesman or lawgiver can do for him. (Smith, [1776] 1982, vol. 1, p. 456; emphasis added)[1]

Introduction

The answer to the important question of why the economic development trajectories of some U.S. states lag behind those of others is the same as the answer to the question of why some nations are rich and others are poor. The keys to prosperity have been understood for more than two centuries (Smith, [1776] 1982): well-defined and -enforced private property rights, adherence to a rule of law whereby all persons can expect equal treatment, and limited government interference in the lives of responsible men and women, including their interactions within free and open marketplaces. As was discussed in detail in the first three chapters, the evidence supporting that conclusion is overwhelming.

Nevertheless, governors and legislatures in virtually every U.S. state (and many national governments around the globe) seem to think that stimulating economic development requires offering “incentives” to the owners of some business enterprises, especially high-profile corporations, to locate their headquarters, plants, or other facilities within their borders. The reasoning underlying these programs is that most

1 Quoted in Hayek ([1960] 2011, p. 225, footnote 16), emphasizing what Hayek in the same volume (pp. 224–225) and elsewhere (e.g. Hayek, 1945) calls the “often unique knowledge of the particular circumstance of time and place” that cannot be comprehended by a single human mind or even by economic development agencies and the consultants who prepare economic impact studies for them.

companies have a menu of geographic options available to them when contemplating relocating existing facilities or building new ones. Incentives in the form special tax breaks and other financial benefits (such as additional public spending on site preparation, infrastructure, and job training programs) therefore are thought necessary to lure them to one place rather than another. The direct benefits claimed for these public "investments" are new (and frequently higher paying) jobs for residents of the state or region, along with more tax revenue for the public sector (both local and state), as the incomes of employees and the businesses that hire them add to the tax base. The indirect effects of the taxpayer-financed incentives, also measured in terms of additional employment opportunities and additional tax receipts, are traced to the activities of suppliers of the new plant that co-locate in the same area. Other businesses (grocery stores, restaurants and dry cleaners, for example) that relocate or expand their operations to cater to the families of the managers and employees who move nearby the new plant are said to be economic development benefits induced by incentive programs.[2]

This chapter evaluates selective incentives in general and for the State of Mississippi in particular. Indeed, as we shall see, Mississippi led the nation (and, perhaps, ignited an interstate incentives' arms' race) by adopting the Balance Agriculture with Industry (BAWI) plan during the Great Depression (Cobb 1993). Our analysis reaches several conclusions.

First, because consumers largely are indifferent about the points of origin of the goods they buy – they're more interested in price and quality (getting a good deal) – whatever time, money and effort are spent by the public sector in attracting a company to one state rather than another are wasted from society's perspective. Taxpayer-financed incentive programs are a form of rent seeking (Tullock 1967) that does not create wealth, but rather redistributes it geographically.[3] Policymakers view this geographical redistribution of wealth to their state as a benefit, but, as discussed in this chapter, because its costs exceed its benefits, such redistribution actually slows economic growth and makes Mississippi less prosperous.

Second, selective incentive programs are very good examples of Frederic Bastiat's (1850) famous essay titled "That Which is Seen, and That Which is Not Seen." The new facilities, infrastructure upgrades and new jobs bankrolled by the incentives are highly visible to voter-taxpayers and, hence, allow politicians to claim credit for attracting them to the state and thereby garnering more political support for themselves on Election Day. As an example, it is often the case even today that all of the workers employed at a new plant are counted as the number of jobs created by targeted incentive programs, despite the fact that many of the new hires already had jobs in the state and moved to the new plant for better pay or better working conditions. A state-sponsored incentive program should be credited only with jobs filled by interstate migrants or by people who previously were unemployed and living in the state (Peavy 2007; Hicks and Shughart 2010).

Furthermore, many people (Bastiat called them "bad economists") fail to see the less visible negative consequences of targeted incentive programs. One of these are the jobs lost or not offered by existing businesses because of the higher taxes required to finance the subsidies, along with a corresponding reduction in private consumption spending. Even if the incentives are paid for in whole or in part by borrowing (public bond issues), other public spending programs necessarily will be shortchanged as present or future tax revenue is redirected to fulfill the promises made to the owners of the new facility. Another

2 It is important to recognize that additional tax revenue is at best a zero-sum transfer from the private sector to the public sector. While revenue may be a benefit to the public treasury, it is a cost to taxpaying individuals and businesses.

3 As discussed in chapter 3, selective incentive programs trigger rent seeking – efforts devoted to the pursuit of (usually) artificially created returns in excess of costs – at three levels: (1) governors and state economic development officials compete with one another to lure firms to their own jurisdictions, (2) mayors and other elected politicians, e.g., county supervisors, compete to entice firms to select plant sites in their local area and (3) firms looking for new locations play states and localities off against one another to gain the largest possible incentive package. Existing businesses also seek special treatment from time to time by threatening to move to another jurisdiction unless demands for tax breaks and other benefits are met.

consequence is that selected incentives can harm businesses that do not receive a government subsidy – these firms may lose workers to the incentivized firm (called a displaced worker effect),[4] may have to pay higher wages to those who remain in their current jobs, or both.

Third, while it is unusual for states to evaluate their incentive programs after the fact, that is, to ask whether the estimated benefits in terms of employment and tax revenue gains actually materialized once the subsidized firm is up and running, the evidence we present points strongly to the conclusion that they do not pass a benefit-cost test. In other words, selective incentives are forms of crony capitalism in the sense that, while obvious benefits are provided to the firms receiving them, incentives reduce social welfare overall because non-beneficiaries (taxpayers, the owners of existing businesses) demonstrably are made worse off. Incentive programs may be business-friendly for the recipients of taxpayer-financed largesse, but they are not market friendly. Incentives may change the mix of economic activity in a state (in favor of the firms and industries that the incentives target), but they likely reduce activity in the state's economy as a whole, thereby slowing, not promoting economic development.

Hicks and Shughart (2010) summarize nine previously published peer-reviewed studies of the economic effects of selective incentives to influence the location decisions of private business enterprises. The common finding is that taxpayer-financed subsidies to targeted firms generate either no or quite small (and often temporary) impacts on employment in the county, region or state offering them. When such incentive packages succeed in luring a business to a new location, the cost per job created is extraordinary high, frequently much more than the new employees will earn in a given year. The authors then examine the impact of West Virginia's $35 million grant to Ohio County, announced in 2003, to help attract Cabela's, a well-known retailer of hunting, fishing, and camping gear, to the area. Public funds from the state for infrastructure improvements and other targeted benefits brought the total value of the incentive package to $120 million (Hicks 2007), but no impact on employment in Ohio County could be detected.

This chapter is organized as follows. The next section summarizes Mississippi's adoption of BAWI, its first-in-the-nation attempt to jumpstart economic development in the midst of history's worst economic collapse. Although the Balance Agriculture with Industry program superficially was successful in luring manufacturing firms to relocate to Mississippi from high-wage northern states, it is far from clear that BAWI's costs exceeded its benefits. We turn next to three case studies of incentive packages financed by Mississippi's taxpayers, the first being a public subsidy initiative that convinced Nissan Motor Company to build a new vehicle assembly plant in Canton (Madison County), which opened in May of 2003. We then summarize two more recent selective incentive packages offered to Toyota Motors and Continental AG, a tire manufacturer. We refer along the way to the by-now extensive economics literature, which finds in general that targeted incentive programs rarely deliver their promised benefits or do so only at very high costs per job created.

The chapter's final section recapitulates what has gone before and suggests policy reforms. These reforms include abolishing the Mississippi Development Authority and shifting to a more market-friendly set of economic development initiatives. These may include cutting business and individual income tax rates across the board to encourage capital investment, expansion, and job creation by existing Mississippi firms as well as relocations to the state by out of state firms looking for new places to do business. The hallmark of crony capitalism is cozy relations between politicians and the managers of (often) large, high-profile companies that receive favorable treatment from government officials in return for campaign contributions and other forms of political support for their friends who hold public office. Cronyism breeds corruption

4 The people most likely to be hired by the subsidized plant are those who already are employed, who have the skills and on-the-job experience necessary to step into the new position. Individuals who currently are unemployed, especially those who have been for a long time, will find it much more difficult to convince the new employer to put them on the payroll.

because it allows powerful politicians to distribute valuable benefits to a few influential private sector allies; it allows those allies to promote the careers of the hands that feed them at taxpayers' expense. Getting rid of targeted incentive programs means no political favoritism and makes it possible for all business enterprises, be they large or small, old or new, to prosper and promote prosperity in Mississippi.

The Inception of Crony Capitalism in Mississippi

During the Great Depression of the 1930s, the state government of Mississippi for the first time became actively involved in promoting economic growth and industrial development by adopting a Balance Agricultural with Industry (BAWI) plan.[5] That plan, approved by the state legislature in the Mississippi Industry Act of 1936, gave local governments the authority to seek out and entice industrial companies in high-wage northern states to relocate and build new plants in Mississippi (Cobb 1993) through the offer of subsidies, grants, and loans. . BAWI was the first plan of its kind in the nation, and served as the precedent for other state governments' future involvement in their own economic development activities that continues to this day. The goal of BAWI was simple - by taking steps to expand the size of the industrial sector in primarily agrarian Mississippi, legislators could end the state's unacceptably high unemployment rate – the national economy hit bottom in March 1933, with 25 percent of the labor force out of work, just as Franklin Delano Roosevelt entered the White House – as well as permanently alter the composition of the state's economy to lay the foundations for faster economic growth in the long run. Although the BAWI plan lasted only from 1936 to 1940, the history of how the BAWI plan came to be and its lasting impacts on ever more state involvement in economic development from the end of the Second World War to the present cannot be understated.

The BAWI plan was the brainchild of Hugh White, governor of Mississippi from 1936 to 1940. Governor White's conception of the BAWI plan came from his attempt to entice industrial development to his hometown of Columbia, Mississippi, and to Marion County during his tenure as mayor from 1926 to 1936. The so-called Columbia plan, unlike future government-promoted programs like BAWI, did not use taxpayer resources to lure businesses to the area. Rather, the program's funding relied on *voluntary* contributions from wealthy local elites as well as more ordinary citizens. Lester (2008, p. 245) describes that now-unusual financial scheme during White's pursuit of a manufacturing company's potential move to Marion County:

Using his mayoral powers, he [White] declared a two-hour holiday to hold a community meeting and decide the matter. After discussing the proposition, businessmen, secretaries, clerks, school teachers, and farmers signed promissory notes to guarantee the funding for the factory building and construction. With these small pledges from a broad segment of the population, White used his own considerable wealth and influence to obtain a loan from New Orleans bankers for the full amount. Community and investor commitment rather than guarantees from the state were successful in securing the targeted manufacturer's relocation to Marion County.

The Columbia plan was hailed as a triumph in attracting new industry (Hopkins, 1944). White campaigned for the Governor's Mansion touting the success of the Columbia plan. He realized, however, that the local resources and grass-roots efforts used to attract industry to Marion County would not be enough to attract industry statewide; White therefore argued that the state's resources should be used to entice industry to Mississippi. However, moving his plan from an idea to a reality faced a significant legal hurdle, namely, that the Mississippi Constitution explicitly prohibited the state from using credit to finance

5 Much of the discussion here is based on Hopkins (1944) and Lester (2008). The reader is referred to these two studies for deeper discussions and analyses of the BAWI plan.

industrial development. To jump over that hurdle, White organized a panel of attorneys to develop legislation that would circumvent the constitutional prohibition of direct state support for industry. Drawing on U.S. Supreme Court decisions as precedent, the panel linked the BAWI plan to the general welfare clause of the Mississippi Constitution. The panel's argument was that employment and economic growth from industrial development enhanced the general welfare of citizens, i.e., that employment itself should be regarded as contributing to the general welfare. In addition, the legislation proposed that local government entities, rather than the state, would oversee any industrial plant built under the BAWI program. Doing so would also require that local elections be held to approve a city or county's subsidy package (tax breaks, grants, and loans) to targeted firms or industries.

The constitutionality of the BAWI plan was upheld in various court cases, and it eventually became a lawful reality in 1936 with the passage of the Mississippi Industry Act. The BAWI plan created a "two tier[ed] plan of 'state sponsorship and control' balanced by 'local finance and operation'" (Lester, p. 247). Specifically, the Act created a three-member State Industrial Commission that was responsible for searching out and ultimately choosing which manufacturing companies would be courted for relocation to Mississippi, whereas local governments would then be responsible for providing the financial incentives necessary to entice the selected firms. For the first time in its history, the state government of Mississippi became involved directly in managing, at least to some degree, the state's economy.

During the program's three-year existence, 12 manufacturing plants relocated to Mississippi and provided several thousand manufacturing jobs. Proponents hailed those statistics as evidence of the plan's success. However, critics at the time argued that BAWI's ballyhooed benefits had been overstated because proponents focused solely on the number of people employed at the new plants and failed to acknowledge several related negative factors, including downplaying (1) the employment displacement effect in the count of new jobs created, (2) the high subsidy cost per worker, and (3) the fact that the roughly 2,700 manufacturing jobs resulting from the BAWI plan accounted for only five percent of the state's manufacturing workforce, which itself represented a small share of total state employment (Hopkins, 1944). In addition, considerable doubt existed that the firms selected for relocation to Mississippi were chosen based on their potential contributions to economic growth rather than having some connection to Commission members. In his comprehensive evaluation of the BAWI plan's success at promoting economic growth in Mississippi eight years on, Hopkins (1944, p. 37) concluded that, "All in all, it cannot be said that the BAWI system was in itself the fundamental or decisive factor in determining many things that were ascribed to it at the outset or that have been ascribed to it since."

The BAWI plan was short-lived, as the state legislature and newly elected Governor Paul Johnson, Sr., canceled the program in 1940. Despite some continued support for BAWI around the state, the small number of jobs created, the costs of administering the plan, and growing doubt about the costs of the subsidies relative to the benefits received all played parts in its demise. Although BAWI had a short life, the plan set the legal precedent for local governments and, eventually, for the State of Mississippi itself to become ever-more involved in managing and attracting businesses to the state by using the public purse (taxpayer-financed subsidies, outright grants, loans and tax relief). Programs similar to BAWI remain active in Mississippi and in many other states despite overwhelming evidence that the vast majority of targeted incentives end up costing taxpayers much more than the benefits created by the subsidized firms.

It turns out that doubts similar to those raised about BAWI's track record continue to be articulated in studies of the targeted incentive programs that followed Mississippi's lead. Companies on the receiving end of selective incentive packages in Mississippi and elsewhere rarely meet the job creation or other economic development targets promised in return for the tax breaks, loans, or grants financed by the public purse. Non-transparent to taxpayer-voters and subject to little accountability, the recipients of taxpayer largesse often pull up stakes and move their operations out-of-state when the subsidies run out. Relocation in search of more generous incentives is a tactic especially popular among "call centers" and high-tech companies that rely on few specialized assets and, thus, can easily abandon one site in favor of another (LeRoy 2005; Hicks and Shughart 2007).

Business Subsidies in Mississippi since BAWI

Since the Balance Agriculture with Industry program ended in 1940, influencing and managing economic development has become an established (and largely unchallenged) function for the state government of Mississippi. Since 2000, the state and local governments in Mississippi have provided nearly $3.8 billion (roughly $1,300 per capita) in taxpayer-funded tax breaks, grants, and loans to hundreds of businesses.[6] The Mississippi Development Authority (MDA) is the lead state government agency that "works to recruit new business to the state and retain and expand existing Mississippi industry and business."[7] On its website, the MDA lists the myriad of taxpayer-funded (state and local) subsidies that are available to existing and prospective business enterprises, as well as promoting those subsidies as testimony to the attractiveness of investing in Mississippi. These taxpayer-funded subsidies fall into one of ten listed categories of incentives, such as tax breaks (temporary relief from sales, property, and income taxes), economic development grants, tourism programs, special programs for movie production companies, and business financing.[8] The category of tax incentives alone lists seven state income tax incentives, seven sales and use tax incentives, three franchise tax incentives, and two property tax incentives. To be sure, recipients consider these incentives to be beneficial (obviously reducing their state and local tax bills), but the benefits are not free because taxes are shifted onto other shoulders (those of unsubsidized firms and individual taxpayers) who must make up the tax revenue forgone by lightening the tax burdens on favorably treated businesses that are enticed to relocate to Mississippi.

A reading of the MDA's *Annual Report* indicates that the main goal of all taxpayer- funded subsidies, and the mission of the MDA itself, is to increase the "number of jobs" in Mississippi.[9] While jobs do provide an economic benefit in terms of employment and wages, if they are "new," in fact, assessing the true net economic gain from subsidizing business should also account for the costs of acquiring these new jobs, including MDA's budget and whatever incentives are offered. The MDA identifies some of the businesses that have taken advantage of its incentives and reports the corporate investment made each company (which doesn't include the cost to taxpayers) as well as the number of jobs created by each of the benefiting companies. As discussed earlier, though, a simple count of new jobs is a poor measure of net economic benefit because it does not consider the employment displacement that occurs (Peavy, 2007).[10] MDA does not attempt to estimate the true cost of these jobs, namely, the actual subsidy amount *plus* the opportunity cost of the subsidy, which the next best use of the resources, as defined earlier in this book). Unfortunately, despite the number of employees at the subsidized plant being a very misleading way of measuring economic development gains, that figure continues to be the most widely publicized evidence supporting the state's continued role in providing taxpayer-funded subsidies.

MDA and other supporters of targeted incentives also do not consider other costs of subsidy packages. When such programs actually lure a new plant to a specific location and thereby expand the local

6 See http://subsidytracker.goodjobsfirst.org/prog.php?statesum=MS&order=subsidy&page=1&sort=des (accessed June 13, 2017).

7 https://www.mississippi.org/home-page/about-mda/ (accessed June 13, 2017).

8 The full list of incentives is found here: https://www.mississippi.org/home-page/our-advantages/incentives/ (accessed June 13, 2017).

9 See https://www.mississippi.org/home-page/media-center/annual-report/ (accessed June 13, 2017).

10 To reiterate, a person employed at a facility benefiting from targeted incentives is a net addition to the local and state workforce only if that person was unemployed previously or relocated from out-of-state to take a job there. MDA's job numbers represent double-counting otherwise.

workforce significantly, additional public employees (firefighters, police officers, emergency medical technicians, and public-school teachers) will be needed to serve these households. If the new company on the block has been granted relief from state and local taxes to the point where the favored company's tax bill does not cover those additional costs, the tax burden will fall more heavily on existing businesses and households, reducing after-tax spending and perhaps destroying as many or more jobs than supposedly would be created by the subsidy in the first place (Hicks and Shughart 2007).

Although many of MDA's programs and recipient businesses are not on the public's radar screen, one case attracted a great deal of attention – the construction and operation of a Nissan assembly plant in Canton, Mississippi (Madison County) in 2003. This case was significant owing to the sheer size of the taxpayer-funded subsidies (the largest in Mississippi history) to the company in return for the promise of thousands of new jobs.

The Nissan Plant

Nissan's vehicle assembly plant commenced production of several Nissan models in May of 2003. The current facility occupies 4.7 million square feet and sits on more than 1,000 acres of land in the town of Canton, Mississippi, located in Madison County.[11] Nearly three million vehicles have been manufactured at the plant since it opened more than a decade ago. Nissan reports employing 6,400 workers and an annual payroll of $400 million. A state-commissioned study suggested that the total employment gains associated with the Nissan plant would amount to 16,212 jobs, a figure based on the assumption that nearly 10,000 indirect jobs would be created on top of the Canton plant site's 6,400 employees.[12]

Given that the number of jobs is the predominant evidence used to promote taxpayer-funded corporate subsidies, it is worthwhile looking at actual employment data before and after the opening of the Nissan plant. One surely would expect the Nissan plant to have some positive effect on employment given the absolute number of people filling jobs there, but it also is important to look at the timing of the employment gains in order to determine the extent to which the subsidy to Nissan met its economic development goals.[13] Clearly, crediting the subsidy with all such benefits does not control for other, possibly confounding factors, including employment trends in the region surrounding the new plant and in the Mississippi's economy as a whole.

Figure 6.1 plots employment in Madison County and employment in the region (Madison County and all counties bordering Madison) from 1990 to 2016. As can be seen in that figure, the trend in employment growth in Madison County was not much different after the opening of the Nissan plant (2003) than before. Employment had been rising steadily there since the early 1990s and continued to rise at roughly the same pace beyond 2003. Nissan may have contributed to Madison County's job gains, but other factors clearly are in play, including the exodus of middle and low-income households from the state's high-crime capital in Jackson, located in Hinds County, just to the south.

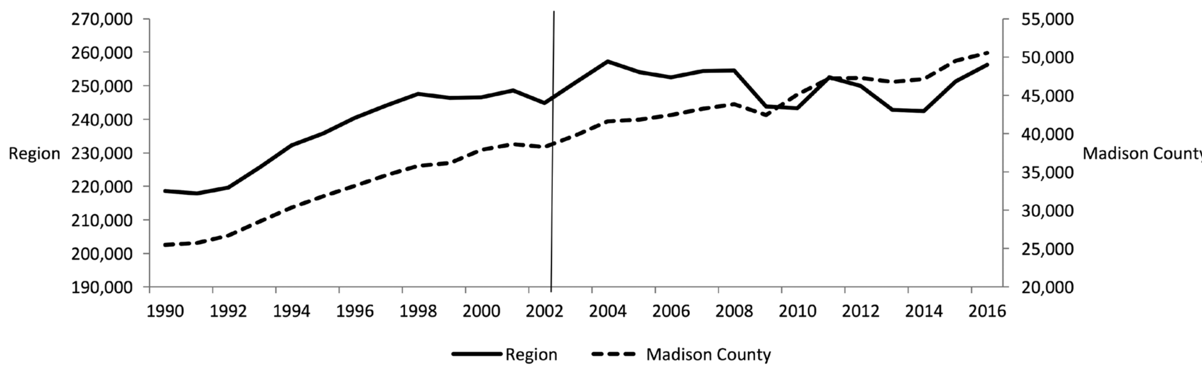
Considering regional employment, a spike coincident with the Nissan plant's opening in 2003 is obvious. That spike dissipated quickly, though, and total regional employment has varied over the business cycle since then, at times dropping to levels observed before the plant opened. Some, perhaps most, of the regional employment losses after 2004 undoubtedly can be explained by the effects of the financial crisis and the co-called Great Recession, but falling regional employment combined with continued job

11 Data on the Nissan plant were obtained from http://www.nissan-canton.com/about-nissan/fact-sheet-vehicle-assembly-plant-canton-mississippi/ (accessed June 16, 2017).

12 See http://siteselection.com/ssinsider/incentive/ti0207.htm (accessed June 23, 2017).

13 All employment data are from the Bureau of Labor Statistics.

Figure 6.1: Employment, 1990 to 2016



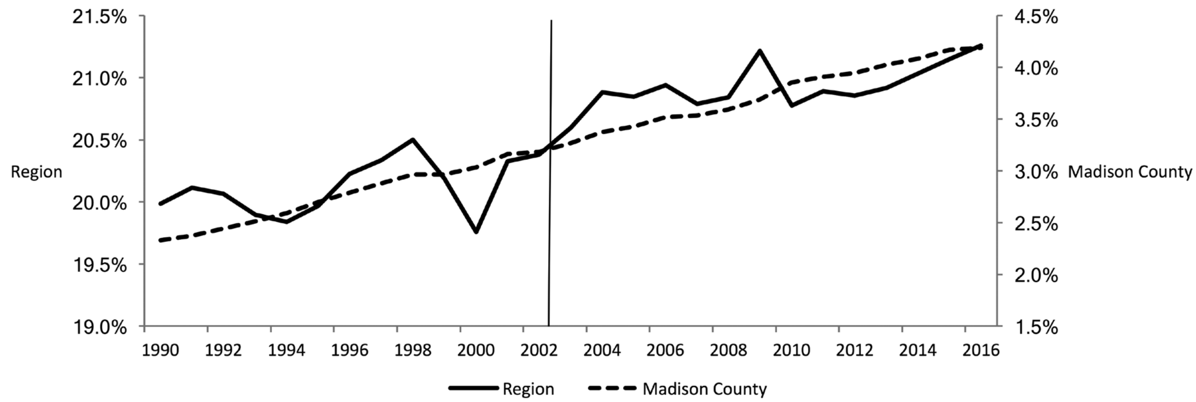
growth in Madison County also is consistent with Peavy's (2007) finding that 90 percent of the Mississippians employed at the Nissan plant lived and worked in the surrounding five-county area. Jobs at Nissan replaced jobs nearby, thus illustrating the displaced worker effect: jobs that should have been deducted from the 6,400 people eventually employed by Nissan to estimate the economic impact of the taxpayer-financed subsidy. In 2016, total employment in the region amounted to about 256,000, roughly 9,000 more than before the plant opened. It is unclear whether this 9,000-person increase in employment can be explained solely by the Nissan plant, but what is clear is that the direct and indirect employment gains were less than the 16,212 suggested by the state-commissioned study.

Relatedly, it is worth pointing out that a similar mistake with respect to tax revenue gains typically is committed by the economic development agencies and the consulting firms they retain to estimate the economic impacts of targeted incentives ex ante. The entire payroll of a new plant ($400 million in Nissan's case) provides the basis for forecasting additions to the income tax base from which state and local governments will generate more revenue. That methodology overstates substantially the income tax revenue gains from a new plant, which properly counts only the increase in wages, if any, received by the people employed there. Ninety percent of Nissan's employees already had jobs when the plant opened (Peavy, 2007) and were paying state income taxes in the five-county region where they then lived and worked (some of them may still reside outside Madison County and commute back and forth). Income tax revenue gains can be attributed to Nissan only for the 10 percent of the plant's employees who either were unemployed previously or moved into Mississippi to take jobs at the plant or at its co-located suppliers. For the other 90 percent of Nissan's employees, revenue gains should be based on the difference between the incomes earned at Nissan and incomes in their last jobs.

To delve more deeply into the employment impacts of the Nissan plant, Figure 6.2 shows Madison County and regional employment as percentages of state-level employment from 1990 through 2016, allowing us to control for trends in the Mississippi economy as a whole. As can be seen in Figure 6.2, Madison County's share of total state employment increased steadily over the 1990–2016 period, with no discernable change occurring in 2003. Regional employment as a percentage of total state employment increased from about 20.5 percent to 21 percent since the plant's opening, thus suggesting that regional jobs began contributing a larger share of total state employment after the Nissan plant's opening than before. The basic conclusion from this analysis is that employment in Madison County tracks employment in the remainder of the state quite well. The opening of the Nissan plant in 2003 cannot be seen in these data at the county level, although some evidence exists that the region led job gains in the state, at least until 2010.

Finally, Figure 6.3 shows that, over the same period, the unemployment rate in Madison County as a percentage of the state unemployment rate and the regional unemployment rate as a percentage of the

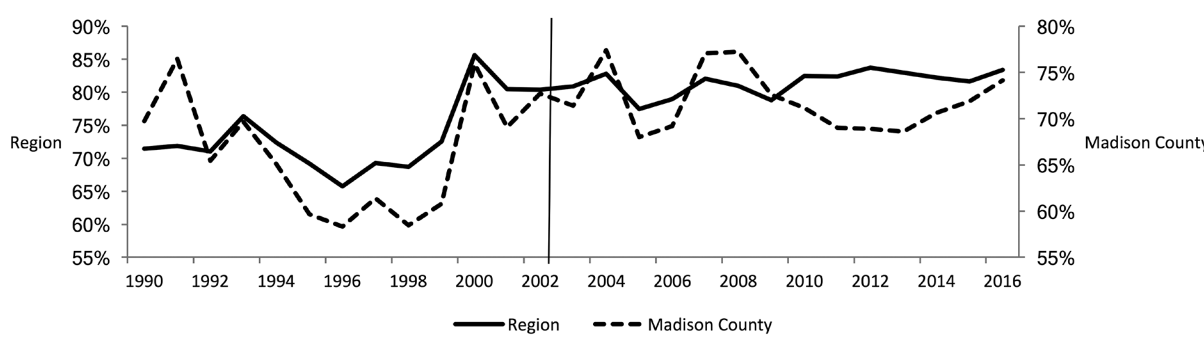
Figure 6.2: Employment as a Percentage of Statewide Employment, 1990 to 2016



state unemployment rate both have remained relatively unchanged since the plant's opening, with both remaining significantly higher than mid-1990 levels. Why that is so is not clear, but the data suggest that the Nissan plant had no lasting effects on joblessness in central Mississippi, which for a long time has been below the statewide rate, but not so much after 2003 as it was prior to 2000.

In sum, the three graphs point to the conclusion that some employment growth in the central Mississippi region plausibly can be attributed to opening of the Nissan plant in May of 2003, but those employ-

Figure 6.3: Unemployment Rate as a Percentage of Statewide Unemployment Rate, 1990 to 2016



ment gains have been far less than projected ahead of time. Moreover, job growth in Madison County and in the surrounding region has been only slightly faster than the trend in the state as a whole.[14]

Whatever the precise employment effects of Nissan may be, every job created has been subsidized by Mississippi's taxpayers and the size of that subsidy must be taken into account when assessing the incentive package's overall costs and benefits. In total, the state and local governments offered Nissan more than $1.3 billion in return for locating in Canton. Of that total subsidy package, state-financed subsidies (for infrastructure upgrades, job training, business franchise tax relief, and job tax credits) accounted for $1 billion, state borrowing costs accounted for $90 million, and Madison County infrastructure spending and property tax abatements accounted for $235 million (Good Jobs First, 2013). A rough calculation of costs and benefits using Nissan's self-reported data reveals a payroll of $62,500 per worker ($400 million

14 These findings generally agree with those of Peavy (2007) and Cardamone (2017).

divided by 6,400) and a taxpayer cost per worker of $203,125 ($1.3 billion divided by 6,400). Despite the large number of people employed at Nissan's Canton facility, the taxpayer cost per worker amounts to more than three times the annual payroll benefit of the average Nissan plant employee. If one also considers claimed indirect employment effects of about 16,212 persons and assumes no job displacement, then the taxpayer cost per worker is $80,188 ($1.3 billion divided by 16,212), which also exceeds Nissan's annual per worker payroll of $62,500.

A full analysis of the costs and benefits of the subsidy package extended to Nissan would take account of the time value of money, namely that the economic benefits in terms of jobs, additional tax revenue, and so on will continue into the future, as will some of the costs (infrastructure maintenance, the salaries and benefits of new local and state government employees), although the bulk of them (site preparation and infrastructure upgrades) were front-loaded and already have been incurred. Some of the package's benefits for Nissan (property and other tax relief) eventually will expire. Nevertheless, the simple accounting presented above suggests a frequently criticized aspect of targeted taxpayer-funded subsidies for luring private business enterprises: the cost to taxpayers of creating one new job often is far greater than the annual income that worker will be paid.

Toyota and Continental AG

Although not as large as the subsidy offered to Nissan, two more recent packages to Continental AG to Toyota Motors were, respectively, the second and third largest taxpayer-funded selective incentives in Mississippi history.

The Toyota plant is located in Blue Springs, Mississippi (Union County) and was a result of the so-called PUL (Pontotoc, Union, and Lee Counties) alliance created by several state constitutional amendments for the purpose of sharing the burden of financing subsidies for the plant, which opened in the fall of 2011. Toyota received a $354 million subsidy package, which included $294 million from the state (for infrastructure improvements, worker training, a 3.5 percent rebate on payroll taxes owed, and a 20-year exemption from state income taxes) and another $60 million from the three allied Mississippi counties.[15] The subsidy package was extended in return for the promise of 2,000 direct jobs at the Toyota plant and an additional 6,300 supplier and indirect jobs by 2013 (Cardamone, 2017).

In her examination of the employment effects of the Toyota plant, Cardamone (2017) finds that the projection of 2,000 indirect jobs was met, but that the actual number of supplier and indirect jobs remains far below the projection of 6,300. This is similar to the experience of the Nissan plant, as was evident in the earlier figures. Cardamone (2017, p. 33) concludes that, "It is unlikely the indirect jobs, which the plant expected to create, were realized as the net employment did not grow to a level that would signify a large increase in employment at the level that was projected by 2013, which is the year when estimates were expected to be met."

The second largest subsidy package in Mississippi history, totaling $600 million, was given to Continental AG in 2016 to build and operate a commercial tire manufacturing plant in Hinds County. The package included $263 million in state borrowing to pay for infrastructure, worker training, and a portion of the factory's construction; roughly $177 million in state income and franchise tax breaks; local property tax breaks of $68 million; and $87.5 million in state income tax rebates.[16] The company is expected to provide 2,500 jobs and thousands more indirect jobs. Although it is too early to determine the economic outcomes of the Continental AG package, the Nissan and Toyota experiences suggest that the Continental

15 From http://subsidytracker.goodjobsfirst.org/subsidy-tracker/ms-toyota (accessed June 19, 2017).

16 See http://www.jacksonfreepress.com/news/2016/feb/06/ap-analysis-continental-tire-deal-incentives-600-m/ (accessed June 21, 2017).

AG deal may also fail to meet employment projections and thus leave taxpayers on the hook for hundreds of millions of dollars in wasted resources.

Final Thoughts

Since the inception of the Balance Agriculture with Industry (BAWI) plan, the State of Mississippi has provided private business enterprises with billions of dollars in taxpayer-funded subsidies. The argument advanced by the proponents of selective or targeted incentives is that the benefits of subsidies (i.e., more employment, higher wages, more tax revenue to state and local governments) in luring companies to locate in Mississippi are substantially greater than their costs. As discussed earlier, forecasts of the total economic benefits anticipated from business subsidies are based on projections of employment gains and promises of higher wages paid by the targeted businesses. Through a Keynesian multiplier effect, these employment and wage gains will spill over to other areas of the economy and create even more employment opportunities and higher wages.[17] However, the employment projections rarely become reality because the models used commonly to estimate the multiplier do not account for the job displacement effect, instead assuming contrary to fact that every person employed at the subsidized plant is a new addition to the workforce and that every dollar paid to those employees (the plant's total payroll) adds to the income earned by residents of the state. Our simple graphical analyses in the previous section show clearly that the promised job gains from the Nissan's Canton, Mississippi, plant fell far short of those projected ex ante.

However, even if the benefits of a taxpayer-funded subsidy did outweigh the costs using standard measures of economic impacts, such an outcome would be a necessary, but *not sufficient* condition for concluding that the incentive package passes a benefit-cost test, thereby delivering net economic benefit (benefits > costs) because the analysis fails to consider the subsidy's opportunity cost. One opportunity cost of a taxpayer-funded subsidy is the private-sector economic activity that would have been generated (but is lost) had the subsidy not occurred and the dollars allocated to it remained in the hands of private individuals and commercial businesses.[18] As just explained (see footnote 18), an additional dollar injected into the private sector is exchanged repeatedly in series of market transactions and thus creates economic value greater than the initial dollar. The converse also is true: Every additional dollar of tax revenue taken from the private sector reduces economic activity by more than one dollar.

The true cost of a taxpayer-funded subsidy to business therefore is not just the actual dollar amount of the subsidy, but rather the actual dollar amount of the subsidy *plus* lost private-sector consumption if the subsidy resources were to remain in the private sector. This observation suggests that the true economic cost of a taxpayer funded subsidy is much larger than the subsidy's accounting. So, for example, in the case of Nissan's Canton plant, the true economic cost per worker actually exceeds the $203,125 accounting cost presented earlier because in order to finance the $1.3 billion subsidy, economic activity

17 The multiplier idea comes from the observation that some of the income received by one economic actor (an individual or a business enterprise) is spent on goods and services supplied by other actors who, in turn, spend some of the income received from the first actor, on and on ad infinitum. So, a subsidized firm buys inputs from suppliers, suppliers buy from *their* suppliers; the firm's employees spend some of their paychecks at local restaurants and grocery stores, which generates income for their owners, some of which is spent again and money keeps changing hands, generating more economic activity. The size of the multiplier is determined by the marginal propensity to consume (MPC), the fraction of the last dollar of income received that is spent, on average, at each link in the chain of transactions versus how much is saved. In the simplest of Keynesian models, the multiplier is equal to 1/(1-MPC). So, if the MPC is 0.8, that is, 80 cents of the last dollar of income received is spent (20 cents is saved), the multiplier is 5 and $1 of new income eventually generates $5 in new economic activity. The consulting firms that conduct economic impact studies for state and local governments tend to adopt much larger multipliers (sometimes as large as 12) in order to report the results wanted by economic development agencies, namely that a subsidy package passes a benefit-cost test easily.

18 Other possible opportunity costs might include (1) the money that could otherwise have been better spent by lowering taxes on capital investments, or (2) for anyone who likes more government spending, the opportunity cost is the money that could have been spent on roads, schools, or public welfare.

in the private sector will fall by more than $1.3 billion (the multiplier effect working in reverse). The economic criterion for a subsidy to generate a positive net benefit is that those benefits must be greater than the dollar value of the subsidy plus the opportunity cost of the lost private sector consumption.

A business subsidy inherently assumes that every dollar of a taxpayer-funded subsidy is worth more to the economy than if the dollar remained in private sector hands. While this may be true in some cases, the academic research and evidence presented herein suggest that possibility is more the exception than the rule. So, as was discussed in Chapter 3, public officials who advocate for taxpayer-funded subsidies to business are implicitly claiming that they know better than do private individuals and firms interacting in free and open markets how to most effectively allocate resources to their highest valued uses. If that actually were true, then we should allow legislators and public officials to decide all business activity within a state. But, we have seen throughout history (the former Soviet Union, Cuba, Venezuela, and North Korea immediately come to mind) how poorly planned economies perform. Of course, the argument is not being made here that taxpayer-funded subsidies to lure businesses to Mississippi and other states is equivalent to having a planned economy like the aforementioned countries, but the difference is only a matter of degree. Even though less economic planning occurs in the United States than in other nations, planning fails wherever politicians and public officials displace market processes because they lack the information (price and profit signals) and incentives necessary to decide which economic activities merit encouragement and which do not.

Legislators and other public officials who support taxpayer-funded subsidies likely do so with the best intentions – to create greater economic opportunity and a better future for the citizens of their respective cities, counties and states. However, despite these best intentions, it is likely that, in most cases, taxpayer-funded subsidies will do more economic harm than good, in part owing to ignoring the opportunity cost of lost private-sector consumption.[19] That harm is amplified because officials everywhere compete with one another to assemble incentive packages that will entice businesses to their respective jurisdictions. Such competition for business creates ever larger taxpayer-funded subsidy packages that likely will cause even more substantial net economic losses for society as a whole. The only way to stop this race-to-the-bottom is for public officials to stop offering selective incentives to businesses and instead foster a more favorable economic environment for *all* business activity, which includes companies already doing business in a state, whether large or small (e.g., lower taxes on citizens and businesses across the board, control over-excessive and wasteful government spending, promoting a skilled workforce, and minimal regulation). The free market, rather than politicians and bureaucrats, will then decide where business activity will locate.

We think that, in order to promote prosperity, all states and localities should abolish their economic development agencies, thereby saving the budgetary costs of official salaries, benefits and travel expenses to visit and cut deals with companies looking to move or to build new plants. Unilateral disarmament in the vigorous incentives arms' race triggered by Mississippi during the Great Depression may, of course, cause the state to lose opportunities to lure big-name employers in the short or medium term. If an announcement that the Mississippi Development Authority has been shut down is paired with a dramatic cut in state business income taxes, however, the negative impact on revenue will be at most short-lived.

19 Even with well-intentioned legislators and public officials, another reason that business subsidies are likely to do more economic harm than good is that there is a disconnect between the evaluation of costs and benefits of a subsidy. The benefits of a successful business relocation are quite visible (e.g., a new plant, greater job numbers, new roads and so on) and thus can easily be touted by public officials as evidence that they are doing good things for their constituents. However, the cost of the business subsidy (the accounting cost plus the opportunity cost) is spread across millions of taxpayers and thus is much less visible than the benefits. Because the benefits are visible and localized whereas the costs are dispersed, public officials have few incentives to weigh the true costs and benefits when deciding on whether to support a taxpayer-funded subsidy. Unlike the private-sector, the disconnect between benefits and costs also results in little punishment of legislators and public officials if the subsidized business is not successful. See the discussion of Bastiat (1850) at the outset of this chapter.

Here's a chance for Mississippi to lead the nation forward with much better effect than its adoption long ago of the Balance Agriculture with Industry program. State officials may then realize that they all are made better off by disarming because selective incentives only shift economic activity around geographically and do not foster prosperity. On the surface, interstate competition for business location is a zero-sum game: one state's gain is another's loss. But, looked at more deeply as we have done in this chapter, the arms' race is a negative-sum game because the ostensible benefits of the competition in terms of job gains, whether direct, indirect or induced, are less than the costs imposed on the private sector, thus hindering economic growth and prosperity in all states, including Mississippi.

References

Bastiat, Frederic. 1850. That Which is Seen, and That Which Not Seen. Available at http://oll.libertyfund.org/pages/wswns; last downloaded 29 June 2017.

Cardamone, Cayla. 2017. Outcomes of FDI in Mississippi: The Cases of Nissan and Toyota. Honor's Thesis, The University of Mississippi.

Cobb, James C. 1993. *The Selling of the South: The Southern Crusade for Industrial Development, 1936–1990.* Urbana: University of Illinois Press.

Good Jobs First. 2013. A Report on Taxpayer Assistance to Nissan in Canton, Mississippi. Washington, D.C: Good Jobs First.

Hayek, Friedrich A. 1945. The Use of Knowledge in Society. *American Economic Review* 35(4): 519–530.

Hayek, Friedrich A. [1960] 2011. *The Constitution of Liberty*. The Definitive Edition. The Collected Works of F. A. Hayek, vol. 17, ed. by Ronald Hamowy. Chicago: University of Chicago Press.

Hicks, Michael J. 2007. A Quasi-Experimental Test of Large Retail Stores' Impacts on Regional Labor Markets: The Case of Cabela's Retail Outlets. *Journal of Regional Analysis and Policy* 37(2): 116–122.

Hicks, Michael J. and Shughart, William F. II. 2007. Quit Playing Favorites: Why Business Subsidies Hurt Our Economy. In Russell S. Sobel, with Joshua C. Hall and Matt E. Ryan (eds.), *Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It*, Morgantown: The Public Policy Foundation of West Virginia, pp. 119–130.

Hopkins, Ernest J. 1944. Mississippi's BAWI Plan: Balance Agriculture with Industry, An Experiment in Industrial Subsidization. The Federal Reserve Bank of Atlanta, Department of Research and Statistics.

LeRoy, Greg. 2005. *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation*. San Francisco: Berrett-Koehler.

Lester, Connie L. 2008. Balancing Agriculture with Industry: Capital, Labor, and the Public Good in Mississippi's Home-Grown New Deal. *Journal of Mississippi History* 70: 235–263.

Peavy, John Patrick. 2007. A Comparison of Two Alternative Models of Economic Impact: A Case Study of the Mississippi Nissan Plant. Ph.D. Dissertation, The University of Mississippi.

Smith, Adam. [1776] 1982. *An Inquiry into the Nature and Causes of the Wealth of Nations*, 2 vols. The Glasgow Edition of the Works of Adam Smith, ed. by R. H. Campbell, A. S. Skinner and William B. Todd. Indianapolis, IN: Liberty Fund.

Tullock, Gordon. 1967. The Welfare Costs of Tariffs, Monopolies, and Theft. *Western Economic Journal* 5: 224–252.

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.

About the Authors

Editors:

Brandon N. Cline, Ph.D., is the John "Nutie" and Edie Dowdle Associate Professor of Finance. His research focuses on insider trading, executive compensation, equity offerings, and corporate governance. His work has been published in numerous finance journals, including: *Journal of Financial Economics, Financial Management, Journal of Corporate Finance, Journal of Banking and Finance, Journal of Empirical Finance, The Journal of Financial Research, and The Financial Review*. Dr. Cline has received invitations to present his work at prestigious conferences such as the American Finance Association. He has also received various research awards including the 2014 Wharton School-WRDS Outstanding Paper in Empirical Research, the 2012 Journal of Financial Research Outstanding Article Award, the 2010 Eastern Finance Association Outstanding Paper Award, the 2009 Eastern Finance Association Outstanding Paper Award, the 2008 Southern Finance Association's Outstanding Paper Award in Corporate Finance, and the 2017 Mississippi State College of Business Faculty Research Award. His research has also been the subject of feature stories in *Fortune*, *The Wall Street Journal*, *Harvard Business Review*, *Bloomberg Radio*, *FoxBusiness*, *CNNMoney*, *RealClearMarkets*, and the *Harvard Law School Forum on Corporate Governance and Financial Regulation*. Prior to joining Mississippi State, Dr. Cline taught both graduate and undergraduate courses in corporate finance and financial derivatives at Clemson University. In 2006, Dr. Cline received the Outstanding Finance Faculty Award at The University of Alabama. Dr. Cline has served on the faculty of the Graduate School of Banking at LSU since 2016 and is currently the Vice President – Program for the Southern Finance Association.

Russell S. Sobel, Ph.D., is a native of Charleston, South Carolina. He earned his Bachelor's degree in business economics from Francis Marion College in 1990, and his Ph.D. in economics from Florida State University in 1994. Dr. Sobel has authored or co-authored over 200 books and articles, including a nationally-best-selling college Principles of Economics textbook. His research has been featured in the *New York Times, Wall Street Journal, Washington Post, US News and World Report, Investor's Business Daily, and The Economist Magazine*, and he has appeared on CNBC, Fox News, CSPAN, NPR, and the CBS Evening News. He serves on the editorial board for three academic journals, and on the advisory board for four university centers. He has won numerous awards for both his teaching and his research, including the 2008 Sir Anthony Fisher Award for best state policy publication of the year. His recent research focuses on economic policy and entrepreneurship. Dr. Sobel is a Professor of Economics & Entrepreneurship in the Baker School of Business at The Citadel, and a Visiting Fellow at the South Carolina Policy Council.

Claudia R. Williamson, Ph.D., is an Associate Professor of Economics and the Drew Allen Endowed Fellow at Mississippi State University. She is also Co-Director of the Institute for Market Studies at Mississippi State University. Her research focuses on applied microeconomics, the role of culture in development, and the political economy of development policies, such as foreign aid. She has authored over 30 articles in refereed journals including the *Journal of Law and Economics, World Development, Journal of Comparative Economics, Public Choice, Journal of Corporate Finance, Journal of Institutional Economics, European Journal of Political Economy, Defense and Peace Economics,* and *the Southern Economic Journal*. She has also contributed multiple chapters to edited books, written book reviews, and policy briefs. Her research has appeared in popular press outlets, such as *The Economist* and the BBC. She currently serves on the editorial board for *Public Choice* and the Executive Board for the Association of Private Enterprise Education. Claudia is a native of West Virginia. She earned her B.B.A. in economics from Marshall University in 2000, and she completed her Ph.D. in economics at West Virginia University in 2008. She spent the 2007-2008 year at George Mason University as the F.A. Hayek Visiting Scholar in Philosophy, Politics, and Economics. She was a post-doctoral fellow at the Development Research Institute of New York University from 2009-2012, and she spent the 2008-2009 year as an assistant professor of economics at Appalachian State University. During the summer of 2007, she performed fieldwork on land titling in rural Peru. Additional information can be found at www.claudiawilliamson.com.

Contributing Authors

J. Brandon Bolen is a Ph.D. candidate in Applied Economics at Mississippi State University. His main research interests lie at the intersection of applied economic development and political economy. He has also published in the Journal of Sports Economics highlighting the importance of evaluating college athletic programs on the basis of both athletic and academic achievement. Brandon is originally from Madison, MS and has been teaching economics to Mississippi students for six years.

Ken B. Cyree, Ph.D, is Dean, the Frank R. Day/Mississippi Bankers Association Chair of Banking, and Professor of Finance at the University of Mississippi School of Business Administration. Dr. Cyree received his doctorate and MBA from the University of Tennessee. His research interests are in banking and financial markets. His published works have appeared in the *Journal of Business, Journal of Banking and Finance, Financial Management, Journal of Financial Research, the Journal of Financial Services Research, the Journal of Financial Markets, and Financial Review* among many others. He is currently an associate editor at the *Journal of Financial Research*. Cyree has conducted numerous media interviews including National Public Radio, Mississippi Public Broadcasting, View Point television, the Marshall Ramsey Radio Show and the Dave Foster Radio Show. He has been quoted in the *Clarion Ledger, the Hattiesburg American, the Mississippi Business Journal, the Tupelo Daily Journal*, along with online news sites such as Bloomberg and Fox Business. He has spoken to the Conference of Bank State Supervisors, the St. Louis Federal Reserve, the Mississippi Bankers Association, and testified before the Mississippi State Legislature Banking Committee. He is a board member of the Mississippi Young Bankers Association.

Michael D. Farren, Ph.D., is a Research Fellow at the Mercatus Center at George Mason University. His research focuses on the effects of government favoritism, specializing in labor markets, economic development, and transportation policy. His research and commentary have been featured in numerous media outlets, including the *Washington Post, Los Angeles Times, the Miami Herald, The Dallas Morning News,* and *NPR*. He blogs about economic policy at Concentrated Benefits.

Thomas A. Garrett, Ph.D., is Associate Professor of Economics at the University of Mississippi, where he has been employed since 2012. Prior to joining the University of Mississippi, he was an economist in the Research Division at the Federal Reserve Bank of St. Louis for 10 years and an assistant professor at Kansas State University for 3 years. He graduated from West Virginia University with a Ph.D. in Economics in 1998. His primary areas of interest are state and local public finance, state lotteries, public choice, and applied microeconomics. He has published over 30 articles in scholarly economics journals, and has written numerous policy briefs on various subjects including casino gaming, state lotteries, income inequality, personal bankruptcy, social security reform, and state budgeting.

Trey Goff is a recent graduate of Mississippi State University, where he obtained a bachelor's degree in Economics and Political Science. He is an Alumni of the Charles Koch Institute's Summer Fellows program, and has been published at the Foundation for Economic Education. Trey was heavily involved in the student liberty movement throughout college, and is now a leading voice in the free societies movement. Trey is currently actively involved in a variety of ongoing free society projects, as well as the Mississippi-focused Out of Last Place Institute

Stefanie Haeffele, Ph.D., is the Deputy Director of Academic and Student Programs, and a Senior Fellow for the F. A. Hayek Program for Advanced Study in Philosophy, Politics and Economics at the Mercatus Center at George Mason University. She earned her Ph.D. in economics at George Mason University. After receiving an MA in economics at George Mason University in 2010, she completed a Presidential Management Fellowship where she worked in emergency and disaster management at both the Federal Emergency Management Agency and then the U.S. Forest Service. She is the coauthor of *Community Revival in the Wake of Disaster: Lessons in Local Entrepreneurship* (Palgrave, 2015), along with Virgil Henry Storr and Laura E. Grube.

Carrie B. Kerekes, Ph.D, is an Associate Professor of Economics at Florida Gulf Coast University. She received her Ph.D. in Economics from West Virginia University in 2008. Her research interests are in the areas of applied microeconomics; public economics; and economic development, with an emphasis on institutions and private property rights. Dr. Kerekes has published several articles in refereed journals including the *Journal of Law and Economics, the American Law and Economics Review, The American Journal of Economics and Sociology, the Cato Journal, and the Review of Law and Economics*. Dr. Kerekes conducted field research on land titling in rural Peru in 2007. Dr. Kerekes regularly attends the meetings of the Association of Private Enterprise Education (APEE) and the Southern Economic Association (SEA), and she has served on the APEE Executive Board. Dr. Kerekes serves on the Board of Directors and is the Treasurer of the Freedom and Virtue Institute (FVI), a nonprofit organization that promotes individual liberty, self-reliance, and human dignity.

Brett Kittredge is Director of External Relations for Empower Mississippi, a Mississippi-based public policy organization that promotes school choice in the state. In his position, Kittredge oversees all communications and outreach for Empower. Kittredge has authored two reports for Empower, *The Special Needs ESA: What Families Enrolled In The Program Are Saying After One Year* and *Exploring Mississippi's Private Education Sector: The Mississippi Private School Survey*. Previously, Kittredge served as Communications Director for the Office of the State Auditor under State Auditor Stacey Pickering. Prior to that, he was the Communications Director for the Mississippi Republican Party. Kittredge received his Bachelor's Degree from the University of Mississippi in 2007 and his Master's Degree from Abilene Christian University in 2010.

Raymond J. March, Ph.D., is Assistant Professor of Economics at San Jose State University. He earned his Ph.D. From Texas Tech University in 2017. His research examines the public and private provision and governance of healthcare in the United States, particularly in pharmaceutical markets. Dr. March's research has appeared in the *Journal of Institutional Economics, the Journal of Entrepreneurship and Public Policy,* and *the International Review of Economics.*

Jon Maynard is President and CEO of the Oxford-Lafayette County Economic Development Foundation and Chamber of Commerce. Mr. Maynard holds a Bachelor of Science degree in Business Administration from Northwestern State University of Louisiana. He is a graduate of the University of Oklahoma Economic Development Institute. Has been in professional economic development for 11 years. He began his economic development career as a volunteer board member in 1991 in Natchitoches, LA. In 2006, he was hired for his first professional position in Minden, LA working for the Northwest Louisiana Economic Development Foundation (now NLEP). He was recruited to work in Starkville, MS in 2008 and then in Oxford, MS in 2012. He has a varied employment background that includes running a small movie theatre business and an officer at a bank in Louisiana where he ran two branches.

Thomas (Tom) William Miller, Jr., Ph.D., is Professor of Finance and inaugural holder of the Jack R. Lee Chair in Financial and Consumer Finance at Mississippi State University. Professor Miller is also a Senior Affiliated Scholar at the Mercatus Center at George Mason University. His current research concerns various aspects of consumer credit and, specifically, small dollar installment loans. Professor Miller is a frequent speaker on consumer credit issues at national conferences. Professor Miller has been honored with many research and teaching awards. Professor Miller is co-author (with Bradford D. Jordan and Steve Dolvin) of *Fundamentals of Investments: Valuation and Management*, 8th ed. (McGraw-Hill/Irwin. Professor Miller enjoys playing blues and jazz on his tenor saxophone.

Adam A. Millsap, Ph.D., is the Assistant Director of the Hilton Center at Florida State University and a Senior Affiliated Scholar at the Mercatus Center at George Mason University. His research focuses on urban development, population trends, labor markets, and federal and local urban public policy. His commentary has appeared in national outlets such as *US News and World Report, USA Today,* and *The Hill*, as well as regional outlets such as the *Detroit Free Press, Cincinnati Enquirer, and Orange County Register*, among others. He is also a *Forbes* contributor. In addition to his research and writing he has taught economics at Clemson University and George Mason University.

William F. Shughart II, Ph.D., research director of the Independent Institute (Oakland, Calif.), is J. Fish Smith Professor in Public Choice at Utah State University's Jon M. Huntsman School of Business. He is a past president of the Southern Economic Association, has been editor in chief of *Public Choice*, a peer-reviewed academic journal, since 2005, and was on the economics faculty at Ole Miss from 1988 to 2011.

Daniel J. Smith, Ph.D., is an Associate Professor of Economics at Troy University and the Associate Director of the Manuel H. Johnson Center for Political Economy. He also serves as the Book Review Editor for *The Review of Austrian Economics*. Daniel received his Ph.D. in economics from George Mason University. Dr. Smith's academic research uses both Austrian and public choice economics to analyze market and governmental institutions, including social and economic cooperation, monetary policy and institutions, and public pensions. His public policy work primarily uses Austrian and public choice economics to address barriers to economic mobility and prosperity. He has published op-eds in newspapers across the nation, including the *Wall Street Journal, CNBC,* and *Investor's Business Daily*.

Virgil Henry Storr, Ph.D., is the Senior Director of Academic and Student Programs at the Mercatus Center, and the Don C. Lavoie Senior Fellow in the F.A. Hayek Program in Philosophy, Politics and Economics, Mercatus Center, George Mason University. He is also a Research Associate Professor of Economics in the Department of Economics, George Mason University. He holds a Ph.D. in Economics from George Mason University. He is the author of *Enterprising Slaves and Master Pirates* (Peter Lang, 2004), *Understanding the Culture of Markets* (Routledge, 2012), and the coauthor of *Community Revival in the Wake of Disaster: Lessons in Local Entrepreneurship* (Palgrave, 2015), along with Stefanie Haeffele and Laura E. Grube.

Daniel Sutter, Ph.D., is the Charles G. Koch Professor of Economics and Interim Director of the Manuel H. Johnson Center for Political Economy at Troy University and is a Ph.D. graduate of George Mason University. His research interests include the societal impacts of extreme weather and disasters, the economics of the news media, the markets for economists and economic research, environmental regulation, and constitutional economics. He hosts Econversations on Troy University's Trojan Vision channel, which discusses economics, markets, and policy, and writes a weekly column in the *Troy Messenger*. Dr. Sutter is a Senior Affiliated Scholar with the Mercatus Center at George Mason University and a Policy Advisor with the Heartland Institute.

Jameson Taylor, Ph.D., is vice president for policy at the Mississippi Center for Public Policy. He has spent most of his public policy career working at the state level, with a focus on health care, constitutional rights, life and family issues, and regulatory issues. He is a three-time Earhart Fellow, a Publius Fellow with the Claremont Institute, and an E.A. Morris Fellow. In 2017, he was appointed to the Mississippi Governor's Faith-Based Council. Dr. Taylor holds an A.B. in government from Bowdoin College and a Ph.D. in politics from the University of Dallas. He has written numerous policy guides, briefs and op-eds, and his work has appeared in *Citizen, Clements' International Report, Commentary, Logos, This Rock, and The Review of Metaphysics.*

Travis Wiseman, Ph.D., is Director and Clinical Assistant Professor of International Business at Mississippi State University. He earned his Ph.D. from West Virginia University in 2013. His applied research focuses on relationships between institutions – both formal and cultural – entrepreneurship, and shadow economies, and has been published in the *Southern Economic Journal, the Journal of Institutional Economics, Constitutional Political Economy, the Journal of Entrepreneurship and Public Policy, Contemporary Economic Policy, Public Finance Review, the Review of Law & Economics, the Journal of Regional Analysis & Policy, and the American Journal of Entrepreneurship*. His work has also been featured in several popular news outlets, including *New York Magazine, Inc. Magazine, Reason Magazine and Pacific Standard*.

"*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

PUBLISHED BY

MISSISSIPPI STATE UNIVERSITY™
INSTITUTE FOR MARKET STUDIES

$29.95
ISBN 978-1-7320353-0-0
52995>
9 781732 035300