Promoting Prosperity in Mississippi

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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!

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8

Mississippi Shadow Economies: A Symptom of Over-Regulated Markets and Measure of Missed Opportunities

Travis Wiseman

8

Mississippi Shadow Economies: A Symptom of Over-Regulated Markets and Measure of Missed Opportunities

Travis Wiseman

Here, I turn the economic lens toward Mississippi's regulatory landscape. Other chapters in this book document Mississippi's poor economic performance and low rankings in many common measures of state-level prosperity and economic well-being – such as Mississippi's low income per capita, slow economic growth, and low level of economic freedom. This chapter highlights a feature of Mississippi's regulatory environment that helps explain the state's poor positioning – a cumbersome habit of maintaining outdated and burdensome regulation, in many cases for far longer than other states. I revisit concepts introduced in Chapter 3, with emphasis on the perverse incentives that regulations often create, which not only include incentives for individuals to engage in less productive activity, or more unproductive (or worse, *destructive* and criminal) activity, but also for businesses and entrepreneurs to hide their economic activity from tax authorities and other public officials – that is, to engage in the *shadow* economy. In this chapter, I discuss several sensible and low-cost reforms to the state's regulatory process that can help to promote prosperity in Mississippi.

Institutions and The Economic Underworld

Institutions are 'rules of the game,' formal and informal, that govern human action and social interaction (North, 1991). Formal rules are those found, for example, in constitutions and statutory law – codified political and legal frameworks. Informal rules include social norms, customs, and culture that are not codified or enforced by the formal structure – religion, for example, is one subset of informal institutions. William Baumol (1990), first introduced in Chapter 3, suggests that productive entrepreneurs are guided by institutions that reward wealth creation; and unproductive entrepreneurs by institutions that reward zero- or negative-sum activities – e.g., rent-seeking and frivolous lawsuits.[1]

A question that arises concerning Baumol's productive and unproductive entrepreneurship hypothesis is: *How do productive individuals respond to rule changes that decrease the relative rewards to productive activities?* Productive individuals in the legal sector of the economy may of course choose to bear the full cost of an unfavorable institutional adjustment – that is, for example, if a tax policy targeted at their industry reduces entrepreneurs' disposable incomes, they may simply carry on their productive activity, only with lower incomes. However, there are other plausible options. They may migrate to more favorable institutional conditions – such as other states with fewer regulatory burdens; or re-focus their efforts toward legal, unproductive activity. They may simply choose to give up entrepreneurship entirely. Alternatively, they may move their efforts *underground* to engage in productive, unproductive, and destructive – e.g., theft, murder, etc. – activity. These latter activities are defined as *shadow* economic activity.[2] In the next section, I will discuss shadow economies – how they come to fruition, how they relate to measures of economic performance discussed here and in other chapters, and what can be done to reduce the size of the shadow economy in Mississippi, and promote prosperity moving forward.

The Shadow Economy

The phrase "shadow economy" often summons thoughts of prostitution rings and illicit drugs sales. But shadow economies, while they most certainly involve these risky businesses, include much more. They include *all* exchanges that are intentionally kept from the government's purview – whether to evade tax or other legal authorities. An unlicensed hairdresser, styling hair for cash and not reporting it on her taxes, is one example. Shadow economies often provide goods and services that consumers demand, but are not available (or affordable) in the formal sector.

Many of the same barriers to market entry discussed throughout this book, that discourage productive entrepreneurship, simultaneously *encourage* participation in underground economies. For example, occupational licensing (Chapter 10) effectively restricts supply of goods and services in the market. With licensed protection from potential competitors, license-holders can raise prices on the goods and services they provide. This works to discourage both consumers and future producers from entering the market – that is, the *legal* market. Entrepreneurs and consumers excluded from the legal sector, will often undertake transaction illegally.

Corporate incentive programs (Chapter 6) produce similar results. Financially favored firms who win special privilege – in the form of tax breaks, credits, and exemptions, for example – through the political process effectively secure a competitive advantage in the market. This is neither beneficial for consumers nor firms denied such privilege. Un-favored firms may only be able to obtain similar privileges in the shadow economy; or are forced to downsize legal sector production, or leave the market entirely, creating unemployed workers, who themselves may turn to underground activities to maintain their livelihoods.

1 Several studies investigate this hypothesis. See, for example, Sobel (2008), and Wiseman and Young (2013). Additionally, Wiseman and Young (2014) examine productive and unproductive outcomes in the context of informal, religious institutions.

2 The shadow economy has many synonyms – e.g., underground economy, second economy, black markets, informal sector, extra-legal sector, off-the-books, under-the-table, etc.

High taxes tend to increases underground activity. Taxes increase the cost of producing goods and services, raise prices that consumers pay for final products, and reduce disposable income. This heightens the incentive for buyers and sellers to bargain off-the-books. You may have had direct experience with this phenomenon if you ever been offered a discount on your purchase for paying in cash.

Welfare programs also generate perverse incentives that encourage shadow economic activity. According to economists Friedrich Schneider and Dominik Enste:

> The social welfare system leads to strong negative incentives for beneficiaries to work in the official economy, since their marginal tax rate often approaches or equals 100 percent. [...] Such a system provides disincentives for individuals receiving welfare payment to even search for work in the official economy, since their overall income is higher if they receive these transfers while working in the underground economy. (2000, pp. 86)

The 100 percent marginal tax rate that Schneider and Enste reference, is inherent in the welfare program. Many welfare programs are designed to reduce the dollar amount of benefits as recipients earn more income from their own formal employment. As a result of this tax – economists sometimes refer to it as an *implicit marginal tax rate* – many people get trapped inside the welfare program. For example, if a welfare recipient finds formal sector work and her income from work rises by $6,000, but her welfare benefits are reduced by $4,000, she gains only $2,000 in disposable income. This amounts to a substantial marginal tax rate of approximately 67 percent.

$$\textit{Implicit Marginal Tax Rate} = 1 - \frac{\textit{Change in Disposable Income}}{\textit{Change in Income Earned from Formal Employment}}$$

$$1 - \frac{\$6{,}000\text{-}\$4{,}000}{\$6{,}000} = 1 - 0.33 = 0.67 \text{ or } 67\%$$

Suppose that, in addition to welfare transfers, this person is also earning an off-the-books income of $3,000 that she would have to give up when she accepts the legal sector position. This amounts to $7,000 in combined welfare benefits ($4,000) and underground income ($3,000) that she would forego, while earning $6,000 at her new job.

$$1 - \frac{\$6{,}000\text{-}\$4{,}000\text{-}\$3{,}000}{\$6{,}000} = 1 - (-0.16) = 1.16 \text{ or } 116\%$$

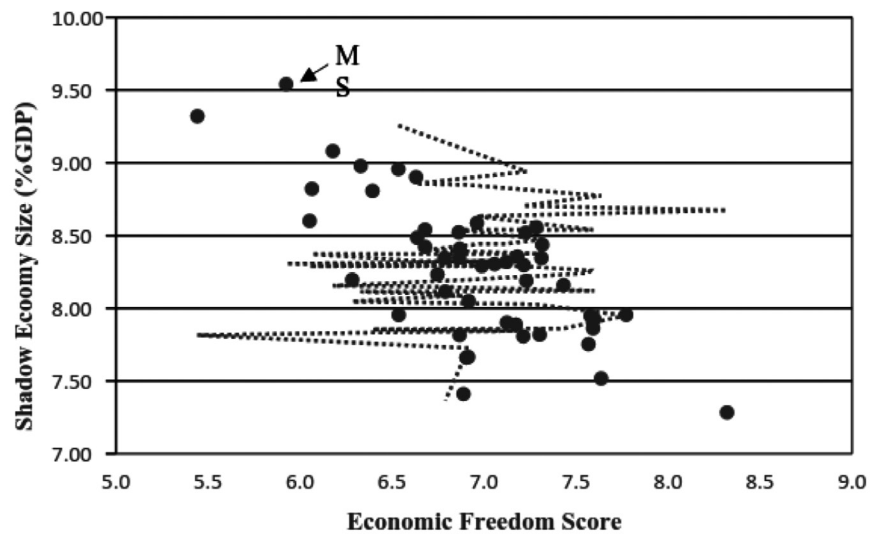
In this case, the welfare beneficiary experiences negative returns (an implicit tax rate of 116 percent), which makes her *worse off* for choosing to pursue legal employment. She may choose, rationally, to remain both in the welfare program and the shadow economy. The important point here is that income earned in the shadow economy is not reported and therefore does not affect the benefits received from government programs – in contrast to the income earned from legal employment. Therefore, high implicit marginal tax rates make participation in the shadow economy relatively more attractive.

Any policy or regulation that raises the cost of doing business – whether as a sole proprietor or larger business entity – in a legal setting or discourages searching for formal employment, will invariably lower the cost of doing business in the shadow economy. Underground exchanges make up a not-so-insignificant portion of total U.S. economic activity. Studies suggest that the value of total U.S. shadow economy transactions, in recent years, rests between $1 trillion and $2 trillion, annually (Wiseman, 2013; Cebula and Feige, 2011). This is clear indication that shadow economies have important policy implications. Shadow economic activity amounts to potentially billions in lost tax revenue.

If you've ever paid cash to the neighbor for mowing your lawn or babysitting your children[3], chances are that you've taken part in an underground exchange. A recent study of U.S. shadow economies documents Mississippi's shadow economy as the largest among the 50 states (Wiseman, 2013). On average, estimates place Mississippi's shadow economy size at 9.54 percent of the state's economy. What this means is that for every ten dollars of income generated in the state's legal sector, nearly one additional dollar is earned in the shadow economy and unreported. In terms of value, based on a 2016 estimate of real GDP in Mississippi totaling $95.3 billion, the state's shadow economic activity amounts to approximately $9.1 billion during 2016. That amounts to approximately $3,044 per person.[4]

Shadow economies are largest where states rely less on capitalism, and more on government. Figure 8.1 illustrates the relationship between economic freedom, from the *Economic Freedom of North America* index, and shadow economy size in the U.S. states.

Figure 8.1: Shadow Economy Size and Economic Freedom



Source: Wiseman (2015), average shadow economy size versus average EFNA score, 1997-2008.

Large shadow economies are an indication of just how difficult it is to create wealth in the formal, legal economy. Moreover, this difficulty produces a number of downsides affecting nearly everyone. For policy makers, one downside is the lost tax revenue from unreported transactions. However, the downsides to the actual buyers and sellers of underground goods and services may be even worse. Transactions undertaken off-the-books expose parties of the exchange to the risk of being swindled in a number of ways. The purchaser of an underground good or service might end up with a faulty product – we've all heard stories of the unlicensed handyman who destroyed more than he fixed or left the job unfinished, then fled the scene – or the seller of services left with a bad check, or no payment at all. These risks are high because in the underground world there is little legal recourse for bad outcomes.

The situation is more ominous in the market for goods that are at all times illegal – i.e., prohibited goods. Prohibitions encourage a lot of bad behavior. Drug markets provide great examples. Since drug suppliers lack legal recourse to, say, the theft of their product, they often take the law into their own hands or purchase protection services from others willing to risk their lives in the underground. History reveals

3 http://www.nytimes.com/1993/05/02/nyregion/nannygate-for-the-poor-the-underground-economy-in-day-care-for-children.html?pagewanted=all

4 Shadow economy value estimates based on the author's own calculations. Real GDP and real GDP per capita estimates come from the Bureau of Economic Analysis (www.bea.gov), and shadow economy size (9.54%) comes from Wiseman (2013). The value of shadow economic activity is derived as (*real GDP*$_{2016}$ *x 9.54%*), or ($95.3 billion x 0.0954) = $9.1 billion. Similarly, shadow economy value per capita is measured as (*real GDP per capita*$_{2016}$ *x 9.54%*) = ($31,881 x 0.0954) = $3,044.

that large underground protection agencies tend to develop around prohibited products for which there remains a very high demand. We know these protection and supply agencies as gangs, mafias, and cartels. When exchanges in these markets go wrong, these problems simply cannot be reported to the legal authorities for restitution. Imagine a drug buyer calling the police to report the drugs he purchased were tainted, or to report a theft that occurs in the transaction.

It is no coincidence that entrepreneurs who are excluded from the formal sector – by prohibitive occupational licensing, or other policies and regulations that make it difficult to secure a job – often turn to underground markets. Moreover, working off-the-books is illegal to begin with, and prohibited goods – e.g., illicit drugs – command higher prices. Those prices are tempting to many who work in the underground.

In a recent study published by the Institute for Justice, *License to Work,* the authors (Carpenter, et. al, 2012, p. 84) assert:

> *"Only four states license more occupations than Mississippi, which has erected barriers to entry in 55 of the 102 low- and middle-income occupations studied. That places Mississippi in the second tier of most broadly and onerously licensed states ..."*

"Low- and middle-income" amount to low- and middle-skill sets – that is, individuals who are *limited in their education and training.* In other words, licensing in Mississippi is aimed disproportionately at those who might benefit most from a job, but simultaneously have the most difficulty obtaining such a job because they lack the competitive skill sets and the income that would give them an advantage in the labor market.. Though licensing doesn't tell the entire story of Mississippi's shadow economy, barriers like these keep the poorest of the population locked in precarious situations – unable to get their footing on the first rung of the economic ladder to prosperity.

For comparison, Figure 8.2 shows the record of 3 states with the largest shadow economies in the nation, and the 3 smallest. Averages of all estimates are provided to demonstrate the remarkable differences in important indicators of wealth and well-being, including the state's real GDP per capita (of legally re-

Figure 8.2: Shadow Economy, Income, Entrepreneurship and Education

	Shadow Economy Size (% GDP)[1]	Real GDP Per Capita[2]	Productive Entrepreneurship Score[3]	% Population with Bachelor Degree or More[4]
3 Largest Shadow Economies				
Mississippi	9.54	$31,881	16.33	20.8
West Virginia	9.32	$36,315	7.85	19.6
New Mexico	9.08	$41,348	23.05	26.5
Averages:	**9.31**	**$36,515**	**15.74**	**22.3**
5 Smallest Shadow Economies				
Colorado	7.52	$52,795	41.06	39.2
Oregon	7.41	$50,582	30.82	32.2
Delaware	7.28	$63,664	37.09	30.9
Averages:	**7.40**	**$55,680**	**36.32**	**34.1**

Sources: 1. Wiseman (2013); 2. Bureau of Economic Analysis; 3. Wiseman (2014); 4. Census Bureau, 2016 ported activities), productive entrepreneurship scores, and educational attainment at the bachelor degree level or higher. The states with smaller shadow economies have, on average, a higher educated population (34.1% with bachelor degrees versus 22.3%), experience more formal sector productive entrepreneurship (an average score of 36.32 versus 15.74), and realize a higher real per capita gross domestic product ($55,680 versus $36,510).

Taking aim at reducing the size of the underground economy in Mississippi would vastly improve the human condition of Mississippians. But how should the state approach it's shadow economy? Research suggests that decreases in tax and social welfare burdens, as well as labor market regulations, are associated with large decreases in shadow economic activity (Schneider and Enste, 2000). For example, a recent study of U.S. underground economies (Wiseman, 2013) suggests a one percentage point decrease in burdens from taxes and charges (e.g., licensing fees) is associated with approximately a 0.3 percentage point decrease in shadow economy size, on average.[5] This may not sound like much, but consider the value of 0.3 percent of Mississippi's 2016 real state-level GDP. At a little over $95 billion, a 0.3 percent reduction in shadow market activity amounts to approximately $286 million, annually. Much of that might be captured in the formal sector once barriers to market entry have been reduced. Most shadow market participants would prefer to do business on the up and up, and they will as long as operating in the legal economy is not prohibitively costly.

Alternatively, the same study suggests that direct attempts to identify and regulate the shadow economy – e.g., increasing police forces to combat underground activity – are associated with much smaller decreases in shadow economic activity. Increasing state expenditures (as a percent of GDP) for shadow market task forces by one percentage point amounts to about a 0.05 percentage point reduction in shadow economy size, on average. Compare this to the aforementioned effect of reducing burdens from taxes and charges (0.3 > 0.05). Moreover, task force measures put additional pressure on taxpayers to fund such initiatives. It is plausible that the increased tax burdens might simply crowd out the efforts of task forces – that is, as task forces reduce shadow economic activity, the taxes required to fund those forces incentivize more participation in the underground – creating a vicious cycle. Furthermore, entrepreneurs and firms already operating in the shadow economy have an increased incentive under pressure from task force initiatives to innovate new methods to avoid detection.[6] Pushing shadow participants deeper underground only increases costs to maintaining an effective task force.

Mississippi Should Provide Shadow Market Participants Incentive to Join the Official Economy

The following is a summary of suggested reforms.

- *Reduce tax and other social welfare burdens*. Reducing sales, corporate, and personal income taxes lowers the cost of formal, legal economic activity. Also, simplifying the tax code to constrain wealth redistribution would leave lobby groups with less to demand, and bureaucrats less to supply. Delaware hosts one of the nation's most inviting tax environments for business – low, fixed corporate income taxes, and no sales tax. It also hosts the smallest shadow economy.
- *Reduce or eliminate occupational licensing requirements*. Hotels, cabs, beauty salons, mail delivery, etc. In the formal sector these industries all profit in a big way from exclusive trade licensing. Unfortu-

5 Wiseman (2013) measures both taxes and charges as a percent of GDP.

6 Recent examples of such innovations include the dark web – a peer-to-peer web platform that houses many services designed to maintain user anonymity in exchanges. Silk Road is one dark web exchange forum where anonymous buyers and sellers exchange illicit goods and services, typically using a crypto-currency (such as Bitcoin) as a store of monetary value.

nately, such licensing keeps many would-be practitioners and customers from engaging in the formal economy. Licensing laws are responsible for many relatively harmless underground industries that states' task forces focus their limited resources on – see, for example, the cases of illicit hair braiders[7] and Uber drivers in Mississippi.[8]

- *Reconsider prohibition*. Undoubtedly, there is substantial shadow economic activity associated with goods that are outright illegal to produce and consume. Choice to outlaw a good necessarily forces its remaining production and consumption underground. For example, with the legalization of marijuana for recreational use in Colorado, Washington, and other states, consumption and production has become more visible. The good is taxed, and producers and consumers have recourse to the legal system and experience workplace and quality standards that go along with the aboveground economy.[9]

Prohibitions are possibly the most troublesome regulations imposed in any one place. They are often based on common misperception that if the good or service is outright prohibited, social ills and anxieties associated with consumption of the good or service will simply go away. However, history tells a different story.

In his autobiography, published one year before his death, famed Spanish filmmaker, Luis Buñuel, declared "*I never drank so much in my life as the time I spent five months in the United States during Prohibition*" (Buñuel, 1982, p. 45). The next section discusses the historical record of America's Alcohol Prohibition, 1920-1933, and explores the shadow economies that developed during the period to provide evidence of policymakers' failure to achieve their stated goals. Importantly, I highlight a feature of Mississippi's regulatory environment that helps explain the state's poor positioning in all measures of freedom and prosperity: a cumbersome habit of maintaining outdated and burdensome regulation for far longer than other state.

Mississippi's Hold-Out Problem

In the July 1, 2016 issue of *The Clarion-Ledger*, a leading publication in Jackson, Mississippi, columnist Michael Rejebian lamented:[10]

> Among America's 50 states, Mississippi is "Juror 3."
>
> You remember Juror 3 from the classic courthouse drama, "12 Angry Men," the story of an all-male jury deciding the fate of a young, poor Puerto Rican man accused of murder. Beginning with a single juror convinced of the man's innocence, the rest of the panel slowly and agonizingly comes to the same conclusion. Juror 3 – like Mississippi – proves to be the last stubborn holdout, finally breaking down in tears at the realization that he is without a foundation with which to continue standing.
>
> Mississippi has always been that juror – the final holdout.

The author goes on to list a number of Mississippi holdout cases. For example, Mississippi was the last state to ratify the Thirteenth Amendment to abolish slavery (in 2013); the last state to ratify the Nineteenth Amendment, which granted women the right to vote (in 1984), and the last state to repeal alcohol prohibition in 1966. The first two bear no real economic consequences – slavery was abolished

7 http://ij.org/client/melony-armstrong/

8 http://www.wlox.com/story/29570549/uber-likely-to-leave-south-mississippi

9 For readers interested in more details about the impacts of marijuana legalization on crime, public health, traffic fatalities, etc., see: https://www.cato.org/blog/common-myths-about-marijuana-legalization. Also, Bradford and Bradford (2016) demonstrate that prescription drug dependency and Medicare program spending is reduced in states that permit medical marijuana use.

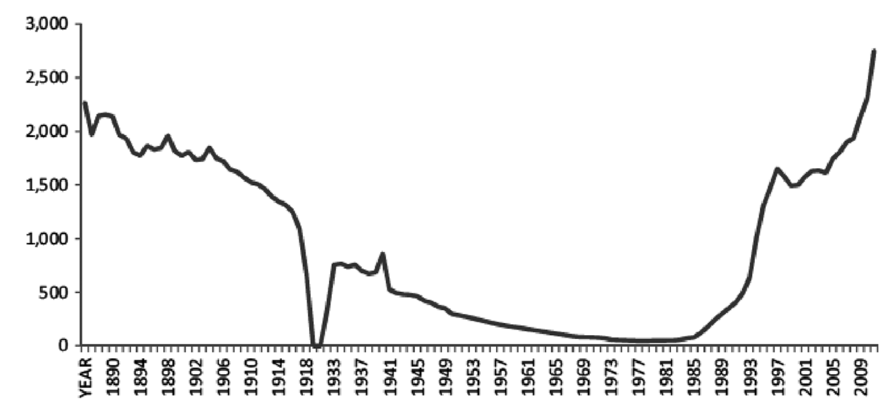
10 http://www.clarionledger.com/story/opinion/columnists/2016/07/01/mississippi-last-holdout/86527622/

nationwide in 1865, and women across the country gained voting rights in 1920 after their respective constitutional amendments were ratified by the required 36 states in those years. The very late Mississippi ratifications were more or less expressions of social solidarity – a 'we're on your side' proclamation of sorts – and each fell on an anniversary of the respective amendments' ratifications.[11] The last repeal, however, *did* have economic consequences, as Mississippians weren't legally permitted to produce alcohol between 1908 and 1966.

First to Prohibit, Last to Permit: Mississippi's Brewing Industry

The ratification of the 18th Amendment to the U.S. Constitution, on January 16, 1919, ushered in a nationwide alcohol prohibition. Mississippi was the first state to ratify the Amendment – having already issued a state-wide ban on alcohol production in 1908, 10 years prior to the federal mandate. Prohibition had a devastating effect on the brewing industry in the United States, and sponsored a monstrous underground economy of beer and alcohol production, and brutal mafia violence, as mobsters fought for underground market share of the liquor trade.[12] Figure 8.3 illustrates the decline and rise of total breweries in the United States across the period 1890 to 2009.

Figure 8.3: Total U.S. Breweries, 1890-2009



Source: Gohmann (2015)

Ratification of the 21st Amendment would later repeal federal prohibition – though not fully – and return decision-rights, concerning intoxicating drink, to the states. Mississippi was the last state to ratify the 21st Amendment in 1933, and would remain the state with the longest lasting outright prohibition on alcohol production, until regulatory repeal in 1966 (Holder and Cherpitel, 1996). Today, 33 of Mississippi's 82 counties – approximately 40 percent of the state's counties – prohibit liquor sales in all or part of their jurisdictions.[13]

In 1978, President Jimmy Carter signed Bill H.R. 1337 – an Act that, among other things, repealed the federal prohibition holdover on home production of beer. The law went into effect on February 1, 1979,

11 These very late expressions should not be entirely discounted as meaningless, however. Important to note, is that these slow expressions of solidarity are also possibly indications of very slow cultural shift in Mississippi. Studies show that informal institutions – such as culture, religion, etc. – play no small role in economic development, and when used to inform policy decisions can lead to negative, unintended consequences (Williamson, 2009). Wiseman and Young (2014) show that states with larger religious networks tend to experience less productive entrepreneurial activity – possibly as a result of more onerous regulations in states with high levels of religiosity.

12 Ken Burns and Lynn Novick recently directed a three-part documentary series that outlines many of the unintended consequences of Prohibition – including increased fatalities due to poisoning from poor quality underground alcohol, mafia wars, etc.: http://www.pbs.org/kenburns/prohibition/

13 Most counties in Mississippi allow beer, wine and alcohol sales in restaurants, and beer sales in grocery stores and convenience stores. Counties designated as "dry" prohibit liquor and wine sales outside of restaurants. "Wet" counties permit sales of wine and spirits in designated storefronts. Some dry counties contain wet cities, also known as "moist" counties – e.g., Newton County, MS is a dry county, but the city of Newton, located within Newton County, permits liquor and wine sales in designated storefronts.

making homebrewing legal at the federal level – again, returning decision-right to the states. Figure 8.3 above shows remarkable growth in the number of U.S. breweries thereafter. Carter's signature prompted the rebirth of an industry. Prior to 1978, homebrewing supplies had to be moved quietly to the basements of aspiring brewers, and brewing carefully undertaken so that neighbors wouldn't catch on and alert the authorities. The following poem captures the spirit of the time:[14]

> *Mother's in the kitchen, washing out the jugs; Sister's in the pantry, bottling the suds; Father's in the cellar, mixing up the hops, Johnny's on the porch, watching for the cops.*

After 1978, a legal network of homebrewers and homebrew suppliers began to develop, and the experienced among them began slowly putting their skills to the test in professional production facilities. Not in Mississippi, however. Mississippi would be the last state in the nation to legalize homebrewing – in *2013*!

As other states led a craft brewing revolution, Mississippians sat on the sidelines, missing out on millions in profit opportunity. In the year prior to homebrewing legalization in Mississippi, the national craft brewing scene contributed $34 billion to U.S. gross domestic product.[15] With only 3 breweries in the state in 2012, Mississippi made only a small, marginal contribution to this total. Today Mississippi continues to lag behind in the brewing industry as a result of onerous state regulations governing the distribution of beer, and relatively heavy tax burdens.[16]

Figure 8.4 shows the 5 U.S. states with the most breweries per adult (age 21+) and the bottom 5, or fewest breweries per adult. A number of measures are highlighted, including economic impact per

Figure 8.4: Breweries Per Capita – Top 5 and Bottom 5 States

	Breweries Per Number of Adults (Age 21+)[1]	Per Capita Economic Impact[2, 3]	Industry Jobs as a Percent of Total Labor Force[2, 4]	Average Industry Wages[2]	Beer Tax Burden[2]	Total Breweries in 2016[5]
Top 5 States						
Vermont	9.4	$1820	2.48%	$38,602	25.1%	73
Oregon	7.6	$1814	2.19%	$45,560	17.5%	304
Colorado	7.2	$2764	2.38%	$54,421	21.8%	386
Montana	6.5	$1295	1.93%	$35,297	19.2%	79
Maine	5.9	$1748	2.46%	$39,541	25.4%	102
Averages:	**7.32**	**$1888**	**2.29%**	**$42,648**	**21.8%**	**189**
Bottom 5 States						
Alabama	0.7	$581	1.02%	$38,715	30.1%	37
Georgia	0.6	$822.	1.09%	$45,203	28.9%	69
Louisiana	0.6	$961	1.60%	$40,989	22.2%	34
Oklahoma	0.5	$723	0.98%	$41,928	30.0%	26
Mississippi	0.4	$147	0.23%	$37,814	32.1%	14
Averages:	**0.56**	**$647**	**0.90%**	**$40,930**	**29.0%**	**36**

Sources: 1. The Brewer's Association; 2. The Beer Institute; 3. Census Bureau (population data); 4. Bureau of Labor Statistics (labor force population); 5. U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau

14 The poems author remains unidentified, only reported as a "Poem by a New York state Rotary Club member" and published in the September 21, 1928 issue of *Collier's Weekly*. Sourced from Noon (2007, pp. 103).

15 The Brewers Association: https://www.brewersassociation.org/

16 Until July 1, 2017, Mississippi breweries were not permitted to sell their product on-site – a regulation which made beer production very costly. Breweries would essentially have to brew large batches of beer and distribute it in kegs, bottles, and cans (which added additional labeling and advertising costs to the process) before they knew whether or not their product had a potential consumer base in the market. https://mississippitoday.org/2017/03/03/senate-passes-bill-allowing-on-site-craft-brewery-sales/

person, percent of the state's labor force employed in an industry related to brewing,[17] average wages for all brewing-related jobs (direct and indirect), state-level tax burden on beer, and total brewery establishments. Again, averages of all estimates are provided for quick comparison. The 2016 economic impact of Mississippi breweries is $147 per capita, and pales in comparison to all other states – including Alabama, which legalized homebrewing just one month prior to Mississippi. Mississippi also hosts the fewest jobs as a percent of the state's total labor force, and imposes a higher tax rate on beer than any other state listed. At the national level, Mississippi hosts the fewest breweries - both total, and on a per capita basis.

Onerous regulations like the ones imposed on the brewing industry in Mississippi keep Mississippians locked in last place. To promote prosperity in the state, policy makers must move quicker to free up productive entrepreneurs to engage in wealth creation through the profit and loss system. While it is instructive to look to other states for examples of wealth creation where there are fewer regulatory burdens, it is important for Mississippi to one day *be that state* to set the example.

Conclusions

This chapter introduces the reader to the shadow economy – what it is, what causes it, what can be done to reduce its size – and highlights Mississippi as the largest shadow economy in the United States. Mississippi's tax and regulatory environments are largely to blame. Onerous occupational licensing, burdensome tax policies and incentive programs, and outdated prohibitions all work against Mississippians by hindering their path to prosperity. Productive entrepreneurs thrive in places where barriers to market entry are low – where they participate less in the shadow economy, and more in the legal sector. This means also that they commit fewer crimes, dedicate less effort toward unproductive rent-seeking activity, and instead focus their efforts towards wealth creation. Mississippians must recognize that government will not pave the state's path to prosperity with wasteful spending initiatives and burdensome regulation. To expand economic opportunities, Mississippians should work to eliminate the government's role in picking who gets to participate in the market and who doesn't. Instead let the free-enterprise system determine that. Unleashing capitalism and promoting productive entrepreneurship in the state is the only way to forward to promoting prosperity!

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17 In addition to brewing, wholesaling, and retail jobs directly related to the industry, this measure also includes indirect employment in other sectors such as agriculture, construction, business and personal services, etc.

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Summary of Chapter Conclusions

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

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

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

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

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

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

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

PART 2: Promoting Prosperity One Issue at a Time

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

About the Institute for Market Studies at Mississippi State University

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

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

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