THE RESPONSIBLE MISSISSIPPI BUDGET 2024

APPROPRIATIONS LIMIT FOR 2024 BUDGET

$6.75 BILLION
STATE GENERAL FUNDS

7.21% INCREASE
on FY 2023 appropriations based on the rate of population growth plus inflation

MsPolicy.org

VANCE GINN, PH.D.
Mississippi has historically been one of the poorest states in America. The state's economy has underperformed, and median household income is lower than in any other state. The Fraser Institute's economic freedom index ranks Mississippi 37th, the Tax Foundation's business tax climate index ranks it 30th, and the American Legislative Exchange Council's measure of economic performance from 2010-2020 ranks it 40th. Also, Mississippi has historically been dependent on federal funds as they now account for 46.7 percent of the state's total budget. If federal funds made a state rich, Mississippi would be among the most prosperous in the nation.

On a more positive note, Mississippi's per capita personal income has increased from $33,657 in 2012 to $45,881 in 2021 in current U.S. dollars, a 36.3 percent increase. There is some evidence that Mississippi's long-term population decline has ended, which will be beneficial to the state's economic potential growth.

In order to improve Mississippi's economy and set the state on a similar growth trajectory to some of its neighbors, state leaders should pass a responsible budget. This would help make Mississippi more competitive, provide a more business-friendly environment, and reduce dependence on federal funds over time.
Figure 1 shows actual state spending compared with what the budget would have been had it followed a fiscal rule based on the rates of population growth plus inflation from 2014 to 2023.

The last decade had two different periods of growth in spending. Figure 2 illustrates that from 2014 to 2020, state government spending increased substantially faster than the fiscal rule would have allowed. More recently, spending growth has been in line with inflation and population changes. Fortunately, spending growth stayed about the same over the last three years even as the fiscal rule increased at a faster rate, thereby correcting some of the past spending excesses to get the FY 2023 budget nearly in line with the fiscal rule.
Over the past decade, the gap between actual spending and the rate of population growth plus inflation noted in Figure 1 has resulted in a cumulative excess in spending of $2.6 billion. This equates to about $900 more in taxes owed per individual taxpayer or nearly $3,600 per family of four, on average, to pay for excessive government spending.

The Legislature’s task is to ensure that actual spending does not rise faster than spending increases based on the rate of population growth plus inflation. In order to reduce the excessive burden placed on taxpayers from overspending in the past, actual spending should be much lower than this fiscal rule.

**FISCAL RULE: Calculating a Responsible Mississippi Budget**

The Mississippi Center for Public Policy is releasing the Responsible Mississippi Budget now for FY 2024 to help limit state spending based on a sound fiscal rule used as a benchmark by other states. This budget considers state spending (general fund appropriations) because that is what Mississippi’s state leaders have the most discretion over and are therefore the most responsible for spending.

The Responsible Mississippi Budget sets a ceiling on the upcoming general fund appropriations based on the sum of the state’s resident population growth and inflation, as measured by the U.S. chained-consumer price index (CPI), over the year before the legislative session (2022). Chained-consumer price inflation accounts for the substitution effect whereby consumers choose different goods and services in a basket over time as their prices change which are not considered in the typically used consumer price index. The chained-CPI is also used to index the federal income tax brackets and other components since the Tax Cuts and Jobs Act of 2017.

The maximum spending is based on the fiscal rule calculated with the following:

a) Level of spending (general fund appropriations) in FY 2023, and

b) Rate of population growth plus inflation.

Table 1 shows the growth rates for the fiscal rule to provide a 7.21 percent rate of population growth plus inflation based on the state’s population stabilizing and an inflation rate of 7.21 percent in 2022.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mississippi Resident Population Growth</th>
<th>U.S. Chained-CPI Inflation</th>
<th>Population Growth + Inflation Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>0.00%</td>
<td>+7.21%</td>
<td>+7.21%</td>
</tr>
</tbody>
</table>

*Note: Data are from Fed FRED for population growth and chained-CPI inflation and authors’ calculations.*

Figure 3 provides the 2024 Responsible Mississippi Budget for general fund appropriations which notes the actual budget should increase by no more than 7.21 percent to a maximum of $6.75 billion. This is the resulting ceiling for the enacted general funds budget, which excludes appropriations from other state funds and federal funds.
Any increase in the rate of spending above the rate of population growth plus inflation necessarily means an increase in inflation-adjusted state government spending per person. Whether such an excessive increase in spending is financed by higher taxes, fees, or debt, this increases the tax burden on Mississippians and should be avoided. And given past spending excesses the actual budget should grow by less if it grows at all to provide the maximum benefit to taxpayers.

### The Potential Surplus

General fund tax revenue collections for FY 2024 is projected to be $7.5 billion, a 7.7 percent increase, according to Mississippi’s Joint Legislative Budget Committee. Were the legislature to adopt the Responsible Mississippi Budget, therefore, there would be an estimated general fund budget surplus of about $0.8 billion.

Given the same 7.7 percent increase, personal income tax collections would be an estimated $2.6 billion, and corporate income tax collections would be about $0.9 billion. A budget surplus of $0.8 billion, much of which is structural rather than cyclical and is excess collections of taxpayer money, could be used to allow further reductions in either income taxes, corporate taxes, or a combination of both.

### What to Do with the Surplus?

There will be no shortage of those on the left wanting to spend it. This would be a mistake. Conservatives in Mississippi should seize the opportunity to use the surplus to make the state more economically dynamic now and in the future.

Mississippi currently has cash reserves of approximately $4 billion. Adding to those funds raises the risk that a larger reserve could allow progressives to increase government spending on ineffective programs. Instead, legislators should return this surplus collected to taxpayers to reduce the long-term tax burden from over-spending with affordable tax cuts.
ADDITIONAL STATE INCOME TAX CUTS
The Mississippi Tax Freedom Act of 2022 (HB 531) substantially reduced the personal income tax rate. That said, the personal state income tax is projected to generate around $2.6 billion in FY 2024.

A substantial portion of the $0.8 billion surplus could therefore be used to further cut state personal income taxes. As a very approximate estimate, a cut in the personal state income tax rate from the expected decline to 4 percent over time could go down to 3 percent which could reduce tax collections by between $500–700 million, so the rate could be cut more if desired for maximum benefit to taxpayers.

REDUCING THE BURDEN ON BUSINESSES
Mississippi’s corporate income tax collections are expected to be about $0.9 billion in FY 2024. Given the expected $0.8 billion surplus, the state could nearly eliminate corporate income taxes. Far from being a tax break for big corporations, such a move would overwhelmingly benefit small business, given that they hire most workers across the state.

CAN MISSISSIPPI AFFORD FURTHER TAX CUTS?

Some in the legislature will say, “What if we can’t afford tax cuts?”

Tax cuts are only affordable if government spending is brought under control. Government never has a revenue problem, only a spending problem. That is why the Responsible Mississippi Budget begins by putting in place a fiscal rule that guards against excessive increases in state spending.

Having introduced a form of fiscal restraint, Mississippi can afford sensible tax cuts. Figure 4 shows that Mississippi has a historically high projected general funds budget surplus of $0.8 billion compared with those over the last decade.

Figure 4. Historical General Fund Surpluses Over Last Decade

Note: Data are from Mississippi’s state budget publications and authors’ calculations.
Is this record surplus a temporary phenomenon due to cyclical factors? Or is this a structural surplus?

While there is always uncertainty, the budget surplus will be only temporary if spending is raised faster than the rate of population growth plus inflation.

CONCLUSION

By limiting the growth of the state’s budget—if it grows at all—the Mississippi Center for Public Policy’s 2024 Responsible Mississippi Budget provides a responsible path forward for the state so that people have more opportunities to flourish.

The Responsible Mississippi Budget should be passed in the upcoming session, and its components should be passed into law to strengthen the state’s weak spending restraint as noted throughout this paper.

And by passing a budget that grows by no more than the rate of population growth plus inflation, there will be an opportunity to provide substantial tax relief that will increase economic freedom in Mississippi thereby making it a more attractive place to live, do business, and raise a family.

The result would be increased individual liberty, more economic prosperity, and enhanced paths to living the American Dream.
**About the Mississippi Center for Public Policy**

The Mississippi Center for Public Policy is an award-winning 501(c)3 non-profit advocacy organization. Strictly non-partisan, we make the case for low taxes, light regulation, free markets, and individual liberty in Mississippi and across America.

We have an exceptional track record of getting our policy proposals turned into law. The State Policy Network presented us with the “Biggest Win for Freedom” Award in 2022 in recognition of our effectiveness in driving tax reform in Mississippi. Our bill to combat Critical Race Theory became law in 2022. We led efforts to pass a Universal Occupational Licensing Act, making it easier for people to find work in our state.

We are able to achieve these strategic wins because we have created a mass audience for our output, and we aim to reach many thousands of Mississippians with messages that resonate.

Our newly launched Mississippi Leadership Academy introduces young people to the basics of the lawmaking process, free market ideas, and media management so that they might join us in the fight for liberty.

**About Vance Ginn**

Vance Ginn, Ph.D., is an accomplished economist finding free-market solutions that let people prosper. He is founder and president of Ginn Economic Consulting where he provides high-quality research and trusted insights on how to affect change at the federal, state, and local levels. Ginn's experience includes time in public policy, government, and academia. He is chief economist at Pelican Institute for Public Policy and a senior fellow at several think tanks, including at Americans for Tax Reform, Texas Public Policy Foundation (TPPF), and Young Americans for Liberty. He previously served as the associate director for economic policy of the White House's Office of Management and Budget, 2019-20.