

Adding It Up: The Economic Impact of Incarceration on Individuals, Families, and Communities

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Abstract

Much has been written on the causes and negative consequences of arrest and incarceration on the employment and earnings of individuals. Research has documented the social and psychological effects of crime on families and children. But the impact of incarceration on communities has received little attention, other than to document the positive economic benefits of prison building and administration.

This paper seeks to begin to fill this gap by developing a conceptual framework for examining the economic impact of incarceration on human capital, and by extension, on families and communities. Hopefully, our framework and suggestions for further exploration will help shape federal, state, and local policies that will minimize the loss of human potential to crime and its consequences.

Economic Implications of Incarceration for Working-Age Persons

The vast majority of inmates and persons under supervision by the justice system are males of prime working age. Freeman (1991) estimates that about 25% of all young men 16 to 34 years old committed crimes in 1988 and that 14% of all young men were arrested in that year. The rates are disproportionately higher for African-American males. Although African-Americans make up about 12% of the population, African-American males account for one-third of arrests and one-half of all incarcerations. According to Freeman's estimates, 20 to 30% of young African-American males were incarcerated or under supervision in 1988. Many more have a criminal record.

Adults in jail or prison are out of the regular workforce, and once released, they are viewed less positively by employers than persons without a criminal record. However, the research evidence on whether incarceration has a negative effect on future employment is inconclusive. Ethnographic studies indicate that after release from prison individuals have difficulty finding and keeping a job. (Good, Pirog-Good, & Sickles, 1986; Majors & Billson, 1992). Economic analyses using micro- or individual data generally confirm links between incarceration and employment, although the strength of the relationships and the direction of causality varies.

Unemployed individuals are more likely to be arrested and incarcerated. About 30% of inmates, for example, were not working at all in the regular labor market at the time of arrest (a very high rate of unemployment), although some of these individuals

presumably had earnings from informal labor or illicit activities. But that means 60% of inmates were employed full time prior to incarceration (Meyers & Simms, 1988).

Furthermore, Freeman (1991) estimates that incarceration reduces the number of weeks worked for men by about 20 to 25% and parole/probation by about 10 to 15%. Survey data indicate that one year after release, as many as 60% of former inmates are not employed in the regular labor market. Other research suggests that former prisoners are able to find jobs at the same rate as other adults but that these jobs are less desirable because they are lower paying and have high turnover rates. (Schmidt & Wirte, 1984)

Similarly, microdata provide important information about the social, demographic, and psychological causes and effects of incarceration on individuals. But they do not adequately incorporate relevant environmental factors to determine the separate effects of incarceration and socioeconomic conditions. Although some micro-economic studies include an unemployment rate variable, more refined quantitative measures of local socioeconomic conditions are rarely included.¹

The effect of local socioeconomic conditions on crime also remains unclear. Areas with high poverty concentrations tend to have high crime rates. Some research suggests that high unemployment areas have high crime rates, and there is some evidence of a macroeconomic incentive effect on crime. Periods of high unemployment, for instance, are associated with high crime rates--although the size of the effect may be small, and the process by which these effects occur has not been fully explored. A careful study by Lee (1993), as cited by Freeman (1994), estimates that a one point increase in the unemployment rate raises property crimes by 1.1 to 1.4%. However, other studies have found no such relationship (Freeman, 1994). One explanation for the apparent inconsistency is that crimes, as distinct from potential offenders, are not necessarily concentrated in depressed areas. Better opportunities, at least for property crimes, may be found in areas of higher economic growth and prosperity.

The net effect of prosperous economic conditions on crime is also unclear. According to human capital analyses, increasing economic opportunities, declining unemployment rates, and increasing wages tend to decrease some types of crime committed for economic reasons (e.g., street robberies) because individuals rationally choose employment rather than crime as a source of income. But several studies suggest that rising incomes and economic growth in a community may result in increased crime as the opportunities for criminals increase, or the demand for certain illegal goods (e.g., drugs) increases as the incomes of potential customers rise. Overall, however, the inverse relationship between prosperity and crime seems to dominate.

Some categories of crime (e.g., prostitution, drug dealing) are more clearly market-oriented--the market responds rationally to supply and demand forces. Other crimes have no clear economic rationale (violence, rape) and have only indirect relationships to economic conditions, resulting from increased stress and dysfunction caused by poor economic situations. In any particular community, both market and nonmarket factors are relevant when analyzing employment, crime, and incarceration.

Despite the difficulty in disentangling the link between crime and the economy, most ethnographic and sociological analyses over the years suggest that economic and neighborhood conditions strongly affect crime and incarceration. At a minimum, individuals' perceptions of economic opportunities--whether or not they reflect real conditions--can influence the choice between crime and employment (Currie, 1985). Recent studies emphasize that the nature of crime, especially in many inner cities, increasingly involves group, rather than individual activity, bolstering the importance of community or neighborhood factors.

What about longer-term impacts? Research indicates that the negative effects of crime on subsequent employment varies along several dimensions. Not all individuals are similarly affected. Hagan (1991), for example, found that delinquency and arrest had a more serious negative effect on future employment for low-income youth compared to youth from higher socio-economic backgrounds. Clearly, there are cultural, family, and community effects that intervene between crime and employment outcomes, at least at very young ages.

The relationship between poverty and crime is well-documented. Research on the urban "underclass" even defines underclass neighborhoods based on an index of social and economic distress that includes crime (Sawhill, Mincy, & Wolf, 1990). Seminal work by Wilson (1987) postulates that the deteriorating employment and economic systems in inner cities contributed to the increase in crime and other social problems. Wilson's work has stimulated substantial controversy--strong evidence that the relationship between individual and community factors in inner cities is very complex and that the direction of causality is unclear.

Regardless of causality, public policies that treat crime, poverty, and community conditions independently may inadvertently make these problems worse, precisely because they are so interrelated. Currie (1985) suggests that there are unintended consequences of economic and social policies and trends on crime. Tight money policies, reduced spending on education and training, economic recessions, and business closures or relocations exacerbate problems in poor communities. Moreover, high rates of crime and incarceration tend to make a poor economic situation worse, which may contribute, as Wilson explains, to a cycle of continuous deterioration and blight.

Thus, there are some fairly obvious economic implications of high rates of criminality and incarceration. Much research has focused on the economic consequences of criminal behavior on individual labor market activity, employment, and earnings. Similarly, research has attempted to clarify the relationship between crime, incarceration, and employment at the community level. Ethnographic and sociological research has examined the interaction of various social and economic factors, including crime and incarceration, at the community level. But few empirical studies have focused on relationships among crime, employment, and communities. The research that has been done presents mixed findings. To fully understand the role of crime and incarceration on local economies, we need to better identify both the independent relationship between incarceration and the economy and the interactive effects of incarceration with other

factors. Adopting a more complex model is vital to the development of strategies to reverse or mitigate negative effects. Partial explanations may encourage policies that result in unintended and possibly detrimental results.

Conceptual Framework

Incarceration affects the individuals confined, their family and other close associates, and, by aggregation, the economic and social conditions in their local community. Effects on communities depend on: the extent of crime and incarceration in the community (both the numbers of persons and the proportion of the total population), the relative effects (negative versus positive) on individuals and families, and the extent of economic development related to criminal justice operations in a community. While some research has focused on the individual effects of incarceration and some has focused on the community effects, little analysis has attempted to examine how they work together.

Most of the economic effects of incarceration can be considered negative if for no other reason than prison wastes human capital. But there are some neutral and even positive effects that must not be ignored. For example, some communities will benefit from employment and income generated by justice system facilities and activities that accompany high and growing levels of incarceration.

For a given community, the overall effect will depend on the sum total and interaction of the effects along each of these dimensions. Communities experiencing the greatest adverse economic effects, then, are likely to be those with high crime rates, high numbers and proportions of adults incarcerated, and negative secondary effects outweighing the positive ones.

The framework for examining the economic consequences of incarceration on communities consists of four components (human development, employment and income, cost of crime, and community development) operating at three levels (incarcerated individual, his/her family, entire community). These measures are discussed in the following sections.

Consequences for human development. Incarceration represents an involuntary interruption of normal life for the offender and, therefore, brings different physical and psychological developmental influences to bear on the person during the period of confinement. For example, for some individuals, isolation from familiar places, friends, and family members results in depression, anxiety, and emotional withdrawal. In others, it strengthens their will toward self-improvement. How confinement affects human capital depends on the influences that lead to changes, which figure into subsequent labor force participation.

Economic theory suggests that human capital could improve during incarceration if prisoners: complete high-school equivalency programs, earn college credits or degrees, develop occupational skills through formal training programs or work assignments,

improve their physical and mental health by receiving regular health services, practice good nutrition, exercise, and abstain from alcohol and drug use.

However, there may be factors that detract from these benefits to human capital. And human capital may be increased in socially undesirable ways. For example, some individuals strengthen and/or expand their skills related to criminal activity and develop personal networks with established criminals inside and outside the confines of the institution. There may be negative psychological effects of incarceration (low self-esteem, distrust, defensiveness, aggressive mannerisms) that form barriers to seeking employment and performing on the job.

The length of incarceration may also influence the intensity of the effects. It may be that both the positive and negative effects are magnified the longer one is incarcerated. For recidivists, there may be fewer positive effects and more significant negative ones. Mincy (1994) suggests that for many men, especially young African-American males, the first real opportunity for developing their human capital occurs through the criminal justice system. If so, there may be justification for increased investments that enhance the positive development of incarcerated individuals and decrease recidivism.

Just as there are possible negative and positive effects on the individuals incarcerated, there are mixed implications for the human capital of their family members and significant others, especially children and the other parent. The personal behavior of individuals before they are incarcerated obviously mediates the impact of their incarceration on their families and friends. Some will have been abusive and negligent in their intimate relationships. Others will have been responsible, caring spouses and parents.

For example, removing a negative influence from the home could yield positive effects. If a person who has been disruptive, offensive, or irresponsible at home is incarcerated, remaining family members may stabilize. Adults may feel more able to pursue education, employment, and other productive activity that could improve their own human capital. Similarly, children may improve psychologically and perform better in school, which should, in the long run, increase their human capital. The opposite effects might occur after such a person is released from prison. There is at least anecdotal information from a study of teen parent programs that some young mothers making noticeable progress in education, training, and employment experience a setback when their male partners are released from the justice system. (Cohen, 1992)

However, if an otherwise responsible adult is removed from the home and incarcerated, the household would lose economic resources, and social and emotional capital. The effects on children may be particularly negative if a caring, nurturing parent or other supportive adult is removed from their lives.

In any situation, families and children of offenders are likely to experience some negative effects during the period of incarceration and after release. Attitudes that develop in childhood and adolescence influence choices individuals make as they transition into

adulthood. For example, having a negative adult role model may hinder the children from developing positive attitudes about work and responsibility. And, if criminality is perceived as acceptable adult behavior, some children may routinely enter the illicit market rather than the legitimate labor market.

Even if the parent had been a negative psychological force in the family, and had not been legitimately employed, he or she might have provided important financial support to the family, with income from informal and/or illicit activities. And, even if there were no significant financial contributions before incarceration, during incarceration there is no opportunity for contribution. Secondary, poverty-related effects on the family and society may result when the remaining parent cannot fully support the household financially and public assistance receipt increases. Moreover, disadvantage in the labor market, as discussed below, is likely to limit an ex-offender's financial contributions to family and children.

Consequences for employment and income. Incarceration affects the documented, undocumented, and illicit labor markets. When people are removed from a community to jail or prison, they are no longer available to supply services and talents to any of these markets. The income from any job they held is lost. They will remain out of the regular labor force for the period of confinement.

Several factors need to be sorted out here. Was the offender employed in an illicit income-producing activity--drug selling, thievery, prostitution--or acts that do not involve material gain--rape, murder, vandalism? Illicit employment may have been full-time or combined with a legitimate job. Was the offender self-supporting, and were others partly or fully dependent on her or his income? Or was the offender dependent on family, public, or charitable sources? Alternatives to incarceration that permit continuation of licit income-producing activities (or even offer them) along with supervision to monitor and minimize any return to the illicit ones have obvious advantages for offenders who have useful work experience and responsibilities to provide support to others.

The end of any spell of incarceration raises another set of issues having to do with re-entry into the labor market. First, the ex-con label blocks entry to many jobs. Some former licit employers may be willing to re-employ an offender who has a good job record, but that depends on the chance that an appropriate job opening exists. Parole or other post-release obligations may also hinder re-entry into the labor market. Resuming previous illicit work may be the only readily available alternative given the substantial pressure to regain an income, particularly if the person has family responsibilities and wants to regain lost authority within the family. Alternatives to incarceration may be less stigmatizing in the labor market and could prevent the interruption of otherwise viable employment, income, and support arrangements. Such alternative would also prevent the acquisition of crime-oriented human capital that can occur in prison. Considerations such as these do not necessarily outweigh the arguments for incarceration in every case, but they should be carefully weighed, especially for first offenders and nonviolent offenders.

There are two effects of incarceration on community employment and income. The first is the sum of the individual effects. Incarceration of a person who holds a job--licit or illicit--creates an opening for someone else. If there is substantial unemployment or underemployment in the area, such openings will be filled and unemployment will be that much less. In such a transaction, community income is not affected--only who gets it. If the incarcerated person had been dependent on public or private benefits (unemployment compensation or family support), those costs will decrease during the period of incarceration.

High rates of incarceration in a community also deplete the supply of labor. In a stable market, employers could have difficulty hiring. But communities with high incarceration rates generally have substantial unemployment. When the offender is returned to the community, the difficulties and handicaps in finding steady licit work add to the level of joblessness. The process of incarceration and release almost certainly has an overall effect of increasing community unemployment, as well as placing more of the jobless in the hard to employ category. The offender's return to illicit sources of income and eventual return to prison are very likely outcomes.

The second way that incarceration affects local income and employment is through the administration of the criminal justice system. The high and rapidly growing rates of incarceration carry with them growing rates of employment for prison staff, parole and probation officers, and construction workers. However, these jobs are not usually held by community residents, and the accompanying income rarely benefits the community from which the offenders originate. Nevertheless, they may be counted in a local community's economic base, and they represent substantial sources of income and political interest.

Consequences for crime-related costs. Do high rates of incarceration reduce the costs of crime in the community? Is there evidence that communities that have placed a larger fraction of their population in prison have less crime, or less serious crime? Aside from the costs of incarceration itself, is the policy effective either in terms of deterrence or incapacitation? Freeman's (1994) analysis of the gross disparity between the observed trends in crime and victimization and the consequences that ought to follow from even modest incapacitation effects is persuasive evidence that something else is increasing the crime rates, even though we are incarcerating more people. Clearly the deterrent effect of higher incarceration rates has not reduced crime. But this does not allow us to infer that crime would not have been much more prevalent with a lower rate of incarceration.

Perhaps jail and prison crowding, produced by incarceration rates outrunning prison construction, have induced increases in early release or shortened sentences and therefore diminished both the deterrent and the incapacitation effects. Shorter stays represent less of a penalty in terms of freedom. They also mean that the reduction in criminal propensity that usually follows maturation will not proceed as far as it would with longer sentences--we get more crime from released offenders than we used to. A more subtle effect comes from the possibility that higher incarceration rates bring in more persons with relatively low propensities to commit crimes, and incapacitating them does not have as big a payoff.

But whatever might have happened in response to a less vigorous incarceration policy, Freeman (1994, p. 27) concludes that we have ". . . developed a large relatively permanent group of young male offenders and ex-offenders, who for the most part are unlikely to be productive members of the work force in the foreseeable future." The chances of this labor force contributing to future crime statistics seem particularly high.

In considering the effect on community crime rates, it may be useful to distinguish criminal activity that is demand driven, such as drug selling, from those that are entirely initiated by the criminal, such as rape. If the demand for drugs remains stable, incarcerating drug sellers will not reduce the level of such crime. It merely opens the door for a new recruit. In the meantime, the incarcerated seller can improve his skills and contacts and will probably be released early to make room for the seller who replaced him on the street. In this way, an active and efficient system of incarceration could increase a community's supply of competent drug sellers, who might even find some way to increase demand for their wares. While this process may involve heavy costs for society--both in terms of running prisons and the consequences of drug abuse--it is not clear that the local community has any better opportunities for external trade.

Consequences for community development. An obvious question is: which community? Communities that receive the new investment in correctional facilities to handle the growing prison population will gain jobs and new business. An added source of primary employment increases secondary and tertiary business activity. It is hard to find a community that is eager to close down an existing prison facility.

But what about communities that supply disproportionate shares of the added prisoners? If high incarceration rates derive from strict enforcement and prompt sentencing, they may offer a sense of safety and security that will encourage new investment. This is most likely if evidence of reduced crime leads to lower insurance and security service expenditures. But the most likely beneficiaries of this effect are not the communities most depleted by the incarceration policies, but those less blighted adjoining ones. For communities that bear the main burden of high incarceration rates, there is little reason to expect developmental benefits. As discussed above, the human capital in the community is generally depleted, or in the case of the ex-offenders developed in undesirable ways. Illicit businesses may find a ready labor supply, but these do not provide incomes that are either steady or high enough to support a thriving community. As mentioned, much of the work involved in supervising parolees or probationers, or providing other rehabilitative services will be done by outsiders. Such communities might be described as outdoor asylums.

Even the benefits that might be expected from reduced crime appear doubtful given the persistence of high crime rates despite drastic increases in incarceration. We must expect that high rates of incarceration as currently practiced damage the human development on which a community's economic vitality ultimately depends. The damage affects the persons incarcerated, those family members and others directly associated with them, and finally all young persons who are regularly exposed to a social norm that includes criminal activity and incarceration as standard operating procedure.

Implications for Policy and Research

From a research perspective, there is a need to better define and measure the employment, income, and human development effects of incarceration. Much of the research on the linkage between criminality and economic activity has focused on understanding the causes of criminal behavior, the economic and social factors related to individual decisions that result in criminal activity, the separate and interactive effects of age and maturation in both employment and criminality, and the employment consequences of having a criminal record. Analysis using large longitudinal data bases such as the National Longitudinal Survey of Youth (NLSY) contributes to the growing base of knowledge about the economic and labor market effects of criminality and the social and economic factors that may cause criminality.

The previous discussion suggests several issues for continued research necessary to better understand the economic effects of criminality and incarceration on communities. Ideally, one would identify control groups of individuals, families, and communities immune from incarceration to analyze the net effect of incarceration at each of these levels. This is clearly not feasible in a real world setting. At a minimum, though, we must fully understand the pre-incarceration situation at the community and family levels. Gathering baseline information about family life and parenting are especially important; for example:

- sources and amounts of individuals' licit and illicit income and the percent of the family's total income;
- amount and regularity of financial support, including cash, rent, formal child support payments;
- amount and regularity of in-kind material support, such as food, clothing, equipment, and supplies;
- amount and regularity of parenting in terms of physical custody;
- amount and regularity of positive parent/child interaction; and
- history of domestic violence/abuse.

This information would then form a comparison against which to measure changes in family life and parenting practices during the following incarceration. Other factors--type of crime, kind of community, shifts in crime patterns or incarceration practices--related to the changes observed and the variations within and across communities would also be defined. Significant measures would include:

- type of community; inner-city, urban, suburban, non-metropolitan, small town, rural;

- percent of population incarcerated, by age group;
- recidivism rates;
- crime rates, by types of crime; and
- socio-economic conditions: employment growth or decline, unemployment rate, poverty rate, average income.

Statistical multivariate analysis could measure the net effects, controlling for what would have happened in the absence of large increases in incarceration rates. In all analysis it is important to differentiate between demand versus opportunity-driven crime and income-producing crime versus crime that apparently satisfies other needs or urges.

Important analytic questions include:

- What is the relationship between the effects of incarceration on the human capital of individual prisoners and the effects of incarceration on the economic status of families and the development of children? This interaction is a critical component of measuring community effects.
- What are the economic effects of incarceration for demand-driven crime (drug dealing or black-market sales) versus supply or opportunity-driven crime (assault, murder, embezzlement), and by length of time incarcerated (including recidivism)--for offenders, families, and communities?
- What current programs and services minimize the negative human capital effects of criminality and incarceration, such as dysfunctional work habits? How do sentencing alternatives to incarceration (probation, residential supervision, community service) affect the employment and income of ex-offenders?
- What current programs and services for inmates develop human capital in positive ways (improve education, occupational skills, mental and physical health), and how do these interventions affect subsequent employment?
- What current programs and services for inmates focus on improving parenting skills and family relationships? Are they effective?

Such research agenda would greatly expand knowledge about the relationships among incarceration rates, family impacts, and community conditions and would help refine the conceptual model. New data collection would be needed to fully address the issues and might include:

- survey interviews with inmates and ex-offenders and with their families in various community environments to determine factors that affect pre- and post-incarceration situations;
- longitudinal samples of court records, crime, education, and other vital community statistics;
- interviews with community leaders and service providers, local employers, educators, and criminal justice administrators; and

- a time series on social indicators for communities relating to crime, incarceration, employment, domestic violence, educational attainment of youth, and teenage parenthood.

From a policy perspective, the results of such research should help to identify promising interventions and services that would alleviate negative economic effects of incarceration and maximize potentially positive effects. This includes policies aimed at preventing crime and incarceration in the first place, alternatives to incarceration, interventions during periods of incarceration, and postrelease economic and social services.

It is also important to accumulate better evidence on the full cost of current policies, including the heavy burden on the families and communities to which former prisoners return, as well as the actual budgetary costs of replacing earnings and supplying other ameliorative services. When this total is added up, we believe the costs of "knee-jerk" incarceration will far outweigh the benefits. Careful analysis of the impacts on different kinds of criminal activity may inspire more imaginative approaches to crime reduction than the "one size fits all" prescription for greater safety and rectitude that dominates the current debate. Building a more effective and affordable justice system depends on carefully verified experience.

FOOTNOTES

¹Many of these studies are reviewed in Freeman (1994).

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