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Author(s): L. Randall Wray

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A New Economic Reality: Penal Keynesianism

L. Randall Wray

Randall Wray says building prisons in such quantity—and the growing privatization of incarceration—has many of the stimulatory consequences of defense spending. But even aside from moral and criminological issues, penal Keynesianism does not have many of the benefits of military Keynesianism.

THE American criminal justice system today focuses to an unprecedented degree on incarceration as a means to punish transgressors. As we will see, this practice deviates substantially from practices of other Western nations, and, indeed, from Western justice tradition. Incarceration is expensive, which has led to attempts to reduce costs by relying on the discipline of the marketplace through “privatization” of prisons and, more importantly, by putting prisoners to work for private firms. These largely complementary movements are generating what might be termed a “prison-industrial complex,” or a form of “penal Keynesianism.” In this article, it will be argued that while penal Keynesianism does replicate some of the features of military Keynesianism, it is not likely to generate as many supply-

L. RANDALL WRAY is professor of economics and senior research associate, Center for Full Employment and Price Stability, University of Missouri–Kansas City. The author thanks Marc-André Pigeon and Poti Giannakouros for research assistance and Mat Forstater, Patrick Mason, Samuel Myers, and Bruce Western for data and references to the literature.

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side and demand-side benefits, and thus cannot be seen as a replacement for the old military-industrial complex. Most importantly, while military Keynesianism tended to enhance the employability of many young, lowly educated males who were able to enter military service (thus lowering the overall unemployment rate), imprisonment does not generally do so. Indeed, even if full employment were attained within prison walls, it is not clear that this result would generate net benefits to society as a whole. The reason is that employed inmates would compete directly with low-skilled young males outside prison, who already have shockingly low employment rates. Thus, it will be argued that before society makes prison employment a high priority, it ought to ensure that the “pre-prison” population of young males without a high school degree has adequate access to jobs.

The Place of Incarceration in Western Justice Tradition

America reached a milestone during the second month of the new millennium, although not one of which we should be proud: We now hold 2 million people in our nation’s prisons and jails. With only 5 percent of the world’s population, we have a quarter of its prisoners. We actually hold half a million more prisoners than China does (in spite of its well-known human rights abuses), even though our population is one-fifth its size. Our incarceration rate now stands at 724 (inmates per 100,000 population)—tops in the world and far ahead of those of other civilized nations (in 1993, incarceration rates stood at 36 in Japan, 80 in Germany, 93 in England, and 116 in Canada). Our incarceration rate had held relatively constant from the mid-1920s through the early 1970s, but literally exploded after 1976 (see Figure 1). At current rates of growth, the incarceration rate will reach nearly 1,900 per 100,000 by the end of the first quarter of this new century. Note that rising incarceration rates are not driven

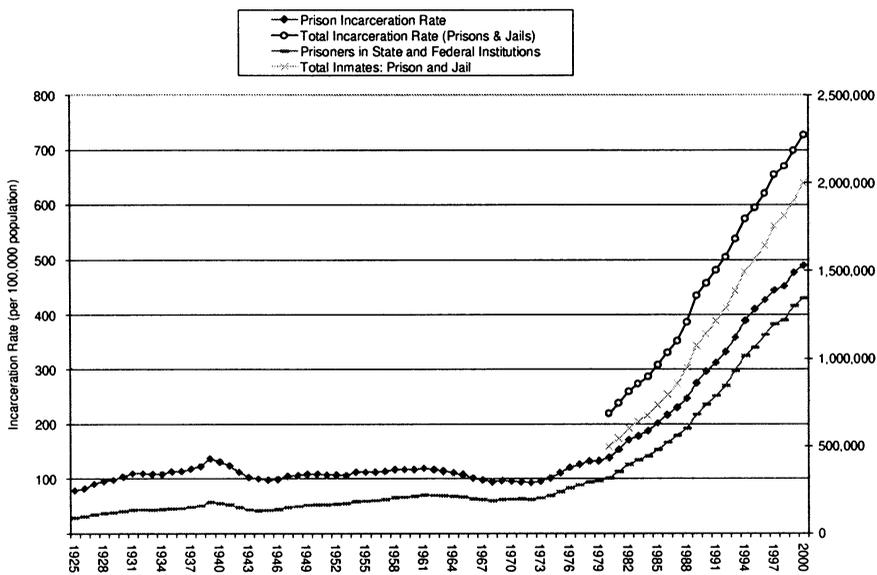


Figure 1. Incarceration Rate and Inmate Population Data, All Levels of Government, 1925–2000

Sources: Bureau of Justice Statistics (prison + jail population data), specifically the Bureau of Justice Statistics Correctional Surveys (National Probation Data Survey, National Prisoner Statistics, Survey of Jails, and National Parole Data Survey). Bureau of Justice Web site is www.ojp.usdoj.gov/bjs. *Sourcebook of Criminal Justice Statistics* (1998) for the prison incarceration data. Census Bureau for population data in the recent period (used to compute incarceration rate for the prison and jail figures). Census Bureau Web site is www.census.gov.

by rising crime rates—indeed, excluding drug arrest rates, crime rates fell across the board throughout the 1990s even as the number of inmates grew consistently over the decade at an annual rate of 6.2 percent per year. Note also that, except for homicides, U.S. crime rates are not higher than those of other developed nations with incarceration rates that are far below ours. Rather, we differ from other nations only in our high propensity to imprison nonviolent offenders and to incarcerate them for long periods.

Not only do we deviate from current practice of other nations, we also deviate substantially from Western justice traditions. The modern American view of imprisonment as a means of punishing the guilty and of protecting society is quite foreign to West-

ern tradition. Throughout Western history, justice has primarily taken the form of imposition of fines, although banishment, torture, and capital punishment were sometimes used for more serious crimes. Use of fines, in turn, seems to have derived from elaborate compensation schedules developed in tribal society. Transgressors would pay "Wergeld" to victims to prevent blood feuds. In ancient Greece, the tendency was, according to Demosthenes, to punish the free citizen "in his property" (fines, appropriation) and the slave "in his body" (torture, mutilation, death). Prisons, in the modern sense of the term as a place of incarceration for the purpose of punishment and to remove criminals for the safety of society, really only date from the sixteenth century. Until that time, jails were used primarily to hold the accused until trial or the guilty until punishment was carried out or restitution paid.¹ Ulpian, the most influential Roman jurist, argued that throughout Roman law, prison was only for confining men, not for punishing them. Raleigh-Bratton, the great English jurist of the thirteenth century, echoed Ulpian when he confirmed that prisons are for "custody," not for "punishment."² There is evidence that this ideal was not strictly followed. However, punitive imprisonment for any length of time seems to have been quite exceptional before the eighteenth century.

With the rise of capitalism and the concomitant growth of crime committed by those who were financially unable to pay fines, however, other punishments became more common. Generally, lower-class criminals faced torture and mutilation or death. Even in late eighteenth-century England, for example, the list of capital offenses ran to 240 crimes. However, in practice, capital punishment was rarely enforced. In Mediterranean nations, sentences were commuted to service in the galleys, while in northern nations those sentenced to death were exiled instead. For example, on average 94 percent of eighteenth-century death sentences in England were commuted to "transportation." Interestingly, the

roots of the modern prison system can be traced largely to Colonial America—destination for many of England’s criminals. Not only was incarceration proposed as a more humane alternative to capital punishment (and commutation to “transportation” would have been difficult for a penal colony, in any case), but, more importantly, early American prisons were promoted as correctional facilities, based on the notion that criminal behavior could be reformed (not coincidentally, a view that was consistent with the enlightened view of humanity that was popular in early America).

In practice, little “correction” was ever attempted in American prisons. According to the Wines and Dwight report of 1867, “not one of the state prisons in the United States was seeking the reformation of its inmates as a primary goal” (Rotman 1995, 172). This report helped to generate a great reform movement, substituting correction for punishment, at least in theory. For a relatively brief instant, the view that prisons might be used to reform the behavior of criminals spread from America and captured the imagination of Western reformers. However, that view is now mainly anachronistic—largely because it proved to be mostly false. While the progressive movement did improve the treatment of prisoners (mutilation and other extreme forms of physical punishment are no longer accepted practice within Western prisons, and health and sanitation within prisons have improved immeasurably), Rotman concludes today that “the Progressive prison-reform movement fell considerably short of its aims. . . . Rehabilitative programs were rarely executed. . . . The progressive prison was as maladaptive as its predecessors” (1995, 183).

Further, while there is little evidence that higher incarceration rates or longer prison terms have any predictable effect on crime rates, “the public has always overwhelmingly supported whatever punishments were inflicted as a means of either reducing

or preventing an increase in crime" (Morris and Rothman 1995, xii)—whether capital punishment or mutilation for petty offenses, incarceration for nonpayment of debt, or "three strikes and you're out" laws.³ This is not surprising, given that modern justice has excluded victims from the justice system. Uncompensated, victims and potential victims always push for harsher punishment. Punishment, not reformation, captures the imagination of the public today, and American punishment today to a very large extent means imprisonment. The problem is that one cannot conceive of a system that would render perpetrators less fit to live in civil society than one composed of long periods of incarceration under conditions of inhumane treatment—which is exactly the punishment that the public wants to impose.

Prison Employment in America

Another problem is that long-term incarceration is very expensive, so America has always been interested in cutting costs. Most importantly, in the past, prisoners were rented, leased, or sold to private firms, or used as mostly unpaid labor by government. In 1885, 90 percent of prisoners in the United States worked in one of a half dozen different types of schemes (Marshall 1999). In the North, the contract system was most common, while in the South, the lease system was mostly used and sometimes abused. Tales of southern sheriffs who rounded up young males when free labor pools shrank excessively are common. In some cases, plantations were operated using prison labor that consisted of freed slaves convicted of petty theft—essentially restoring the slave plantation.

During the 1930s, as the number of poor whites in prison grew, pressure to severely restrict the use of prison labor increased—in large part because while white Americans did not mind seeing black prisoners abused in chain gangs, they blanched at the

sight of white prisoners suffering at the hands of enthusiastic southern sheriffs. Legislation to greatly restrict use of federal prison labor was enacted in the 1930s, and restrictions on interstate trafficking in the goods produced by prisoners reduced the use of inmates in state and local prisons as a source of contract and lease labor. By 1997, only 6.2 percent of U.S. prisoners worked in jobs other than those directly related to prison support (custodial, food preparation, and so on, within the prison for the benefit of prisoners) (Marshall 1999). Thus, today fewer than 75,000 prisoners produce goods for use in the public sector while another 2,500 work for the private sector producing marketable goods and services (in contrast, 600,000 work in prison support—significantly lowering costs of the penal system, but generating no revenue with which to pay guards and facilities costs) (Freeman 1999).

Given exploding incarceration rates over the past two decades, costs are rising quickly. In 1982, total justice expenditure (including federal, state, and local spending on police protection, the judicial and legal systems, and corrections) was under \$36 billion, but reached nearly \$120 billion by 1996 (see Figure 2).⁴ Corrections spending is growing faster than other components of the justice system, rising from well under half of the amount spent on police protection in the early 1980s, to more than three-quarters as much by the mid-1990s. About \$39 billion was spent in 1999 to operate the nation's prisons and jails.⁵ Per capita justice spending increased from about \$150 per year in 1982 to nearly \$450 per capita per year in 1995, with expenditures on corrections alone amounting to \$150 per capita per year in 1995 (Petersik 1999).

It should be noted that the impact is much greater at the state and local level, where most spending and incarceration take place. Of the total \$35 billion spent on corrections in 1994, over \$32 billion was at the state and local level.⁶ The direct cost of

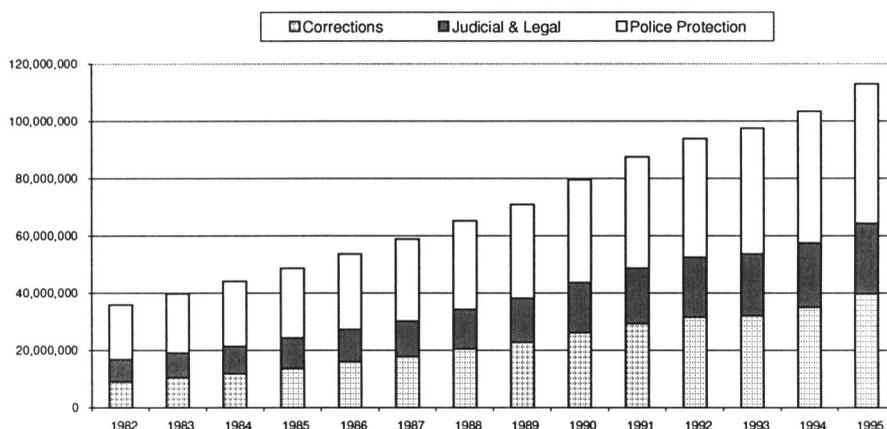


Figure 2. The Composition of Spending on the Judicial System: All Governments

Source: Bureau of Justice Statistics: Criminal Justice Expenditure and Employment Extracts Program (CJEE) (www.ojp.usdoj.gov/bjs).

incarceration runs about \$25,000 per year per inmate. (Indirect costs would be much higher. Estimates are that incarceration costs plus additional “welfare” costs that result from incarceration—for example, support of the prisoner’s family—now total more than \$500 per U.S. family per year, or well over double the direct costs of the entire justice system [Marshall 1999, Petersik 1999]). In an era of tight state budgets, these costs have probably forced governments to cut spending on other programs in order to increase spending on the justice system. For example, some studies conclude that education spending has suffered cuts at the expense of greater spending on prisons.⁷ By 1995, states were spending more on prison construction than on construction of higher education facilities. Indeed, by 1996, California was spending more on corrections than on higher education (Ambrosio and Schiraldi 1997). In the year ending June 30, 1998, the nation added 26,216 beds in jails. During that year, jails operated at 97 percent of their rated capacity (in the larger jurisdictions, capacity averaged 103 percent) (Gilliard 1999). At the end of 1997, state and federal prisons operated at about 120 percent

of capacity and still were adding inmates at the rate of nearly 60,000 per year (Gilliard 1999). Clearly, more construction is on the way.

Rising expenditures have led to attempts to cut costs and identify potential revenue sources. One method of cost containment has been to “privatize” corrections by contracting with private firms to manage prisons. There are now about eighteen private prison corporations that operate 100,000 prison beds. Indeed, the move toward increased “market discipline” has shaped prison policy in a number of related ways. Not only is the management of prisons contracted out, but prison labor is being auctioned off to private firms, as we shall see in a moment. Further, there is a movement to eliminate the “state use” system, particularly as applied at the federal level, where “mandatory source purchase requirements” force government agencies to buy the products of federal prison labor. Two bills were introduced before Congress in 1999 to change this policy. One (HR 2558) would encourage private contracting of prison labor, while the other (HR 2551) would force Federal Prison Industries (FPI—the federally run corporation that uses federal inmates to produce goods and services) to compete for contracts for its output in the “free” market. Thus, opening up prison labor to the highest bidder as well as eliminating any preferences for the products of prison labor are strategies believed to impose greater market discipline on the prison system in an effort to reduce the costs of incarceration while at the same time eliminating any unfair advantage that might accrue to the use of prison labor.

In recent years, there has been a growing movement to increase employment in prison, fueled by four divergent interests. First, some argue that such employment reduces recidivism after release for a number of reasons: Prisoners learn useful skills, they gain an employment record, and they develop attitudes favorable to obtaining and holding a job outside prison. While

sketchy, there is some evidence that prison work does reduce recidivism, perhaps by up to 20 percent, but most studies find recidivism cut by only 3-8 percent (Freeman 1999, Kling and Krueger 1999, Marshall 1999). Furthermore, some studies show that working inmates in federal prison have up to a 20 percent greater probability of gaining employment and remaining crime-free after release (Marshall 1999). Studies show that the average prisoner commits twelve to fifteen crimes per year after release, so even a small reduction of recidivism or perpetration of crimes can generate large benefits to society (Kling and Krueger 1999).

Second, most schemes for increasing paid prison employment would deduct from the prisoner's pay a significant amount to compensate victims, as well as for support of the inmate's family. The 2 million inmates have more than 2.2 million children, who lose whatever support the parents might have been able to provide before incarceration. In addition, another 1 million, mostly low-income female heads of household, are left behind by inmates. Thus, a total of 5 million people are directly impacted by the loss of potential income if inmates are not provided with income-earning opportunities. Prisoners would also be encouraged to accumulate savings with a view to helping them integrate back into society upon release.

Third, and probably more important, the number of prisoners as well as the costs of incarceration are increasing rapidly, and most schemes would allow the prison to make deductions from the prisoner's pay to cover costs of room and board. As noted above, the current mood is to rely to an increasing extent on market discipline. Thus, most prisoners would presumably become employed by private firms rather than by FPI. As there is also a move to privatize the operation of prisons, it is conceivable that a firm that wished to employ inmates could also contract to operate the prison.

Fourth, and perhaps most surprising, increased employment

of prison labor is being encouraged as a way to compete with imports from low-wage countries. HR 2558, mentioned above, specifically lists this outcome as one of the goals of the legislation that would allow private firms to bid for prison labor. While the bill would force most employers of prison labor to pay the legislated minimum wage, employers whose output was identified as “foreign-made products” (defined as those that otherwise would have been produced outside the United States) would be exempt from minimum-wage laws. This is a rather surprising turn of U.S. policy, given U.S. objections to reported use of prison labor by China to increase its international competitiveness. Apparently, Congress will actively support use of cheap U.S. prison labor to compete with foreign imports.

For reasons we will examine in the next section, it is unlikely that this move to increase prison employment will actually lead to much expansion of output. Still, in at least some specific cases, prison labor will be used in a profitable manner—to the benefit of the firms hiring them, the prisons that garnish some of their wages, and the prisoners themselves. Michael Moore’s film *The Big One* documents some of the more unusual uses of prison labor in private industry. For example, TWA now employs inmates to handle telephone reservations.⁸ Other employers include Microsoft, Honda, Kaiser Steel, Shelby-Cobra, Boeing, Victoria’s Secret, and Lee Jeans. Uses of prison labor already include telephone solicitation for long-distance phone companies, commercial laundry, computer assembly, automobile manufacture, designer rug production, saddle making and other leather goods production, eyeglass manufacture, potato processing, data entry, and athletic shoe manufacture.⁹

There is a potential for abuse of the system. Aside from the usual kickbacks (bribes to prison officials to win contracts for prison labor), private firms may be quite concerned with employee turnover caused by release from prison, leading to pres-

sure on officials to postpone release of good workers (prison turnover is 40 percent per year; it is generally believed that private firms cannot tolerate turnover greater than 25 percent [Levitt 1999]). If, against all odds, prison labor became highly profitable, it might generate perverse incentives to maintain high incarceration rates, or at least to be less concerned with crime reduction or alternatives to prison as a means of dealing with crime. Further, privatization of prisons might reduce the incentive to lower incarceration rates even as crime rates fall (as they did throughout the 1990s) as private operators press to keep beds full.

Characteristics of Today's Prisoners and Implications for Employment

Prisoners in the United States today are overwhelmingly poorly educated and low-skilled, and experienced high unemployment previous to incarceration.¹⁰ It is estimated that three-quarters of inmates are functionally illiterate (Marshall 1999). Furthermore, data for all U.S. inmates (held in prisons and jails) show that 47 percent had not graduated from high school, versus 17 percent of the U.S. adult population as a whole.¹¹ For inmates under age 21, the figure was an astounding 75 percent. Only 16 percent of all inmates had some college, standing in sharp contrast to the U.S. adult population as a whole, of which half have attended college. Thus, unlike the adult population overall, the prison population is overwhelmingly (84 percent) made up of those with a high school degree or less.

The employment rate of Americans without a high school degree is low and generally falling. Employment rates for those over age twenty-five in the entire U.S. population (male and female) in 1998 ranged from a low of 39.6 percent for high school dropouts to 78.9 percent for college graduates. Just over 75 per-

cent of males aged twenty-five to sixty-four who had not graduated from high school were in the labor force, more than 18 percentage points below the 93.4 percent participation rate enjoyed by male college graduates aged twenty-five to sixty-four. The unemployment gap between those of high educational status and low status is also growing. While it is true that unemployment rates have fallen in the last few years, the gap between these two educational groups stands at nearly eight percentage points. As we have seen, half of male inmates come from the high-school-dropout population, which has much lower employment rates than do other educational groups. Data from California show that only 35 percent of inmates who served short (one-to-two-year) sentences were employed prior to being arrested (Kling and Krueger 1999). This is not surprising, given that prisoners come from the very bottom of the education distribution, from a group with relatively low labor force participation and high unemployment rates. While we don't have pre-incarceration employment data for all prisoners, it doesn't seem likely that the California data would be wildly unrepresentative.

In 1998 there were just under 8.7 million noninstitutionalized males with less than a high school degree between the ages of eighteen and forty-four ("prime age") in the United States (see Table 1). Of these, about 5.9 million were employed, 850,000 were officially unemployed, and 1.9 million were out of the labor force. In addition, nearly 1.8 million incarcerated "prime age" males, about half of whom did not have a high school degree, were not included in any of these totals. Thus, nearly 10 percent of all prime-age males without a high school degree were in jail or prison in 1998. To put this in perspective, there were probably more prime-age males with low educational attainment in prison than were counted as unemployed, and the unemployment rate of this group would nearly double from 9.8 percent to 18.2 percent if prisoners were included as unemployed.

Table 1

Employment Status of Prime Age (18–44 years) Males Without a High School Degree, 1998.

All Males				
	Number	Percent	% of Total	Parole/Probation
Noninstitutionalized				
Total	8,650	100	91	2,000 (21%)
Employed	5,900	68	62	700 (35%)
Unemployed	850	10	18**	1,300 (65%)
Out of labor force	1,900	22	20	—
Institutionalized*	900	—	9	—
Total (institutionalized + noninstitutionalized)*	9,550	—	100	—
Total under control of justice system*	2,900	—	30	—
Black Males				
	Number	Percent	% of Total	Parole/Probation
Noninstitutionalized				
Total	1,300	100	72	900 (69%)
Employed	600	46	33	300 (33%)
Unemployed	200	15	39**	600 (65%)
Out of labor force	500	38	28	—
Institutionalized*	500	—	28	—
Total (institutionalized + noninstitutionalized)*	1,800	—	100	—
Total under control of justice system*	1,400	—	78	—

Notes: All numbers are in thousands. Data are from the Census Bureau, except as noted below.

*These columns or rows are calculated based on the assumptions that half of all jail and prison inmates, as well as those on parole or probation, do not hold high school degrees, and that 35 percent of those on parole or probation are employed. See the text.

**We have counted institutionalized (in prison and jail) as unemployed in these two cells.

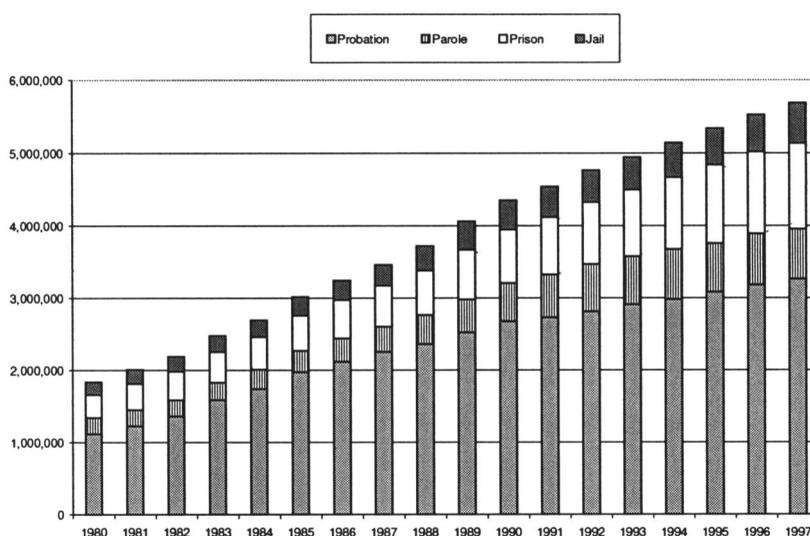


Figure 3. Americans in the Justice System

Sources: Bureau of Justice Statistics Correctional Surveys: National Probation Data Survey, National Prisoner Statistics, Survey of Jails, and National Parole Data Survey (www.ojp.usdoj.gov/bjs).

However, this understates the number of individuals who are not institutionalized but who fall under control of the justice system. In 1997 there were another 4 million individuals—mostly males—on parole or probation.¹² (See Figure 3.) We do not have good data on the ages, employment status, and educational levels of these men. However, if their ages and educational levels were similar to those in prison, this would add to our totals nearly 2 million more noninstitutionalized prime-age males without a high school degree. If the pre-incarceration statistics from California are applicable to all those on probation or parole, we might expect that almost two-thirds of the 2 million noninstitutionalized, prime-age males without a high school degree who are under control of the corrections system are not employed.¹³ This would total more than 1.3 million, implying that perhaps half of all the noninstitutionalized and jobless prime age males who do not have a high school degree are under control of the criminal justice system. If true, that is a remarkably high percentage.

Before leaving this section, we must deal with the most important characteristic of prisoners: Most are not (non-Hispanic) white. In 1998, 41 percent of U.S. jail inmates were white (non-Hispanic), 41 percent were black, and 15.5 percent were Hispanic (Gilliard 1999, table 7). Half of all prisoners are black (Parenti 1999, xii). While the overall (jail plus prison) incarceration rate for the United States reached 564 in 1994, it stood at 3,370 for black males. For the United States as a whole, it is estimated that one-third of black males in their twenties are in jail or prison, or on probation or parole (Christianson 1998, 281).

To some extent, the different racial composition of today's prison is also reflected in differential labor market experiences of blacks and whites.¹⁴ While educational gaps are closing, blacks still have lower educational attainment. However, controlling for economic background, blacks do not have higher dropout rates than whites (Bok 1996, 186). It is the lower economic status of black families on average that leads to a higher dropout rate. It is interesting that although the black-white educational gap has been closing, the black-white incarceration rate gap has widened. As Mason (forthcoming) points out, between 1979 and 1993, the incarceration rates of whites and blacks both rose, but the black-white ratio rose from 6.7 to 7.1 (that is, the black incarceration rate rose to more than seven times the white incarceration rate).

Average incarceration rates provide a misleading impression, however, because things are much worse at the bottom of the educational ladder. In 1998 there were just over 1.3 million prime-age, noninstitutionalized, black males without a high school degree.¹⁵ Of these, just over 600,000 were employed, almost 200,000 were counted as unemployed, and a shocking half a million were out of the labor force. This means that the number of incarcerated prime-age black males without a high school degree (about half a million) is more than two-thirds of the number employed,

over double the number unemployed, and about equal to the number of noninstitutionalized individuals out of the labor force. Perhaps one-fourth of all prime-age black males who have not graduated from high school are currently incarcerated. If those on probation and parole have the same racial, age, and educational background as those in prison, perhaps another 900,000 prime-age black males without a high school degree would be

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under control of the criminal justice system—for a total of 1.4 million. Indeed, perhaps as many as three-quarters of prime-age black males without a high school degree are currently under the control of the correctional system.¹⁶

According to some researchers, prison labor is about one-third as productive as average U.S. labor—not surprising, given the educational status of the prison labor pool (Freeman 1999, Levitt 1999). The average working prisoner annually contributes about \$20,000 to gross domestic product (GDP), versus about \$60,000 by the average U.S. worker. In 1997, gross sales deriving from prison labor totaled about \$1.6 billion, or less than two hours' worth of GDP. Even if every prisoner was employed full time, and if each contributed as much as the average working prisoner does today, this would equal about 0.4 percent of GDP, raising per capita income of all Americans by \$125 per year (Levitt 1999). This may well represent an upper bound, for it is unlikely that anything close to full employment of the prison population could be achieved. Further, it is possible that current employment programs have "cream-skimmed," taking the most pro-

ductive prisoners. If so, the average contribution would fall as employment rates in prison rise. Thus, employment of prisoners cannot be seen as a way to significantly enhance U.S. output, unless incarceration rates increase significantly and thereby enhance the employment prospects of the low-skilled who otherwise might have remained unemployed outside prison.

The average inmate costs society about \$80,000 per year after release from prison—resulting largely from the fact that a large portion of prisoners do not become employed and quickly begin committing crimes (Levitt 1999). As discussed above, prison employment reduces recidivism somewhat, enhances the probability of employment after release, and reduces the probability that the released inmate will resume criminal behavior. Thus, the primary benefit of prison labor would appear to be reduction of post-release crime costs that might be attributed to behavioral changes induced by employment.

One disconcerting problem associated with prison labor, however, is the probability that it will displace other low-skill workers, some of whom will engage in criminal acts and become incarcerated. It is possible that the net economic effect on GDP of employing prison labor could well be negative because the positive effects on prisoners could be more than offset by the negative effects on those displaced by prison labor. As Freeman (1999) has argued, the effect of increased employment of prisoners on nonincarcerated, low-skilled labor depends on the elasticity of demand for this type of labor, on the next best alternatives for displaced workers (including the crime elasticity of low-skilled workers—how many will move on to a life of crime), and on the effects of prison labor on recidivism. On reasonable assumptions of magnitude of these variables, the gains from reduced recidivism and greater prison production may be exceeded by the costs from displaced nonprison labor. Unless society can guarantee that a sufficient supply of jobs will be made available to all low-skilled

workers—whether in prison or out—it will always be questionable whether the net benefit of prison labor to society is positive.

Penal Keynesianism

Still, high incarceration rates have other important economic effects, some of which are positive. In this section, we ask, “Can penal Keynesianism replace military Keynesianism?” First we should describe the economics of “military Keynesianism.” It is useful to identify two “supply-side” and two “demand-side” impacts. On the supply side, large standing armies during the cold war era helped remove young, lower-skilled males from the labor force. At its peak (in 1968), the military had 3.46 million on active duty; and even as late as 1974, 40 percent of new entrants into military service did not hold a high school diploma. This is precisely the segment of the population with a low probability of becoming employed. The other supply-side impact was on technological advance and development of infrastructure that might be “spun off” to enhance productivity of the nonmilitary sector. On the demand side, there was direct government spending on military goods and services as well as the induced “multiplier” effect on consumer demand. For example, government spending on military hardware created high-paying jobs in the advanced industrial sector, and workers who held these jobs played a role in increasing aggregate demand. This was important because without strong consumer spending, enhanced productivity could have merely led to stagnation by increasing supply without raising demand. Successful operation of military Keynesianism thus required the complementary supply-side and demand-side effects.

Military Keynesianism, however, was not sustainable for a number of reasons. First, the technological spin-offs were probably limited save for a few well-known examples (the 747, the

Internet). To the extent that military spending did not enhance productivity of the nonmilitary sector, it would add to aggregate demand without raising supply and would thus tend to be inflationary (Minsky 1986). This effect was compounded because the military-industrial complex generally hired the best-educated workers, in competition with nonmilitary demands for similar workers, thus potentially contributing to a wage-price spiral.

Second, maintaining a large standing army encouraged a shift from "cold wars" to disruptive "hot wars." Many young men returning from hot wars were rendered less employable by their experiences. Further, social unrest resulting from hot wars made large-scale military intervention less politically feasible. With the removal of the Soviet Union as a viable threat by the end of the 1980s, it became difficult to justify continued expansion of military spending. Downsizing of the standing force, along with advanced military technology, led to significant upgrading of the qualifications such that the military no longer served its traditional function of "employer of last resort" for the poorly educated. By 1998, there were only 1.43 million in active military service, and less than 1 percent did not hold a high school degree. Indeed, educational levels of military personnel today are higher than those of the labor force as a whole: Two-thirds of those on active duty have attended college. Thus, the military today recruits from the top rather than from the bottom, and has lost 2 million positions for young men. While defense still plays an important role in maintaining aggregate demand, this situation will decline, as military spending will not rise as fast as GDP in the future.

For these reasons, we were intrigued by the possibility that penal Keynesianism might substitute for (or at least add to) military Keynesianism. On the supply side, imprisonment acts as a substantial outlet for excess labor supply, essentially drawing from among the same population that used to find its way into

the armed forces. And, while the prison system used to be fairly low tech, it is increasingly relying on fairly high-tech products and services of private industry. In addition, and unlike the military sector, the prison sector actually produces goods and services that can be purchased in markets by consumers. Furthermore, penal Keynesianism increases demand directly and through a multiplier.

However, while military service probably enhanced the employability of many (perhaps most) recruits, it is doubtful that imprisonment changes the behavior of prisoners in a positive way. With the near abandonment of attempts to rehabilitate or educate prisoners, it is unlikely that most prisoners leave prison better prepared for employment. Furthermore, many prisons are at least a hundred years old, with technologies that changed little over the past century. Still, many new prisons are being constructed with the latest in high-technology prison devices. Spin-off technologies might find limited application in home and commercial security. More importantly for economically depressed regions, new prisons bring new infrastructure to host towns—roads, businesses serving guards, prisons, and prisoner families, and new homes. While prison construction and operation provides an important stimulus to aggregate demand in many areas, it is still too small to add much to our nation's GDP. Indeed, it is not clear that prisons add net demand at all. As discussed, most spending is at the state level and may simply displace other spending. Further, because prisoners cost society \$25,000 per year while incarcerated but \$80,000 per year when released (primarily due to costs of crime), they may add more to demand when they are out of prison and busy committing crimes. Whether the net effect of our penal system on aggregate demand is positive probably cannot be determined.

At this point, the greatest direct economic impact of high incarceration rates is on those local communities that have been

sufficiently fortunate to have new prisons built in their vicinity. While local residents often worry about the increased crime rates that prisons can bring (not simply because prisoners might escape, but also because the families of prisoners are feared to bring crime with them if they take up housing in the community while a loved one is serving his sentence), they also welcome the relatively high-paying jobs that are created. These jobs include temporary construction work but, more importantly, long-term employment in the prisons. For this reason, new prisons are particularly appealing to communities with high unemployment rates.

For example, Malone, New York, is the happy beneficiary of a new \$180 million “supermax” prison, in which the worst offenders of the New York state penitentiary system will be concentrated.¹⁷ This prison will create 510 sorely needed jobs (guards, administrators, and clerical workers) to help replace the 750 Tru-Stitch Footwear jobs lost to downsizing in the last decade. There are already two medium-security prisons in Malone, and the new supermax will bring the total number of inmates in town to 5,000—equal to a third of the town’s residents. Indeed, “prisons have become the North Country’s largest growth industry, the panacea for its towns’ economic woes. Since 1980, New York has built eight prisons in this part of the state” (Gonnerman 1999, 4). Prison jobs in upstate New York are so desirable that the waiting list for a transfer to one of the prisons is now six to seven years. Prisons bring with them a variety of other businesses—Malone’s prison expansion has directly led to a total of four new drugstores and eight new convenience stores—because prison guards and their families create additional demand, and because the prisons often have contracts for supplies. Note also that penal Keynesianism tends to promote hiring off the bottom (guards, convenience store clerks), which is good for the supply side (creating jobs for the low-skilled, thereby removing them from the ranks of the unemployed) but less beneficial

for the demand side (relatively low wages) when compared with military Keynesianism.

At the local level, incarceration thus provides an important “penal Keynesian” source of demand that generates sales and jobs. Still, it is unlikely that prison spending in the near future can replace “military Keynesianism” as a source of aggregate demand. First, military Keynesianism was almost exclusively federally funded and thus essentially unconstrained financially because the federal government can deficit spend. Penal Keynesianism, on the other hand, is largely undertaken by state and local governments that must balance budgets. Second, military Keynesianism largely “hired off the top”—much of the spending went to a highly trained and educated, thus highly paid, workforce. In many respects, military Keynesianism bought the products of the highest technology firms. In contrast, the prison industry is largely “lower tech” and “blue collar.” Furthermore, increased use of prison labor to produce goods and services for market will almost certainly lower demand by displacing higher-wage labor. Even at the state level, prison construction and operation probably add little to demand because they merely displace other types of spending, as discussed above.

In sum, it appears that penal Keynesianism is a poor substitute for military Keynesianism on either the supply side or the demand side.

Full Employment as an Alternative

In recent years there has been growing support for a nationwide program of public service employment (PSE) that would guarantee a sufficient number of jobs for all who are ready, willing, and able to work (Minsky 1986, Harvey 1989, Wray 1998, Papadimitriou 1999). The target population for the PSE program would be the low-skilled, poorly educated population we have

already examined. As we have noted, almost half of the prime-age males who drop out of high school are not employed even now at the peak of the Clinton rising tide. Further, 10 percent of all prime-age male dropouts are in prison at any point in time. And matters are much worse for African American males who do not complete high school.

It is somewhat ironic that there is a movement to employ high school dropouts who are incarcerated, but there is no concerted effort to provide jobs for the “pre-prison population”—the portion of high school dropouts who are not (yet) in prison. Obviously, not all high school dropouts will commit crimes, and perhaps even the majority of young high school dropouts who do not obtain employment will never become prisoners. Still, there is a disturbingly high correlation between dropping out of high school and becoming incarcerated, and between nonemployment and becoming imprisoned. Young men who are not employed and who have dropped out of high school are in great danger of becoming prisoners—perhaps a third of all prime-age jobless males without a high school degree are currently under control of the criminal justice system.

If it is true that prison employment reduces recidivism (estimates range from 3 to 20 percent reduction), increases chances of obtaining jobs after release (by as much as 20 percent), and reduces probability of committing crimes upon release (by as much as 20 percent) in spite of all the negative influences on character (actual and perceived) of serving time in prison, then employment outside prison should be even more effective at accomplishing such social benefits. Further, as we have discussed, employing prisoners in the absence of a universal PSE program may simply reduce employment opportunities of the nonimprisoned. At the very least, we should offer the same employment opportunities to those who are not imprisoned as we offer to inmates because conventional economic analysis would

suggest that adverse incentives are created if one's prospects of employment are enhanced by going to prison! Certainly, we would not want to suggest that employment opportunities in prison would induce individuals to commit crimes in order to become incarcerated as a means to obtaining employment and skills enhancement, but one must be concerned with the impact that lack of employment opportunities has on the behavior of young male high school dropouts.

Conclusion

Over the past quarter of a century, the American justice system came to rely increasingly on long prison terms to punish ever-rising numbers of convicts. At first, this practice may have coincided with rising crime rates, but even when crime rates began to fall throughout the 1990s (perhaps due to better economic performance but also due to demographic shifts that reduced the number of males of the ages at highest risk of criminal behavior), incarceration rates continued to rise. A variety of forces have thus come together to push for greater use of prisoners as a source of labor. Chief among these forces is probably the rising costs of incarceration, but also of importance is a growing recognition that most prisoners will eventually leave prison, and most of them have few skills that would enable them to obtain work.

In the absence of universal access to employment, we fear that increased employment of prisoners will inevitably displace low-skilled nonprison labor. We also fear that private employment of prisoners could generate adverse incentives and potential for abuse. Most important, however, we believe that focusing on employment of prisoners misses the main problem, which is lack of employment opportunities for young males without a high school degree. Indeed, we suspect that falling labor market par-

ticipation by such males was a driving force behind rising crime rates. We have identified the attenuation of “military Keynesianism” as a contributing factor in the reduction of opportunities for the lowly educated, because approximately 2 million “jobs” were eliminated for young males with mainly lower educational attainment. Of course, the military was just one portion of the “labor market” that downsized opportunities for young high school dropouts.

Certainly, we do not mean to suggest that it is simply lack of employment opportunities that forces young men to turn to a life of crime, nor do we believe that increasing the number of jobs available to the pre-prison population of young male dropouts will resolve America’s crime problem. However, we believe that a first step toward a solution would be to create a public service employment program that would stand ready to hire all who are ready, willing, and able to work. We suspect that even after such a program is put in place, substantial reformation of the U.S. criminal justice system will need to be undertaken. The two-century-long American experiment in imprisonment may someday be seen as a failed deviation from traditional Western methods of justice. We suspect that the massive incarceration experiment of the last twenty-five years will certainly be seen as a colossal failure by almost any measure.

Notes

1. It is common today to distinguish between “jails,” which are mainly local and which hold the accused until trial and for periods up to a year after conviction, and “prisons,” which are state and federal institutions that hold the convicted for periods of a year and longer. By these definitions, prisons did not play an important role until the eighteenth or nineteenth century, while jails are probably as old as civilization.

2. Indeed, the term “prison” derives from Latin, *pristo* (to arrest or take the custody of) (Peters 1995, p. 38).

3. It is telling, however, that correctional system professionals do not share these views. Surveys fairly consistently indicate that professionals believe there are more

effective and cheaper alternatives to incarceration. For example, Senator Paul Simon's (D-IL) Subcommittee on the Constitution conducted a survey of prison wardens, which found that 92 percent believe that greater use should be made of alternatives to imprisonment, and on average they believed that fully half of all inmates could be released without endangering public safety (Ambrosio and Schiraldi 1997).

4. Source for data on expenditures: Bureau of Justice Statistics, Justice Expenditure and Employment Extracts, tables 1, 2, 4, and 6 (www.ojp.usdoj/bjs).

5. Justice Policy Institute (1999).

6. Local cost considerations sometimes dictate incarceration over alternative forms of punishment and reform because states typically provide greater funding for imprisonment than for alternatives.

7. See Ambrosio and Schiraldi (1997, 6), who estimate that "If trends continue, by the year 2020, more personal income will be spent on corrections than on higher education."

8. In the film, a particularly scary parolee explains that TWA is able to hire prisoners to work at a fraction of the wages normally paid. The inmates use the opportunity to "hit" on female phone customers. TWA passengers might find it a bit disconcerting to learn that the reservation agent who collected information regarding their credit card numbers, names of family members, phone number, address, and vacation travel plans was an inmate who could be let out on parole at any time.

9. Correctional Industries Association.

10. This section focuses on the male population. While incarceration rates for women have been rising (indeed, are rising faster than rates for men), the incarceration rate for males is many times higher. In 1998, 89.2 percent of the jail population was male, compared with 90.8 percent in 1990; in 1998 women made up 6.4 percent of prisoners, versus 4.6 percent in 1980; and the incarceration rate for men was about fifteen times higher than for women in 1998 (886 males per 100,000 male residents versus 55 females per 100,000 females) (Gilliard 1999).

11. For the adult population as a whole, data are used for persons age eighteen and over. This is a comparable age group because less than 2.5 percent of jail inmates were under eighteen, according to the 1996 Profile of Jail Inmates (Bureau of Justice Statistics), while 1 percent of inmates held in state-level prisons were under eighteen years old, according to the 1991 Survey of State Prison Inmates by the Bureau of Justice Statistics. Data for educational levels achieved by inmates come from Lynch et al. 1994. Western and Pettit (1999) report results from seven different surveys of prison and jail inmates conducted at various years between 1979 and 1991. Three of these surveys are of inmates of state correctional facilities (for the years 1979, 1986, and 1991), three are of inmates of local jails (1978, 1983, and 1989), and one is of inmates of federal correctional facilities (1991). These surveys find that the percentage of inmates who are high school dropouts and are between the ages of twenty and thirty-five ranges from a high of 50 percent (1979 survey of state correctional facilities) to a low of 22.2 percent (1991 survey of inmates of federal correctional facilities), with most falling in the range of 36 percent to 44 percent. When compared with the results from the survey we are using, this finding would seem to indicate that younger inmates (aged eighteen to twenty) and older inmates (above age thirty-five), as well as inmates of local jails and state prisons, tend to

have lower than average high school graduation rates when compared with inmates between the ages of twenty and thirty-five, especially including those in federal prisons.

12. *Statistical Abstract of the United States, 1999*, table 385 (www.census.gov/prod/99pubs/99statab/sec05.pdf).

13. This is probably an overstatement because employment could be a condition of parole for many individuals. However, as Western and Pettit report, "criminal conviction alone negatively affects employment and earnings" (1999, 19).

14. See the recent study by Western and Pettit (1999) for analysis of this differential experience, adjusted for different incarceration rates.

15. All data in this paragraph are based on author's calculations using Bureau of Labor Statistics data.

16. This is probably an overstatement. If whites obtain probation or parole at higher rates than blacks do, then our assumption that the racial makeup of those on probation or parole is similar to that of those serving time in prison would lead to an overestimate of the percent of prime-age black males under control of the criminal justice system.

17. In this supermax prison, 1,500 inmates will be locked two to a cell for twenty-three hours a day in a space measuring 14 feet by 8½ feet. The only time they will leave their cells will be for "recreation" alone in an attached outdoor "kennel" half the size of the cell. Food is pushed through slots in the door, and the only human interaction an inmate has is with his "roomie."

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