Incarceration results in drops in short-term economic activity, but has limited long run impacts

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The U.S. criminal justice system has expanded considerably since the 1970s. At the same time, male employment rates have dropped and racial earnings inequality has grown. Former inmates perform worse in the labor market than those who have not been incarcerated, and research has examined how incarceration affects earnings and employment.

However, it is unclear how sentencing individuals to incarceration shapes their labor market outcomes relative to their initial arrest, conviction, and other forms of criminal justice contact, as well as factors that precede criminal justice involvement, and direct evidence on the causal effects of incarceration on labor market outcomes has been mixed.

In a new study, researchers examined the effect of felony incarceration sentences on wages, self-employment, taxes and transfers in North Carolina and Ohio. Using distinct methods in each state, they found that incarceration generated short-term drops in economic activity while individuals were in prison.

However, they found no evidence of lower employment, wage earnings, or self-employment after release in either state. Nonetheless, because earnings losses during incarceration are never recovered, incarceration meaningfully decreased individuals' cumulative lifetime income.

The study was conducted by researchers at Carnegie Mellon University (CMU); the University of Chicago; the University of California, Berkeley; the University of British Columbia; Brown University; the University of California, Los Angeles; and the University of Southern California. It appears in as a Becker Friedman Institute (BFI) working paper.

"As we dug deeper, the lesson turned out to be that things were dire for the overwhelming majority of individuals in our study even before a sentence was handed down," says Andrew Garin, assistant professor of economics at CMU's Heinz College, who was an author of the study.

"Although this finding does not diminish concerns about mass incarceration, it suggests that upstream factors, such as other types of criminal justice interactions or pre-existing labor market detachment, may drive low earnings among the previously incarcerated."

Researchers matched administrative criminal justice data from North Carolina and Ohio to Internal Revenue Service (IRS) records for half a million criminal defendants charged with felonies from the early 2000s to the present. The IRS records covered a broad set of self- and third-party-reported activities not studied previously, including self-employment and contracted gig work.

In North Carolina, the authors studied discontinuities in sentencing guidelines to compare outcomes among comparable defendants who received different sentences (or no sentence at all). In Ohio, they compared outcomes among comparable defendants who were randomly assigned to judges of varying strictness.

Across both states, incarceration generated short-term drops in labor market activity that faded gradually, resulting in lasting reductions in cumulative income but no impacts on long-term earning levels, the study found. Specifically, while initial sentences were being served, individuals' employment and earnings fell since they could not work. As a result, a year-long sentence decreased cumulative earnings over five years by 13%.

Over time, as individuals sentenced to incarceration were released, labor market activity increased commensurately. Five to nine years after the original case, when impacts on contemporaneous incarceration had dissipated, the estimated effect of past incarceration on earnings and employment was indistinguishable from zero. Thus, the study found no evidence of long-term effects of prior incarceration on earnings, employment, self-employment, or tax filing behavior. These patterns were consistent across the two states and research designs.

However, the authors note that because earnings losses during incapacitation are never recovered, incarceration cut individuals' cumulative lifetime income. The study estimated more than $6 billion in lost annual earnings as a result of incapacitation from incarceration.

To understand the limited long-run scarring effects of incarceration, the authors studied the labor market outcomes of defendants who were spared an incarceration sentence. Although these individuals were not incarcerated, their labor market outcomes showed no improvement over the next five years and continued at the severely disadvantaged levels shown prior to their cases.

"Since defendants are about 30 years old on average, we expected substantial earnings growth over this period if they were not incarcerated," says Dmitri Koustas, assistant professor of economics at the University of Chicago's Harris School of Public Policy, who coauthored the study. "That we don't see that speaks to the other barriers these individuals face even if they are spared prison time."

More information: Research brief: The Impact of Incarceration on Employment, Earnings, and Tax Filing

Provided by Carnegie Mellon University's Heinz College

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