

The Impact of Incarceration on Firm Performance

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Abstract

The prison population in the United States has vastly grown from a rate of 683 per 100,000 in 2000 to 731 per 100,000 in 2010.¹ Incarceration can take a portion of the working population out of the workforce permanently due to bans on felons working in over 50 industries. Schmitt and Warner (2010) estimate that in 2008 these employment losses resulted in a cost to the U.S. of approximately \$57 to \$65 billion. We conduct analyses on the impact of incarceration on firms based in the United States. Through time series Granger Causality tests by state, we find that incarceration and unemployment rates are interlinked. When controlling for firm and state macroeconomic factors, we find that increases in incarceration rates have a negative effect on firm performance.

Keywords: Incarceration, Labor Markets, Firm Performance

JEL Classification: G30, J08, J21

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¹ Walmsley, R. (2003). *World prison population list* (pp. 1-6). London, England: ICPS with the Institute for Criminal Policy Research (ICPR).