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## Prisons and Jails, Economics of

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Prisons and jails are an important component of the legal system both in America and in other countries. Until recently, few scholars saw prisons and jails as economic entities. However, starting in the last decade of the twentieth century, many began to see modern prisons and jails as part of a prison-industrial complex, similar in many ways to the military-industrial complex that U.S. President Dwight D. Eisenhower referred to in his farewell address in 1960. What Eisenhower was talking about was an iron triangle of the Pentagon, private defense contractors, and various members of congressional committees (for example, armed services committees). He noted that the decision making within any given policy arena is done within a closed circle of government bureaucrats, agency heads, and private interests that gain from the distribution of public resources.

Similarly, the prison-industrial complex represents an interconnection among the correctional system, the political system, and the economic system. Both the building and operation of prisons and jails have become huge economic enterprises. In the United States, annual expenditures alone for the correctional component of the criminal justice system are at least \$50 billion per year as of fiscal year 1999 (the latest figures available), an increase of almost 600 percent over 1980, when just under \$7 billion was spent. This increase is a direct result of a prison population growth of more than 500 percent during this period. Such growth is in turn the result of various get-tough approaches to crime (for example, truth in sentencing, mandatory sentencing) and the war on drugs.

## Prisons and Jails as a Capitalist Market

Within a capitalist society, everything, it seems, is a commodity—from the simplest products (for example, paper and pencils) to human beings (for example, slaves and prisoners). Indeed, as Robert Heilbroner noted, within a capitalist society, people will exploit any aspect of society that can produce a profit.

Crime is an example of this. One advertising brochure stated that although arrests and convictions are more frequent, crime also produces profits. A supporter of building a prison in a rural area of California stated that, although one can build a business in an

area only to watch it fail because it is unable to support itself, one can build a prison in the same area and know that it will last a long time.

Thousands of companies engage in business within this industry. Aside from firms who build and operate correctional systems, there are firms that provide several different kinds of services, such as food, vocational training, medical services, drug detecting, personnel management, architecture and facilities design, and transportation. There are also companies that sell a variety of products, such as protective vests for guards, fencing, furniture, linen, locks, and many more. This is an estimated \$100 billion worth of business transacted each year.

The huge amount of advertising done in journals related to this industry is instructive. Several major journals and periodicals, plus Web sites, serve the correctional industry. Examples include *Corrections Today* and *The American Jail*, plus the American Correctional Association's annual *Directory*. There are at least two Web sites that list company ads aimed at the correctional market: (1) Corrections Yellow Pages (<http://www.correctionsyellow.com>), and (2) <http://www.corrections.com>. Together these contain more than one thousand different ads.

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<http://Corrections.com> organizes its Web page by categories of vendors. For example, under the heading cleaning and sanitation there are twenty companies, including Americhem Enterprises (they supply products such as industrial degreasers, floor finishers, disinfectants, bowl cleaners, and so on), Champion Industries (dishwashing machines for prisons), and Somat Corporation (waste reduction systems for prisons).

The American Correctional Association (ACA) is one of the largest national organizations in the country. Their annual meetings draw hundreds of vendors, usually taking up an entire floor of a hotel or convention center. On the ACA Web site, it mentions the \$50 billion or so spent each year on prisons and jails and warns companies not to miss a prime revenue-generating opportunity.

The trade journal *Corrections Today* has a special issue every July in anticipation of the upcoming annual conference in August. There are more than 200 pages in this

special issue. The July 2004 issue included descriptions from more than 200 different companies, selling such items as security devices, food service, hygiene kits, bedding, blankets, ceiling systems, communications equipment, clothing, and weapons. A wide assortment of architects, engineers, and consultants was used to build and maintain prisons and jails.

## The Prison Construction Boom

Prison construction has become a booming business. During the 1990s in the United States, 371 new prisons opened. (The system added about ninety-two thousand new beds each year.) In 1999 alone (the latest year for which figures are available), twenty-four new prisons were opened at a total cost of just more than \$1 billion. The average cost of building a new prison came to \$105 million (about \$57,000 per bed). In addition, in 1999, 146 prisons were adding or renovating beds at a cost of \$470 million (about \$30,000 per bed). As of 2000, twenty-nine new institutions were under construction and another 137 institutions were being renovated or adding new beds. The total estimated costs of these new building projects come to more than \$2.2 billion.

A Google search on the Internet turns up dozens of companies advertising for prison construction. One example, among many, is Kitchell (<http://www.kitchell.com>), which, according to its Web site, has supplied more than one hundred ten thousand correctional beds in seventeen states. These projects include forty-two state prisons, twenty-nine adult jails, and thirty juvenile facilities. They also build police stations, courts facilities, and prison camps.

While the above are examples of profits made from designing, building, and supplying prisons with various products, a key component of the prison-industrial complex is the trend of states turning to private companies that specialize in the entire operation of prisons, from the design to the daily operation.

# The Privatization of Prisons

A recent development in the criminal justice field, related specifically to the prison system, is the trend toward *privatization*. This is where a private corporation either takes over the operation of a jail or prison or builds one itself and operates it (usually contracting directly with the state). Privatization is a trend that includes more than the criminal justice system. This contracting out, as it is often termed, involves many services formerly provided by state and local governments, such as public education, health care, waste collection and many more. One report noted that there were at least eighteen categories of government services that saw an increase in private-sector involvement between 1987 and 1995.

As of 2001 (latest figures available) there were 142,521 *private* beds in 181 facilities in Australia, the United Kingdom, and the United States. This represents an increase from a mere thirty-one hundred in 1987 (an increase of more than 4,500 percent). At that time, the largest proportion was under control of two companies: (1) Corrections Corporation of America and (2) Wackenhut (more than ninety thousand prisoners), with facilities both in the United States and abroad.

The largest, and perhaps the most controversial private prison corporation, is Corrections Corporation of America (CCA). The company, founded in 1983, has its headquarters in Nashville, Tennessee; it employs more than fifteen thousand professionals nationwide. In recent years, CCA has run into some serious problems. [p. 1180 ↓ ] Its stock went as high as \$45 in 1998, but bottomed out at merely \$0.18 per share, which prompted a Wall Street analyst to comment that the company's fortunes plummeted much as the dot-com companies had at the end of the 1990s. They eventually merged into Prison Realty Trust—a Real Estate Investment Trust that is exempt from corporate taxes providing it meets certain conditions, including distributing 95 percent of its income to shareholders. However, Prison Realty Trust failed to meet that condition because of cash-flow problems and reported a \$62 million loss for 1999. In 2000, an audit cast doubt about its solvency. All together, CCA and Prison Realty Trust lost \$265 million in 1999.

One of CCA's shareholders, Pacific Life Insurance Company, offered a \$200 million restructuring plan, while Lehman Brothers refinanced Prison Realty's \$1 billion credit line. At the close of business on April 26, 2000, prices closed below \$3 a share; on June 7, the stock went back down to \$2 per share. However, the following week the stock rose by \$1 per share after news that the federal government had awarded the firm a \$780 million contract. Michael Quinlan, the former head of the Federal Bureau of Prisons, who became a board member of Prison Realty Trust (typical of private prison companies, which often lure former prison officials to their board of directors), helped Prison Realty acquire that contract. One report noted that two former executives for Prison Realty Trust were to receive severance payments totaling \$1.3 million. According to this story, Prison Realty announced plans in 1999 to cease operations as a real estate investment trust, instead receiving up to \$350 million from an investor group. This investor group includes The Blackstone Group, Bank of America, and a group with an appropriate name: Fortress Investments.

Corrections Corporation of America is still going strong, as anyone can easily see by looking at its Web site (<http://www.correctionscorp.com/aboutcca.html>). It is one of the top ten largest corrections systems in the United States, behind only the federal government and a handful of states in size. Apparently, the company has paid off the restructuring: the latest price of its stock closed at \$38.41 on March 23, 2005, according to its Web site.

One of the problems of privatization is that the company often places profits above the needs of the people. Moreover, with privatization, there is little accountability to the public. Several scandals have demonstrated this, such as prisoner escapes, cost overruns, and so on. A riot at a private prison in New Jersey operated by Esmor Corrections Corporation illustrates these points. After this riot, there was substantial media coverage, with the result that Esmor's stock went from \$20 to \$7 per share. Since this riot, numerous privateprison corporations have failed to report problems within their prisons. Some have called this the Esmor effect. Such secrecy protects shareholders from adverse market reactions that would probably occur if anyone were to report problems.

Whether or not privatization of prisons continues, prisons and jails will continue to operate, which will still guarantee steady employment for a large workforce, plus

continuous profits for those businesses that provide various goods and services. Corporations will continue to use the correctional system as a source of profits.

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*See also*

- [Commodification](#)
- [Markets](#)
- [Prisons and Jails, Criminology of](#)
- [Privatization](#)
- [Punishment, Economics of](#)
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#### Further Readings

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