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**Research Brief**

## **The Prison Industry**

**by**

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## The Prison Industry

*“Pennsylvania rocked by “jailing kids for cash” scandal.”*

Two judges in Pennsylvania pled guilty of taken about \$2.6 million in payments from the operators of a private juvenile detention center in return for sending offenders to the facility, mostly on minor charges (Chen, 2009).

*“We remain bullish” on private prisons*

Jeffrey T. Kessler, a Lehman Bros. equity researcher (Lifsher, 2007).

*“In my mind there's no more recession-proof form of economic development. Nothing's going to stop crime.”*

City manager of Sayre, Oklahoma, which had just opened a prized new maximum- security prison (Kilborn, 2001).

*“There are no seasonal fluctuations, it is a non-polluting industry, and in many circumstances it is virtually invisible.”*

A California Department of Corrections official explaining some of the benefits of putting a prison in a rural area (Huling, 2002, p. 200).

*“If crime doesn't pay, punishment certainly does...”* (Duke, 2000, p. A01).

### **Incarceration: The United States versus the World**

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At the close of 2009, the U.S. prison population was 1,610,446—a rate of 504 inmates in custody per 100,000 U.S. residents. If we include jails, the number of people incarcerated totals more than 2.3 million, and the incarceration rate climbs to 754 (Sabol et al., 2010). As noted in the *New York Times*:

The United States leads the world in producing prisoners, a reflection of a relatively recent and now entirely distinctive American approach to crime and punishment. Americans are locked up for crimes—from writing bad checks to using drugs—that would rarely produce prison sentences in other countries. And in particular they are kept incarcerated far longer than prisoners in other nations (Liptak, 2008).

The United States incarcerates almost 25% of the world's prisoners yet has only 5% of the world's population. The overall world prison population rate is 145 per 100,000; 59% of the countries in the world have rates below 150 prisoners per 100,000 population (King's College London, 2009). The next highest rates are the Russian Federation (626) and Rwanda (593). Canada's incarceration rate is less than one-sixth the U.S. rate despite relatively similar economic and political systems. As Nils Christie (2000) points out, there is one important difference: Canada has more of a “social safety-net” (p. 31) (various welfare benefits) than does the United States. The crime rate in Canada has risen and fallen in the last forty years similar to the crime rate in the United States, but its imprisonment rate has remained stable (Liptak, 2008).

Historically the imprisonment rate changed very little between the early 20<sup>th</sup> century and the late 1970s. As noted in the overview, from the 1920s to the mid-1970s the number of prisoners

fluctuated between around 100,000 and 300,000 while the rate remained rather steady at around 100. Since then the numbers and the rate boomed upward, driven largely by the “war on drugs” and extremely harsh sentencing laws (e.g., Three Strikes, Mandatory Sentencing). As the first decade of the 21<sup>st</sup> century comes to a close, the United States faces a growing crisis in imprisonment that threatens to cause unprecedented fiscal problems for virtually every state and large city in the country. The increases have also created what many have called a “prison industrial complex” that is as problematic as the “military industrial complex” (Shelden, 2010, chapter 2).

## **The Prison Industrial Complex**

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The data provided above, along with the quotes at the start of this paper, indicate that incarceration is a huge industry in the United States. About \$69 billion is being spent each year on the correctional system (more about this below). What many have called the *prison industrial complex* represents an interconnection among the prison system, the political system and the economic system - just like the military represents a connection with the political and economic system, what has been called the “iron triangle,” originally mentioned by President Eisenhower when he brought attention to the Military Industrial Complex in 1960.

This is similar to what Lilly and Knepper (1993) called the “correctional-commercial complex,” which they describe as a sort of “sub-governmental policy-making” (p. 152) system consisting of an alliance between government and private enterprise. Lilly and Knepper noted that this system is quite similar to the “military industrial complex,” since it consists of patterns of interrelationships known variously as “policy networks,” “subgovernment” or the “iron triangle.” They argued that such a system may not be legally a form of government, but nevertheless may exert greater influence than more formal structures of the government. In comparing this system to the military equivalent they note that within the military subgovernment there is an “iron triangle” of the Pentagon, private defense contractors, and various members of Congressional committees (e.g., armed services committees, defense appropriations committees). They noted further that the decision-making within any given policy arena “rests within a closed circle or elite of government bureaucrats, agency heads, interest groups, and private interests that gain from the allocation of public resources” (Lilly and Knepper, 1993, p. 152). Politics and economics go hand in hand, which is how politicians get elected. Think also of the large number of lobbyists in the nation’s capital (Parenti, 2007; Frank, 2008). Also, consider for a moment about the costs involved in the construction of prisons, jails, courthouses, police departments and furnishing them with everything they need to keep going (construction costs, electrical, furniture, toilet paper, etc.), all of which involve many different private enterprises (Christie, 2000; Shelden and Brown, 2000; Herivel and Wright, 2007).

A perfect example was the influence of Tom Beasley (head of the Republican Party of Tennessee) in 1983, Doctor Crants (with ties to Sodexo-Marriott) and Don Hutto, who was at the time the president of the American Correctional Association (ACA). In 1983 all of the individuals unified to help Corrections Corporation of America (CCA) enter the market by attempting to take over the entire prison system of Tennessee (Selman and Leighton, 2010, p. 55-56). More about CCA in a later section of this paper.

A deeper understanding of this requires some discussion of the “free market” and the drive for profits within a capitalist economic system. It is to this subject that we now turn.

### **Prisons as a “Market” for Profits**

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As Robert Heilbroner (1985) notes, within a capitalist society there tends to be an insatiable desire to continue “converting money into commodities and commodities into money” (p. 60). Everything, it seems, is turned into a “commodity” - from the simplest products (e.g., paper and pencil) to human beings (e.g., women's bodies, slaves). Indeed, within a capitalist society “daily life is scanned for possibilities that can be brought within the circuit of accumulation,” since any aspect of society that can produce a profit will be exploited. Life itself has been “commodified” (Heilbroner, 1985, p. 60).

Part of this drive for profits stems from the ideology of the “free market,” a system of beliefs that under girds the entire capitalist economic system. According to this ideology every individual pursues his or her own personal interests and the result is a collective good for the entire society. It is Adam Smith’s “invisible hand” at work. Corporations are “free” to do whatever they want. The failure of this philosophy became evident in late 2008 and continues to the present date. The current recession illustrates this perfectly. These “free markets” faltered miserably and taxpayers were called upon to “rescue” them. This is nothing less than socialism for the rich and free enterprise for everyone else. A good assessment of the present economic crisis is found in Paul Krugman’s book *The Return of Depression Economics* (2009) and several of his columns in the *New York Times* (such as Krugman, 2010).

A key part of the development of private prisons is the - the belief that the free market can do it better than the government. Although distrust of government dates back to the early years of the country, it became more common during the Reagan Administration. As the authors noted in chapter 2, Ronald Reagan summed it up nicely when he said in 1981 that “Government is not the solution to our problems. Government is the problem.” What he and others with similar views keep forgetting to mention is that government is a problem “unless it can benefit big business,” which in fact it has done with much regularity for more than 100 years. Anti-government feelings have reached a boiling point during the past year or so, as exemplified with the so-called “Tea Party” movement. Incidentally, some fact checking on the size of the government under different administrations and lo and behold it has consistently increased *more* under Republican administrations than under Democratic administrations. Specifically, during a 40 year period (1962-2001) the total of non-defense government employees rose by 310,000 during Republican administrations, while during Democratic administrations there was an increase of just 59,000. In other words, of the 369,000 employees added, 84% were added under Republican administrations. The size of the government got even bigger under Bush, going from 18.4

percent of GDP in 2000 to 20.3 percent of GDP in 2006 (Ward, 2008). While Clinton increased the federal budget by 11%, under Bush it went up by 104 percent (De Rugy, 2009). Also, the national debt went up by 72% under Bush (Knoller, 2010). This is the irony of free market worshipers: they actually want the government to help them out whenever possible. Without a doubt CCA and other private prison operators like the government.

Reagan was so enamored with the idea of the privatization of prisons that he established a special commission – the President’s Commission on Privatization. Its report of 1968 was for all practical purposes a foregone conclusion, as most of the members were already leaning toward support of privatization. The only opposition came from the American Bar Association. Many groups that were against the idea, such as the American Federation of State, County and Municipal Employees (AFSCME), were never invited to testify. The commission concluded by supporting privatization.

This “free market” includes the prison system. The amount of money that flows into the financial resources of the prison system from tax dollars alone is quite substantial. As shown in Figure 1, expenditures for prisons came to about \$69 billion in fiscal 2006, an increase of more than 650 percent over 1982 when the figure was about \$9 billion. In California, between 1998 and 2009, the prison budget grew from \$3.5 billion to \$10.3 billion (California Department of Corrections and Rehabilitation, 2009).

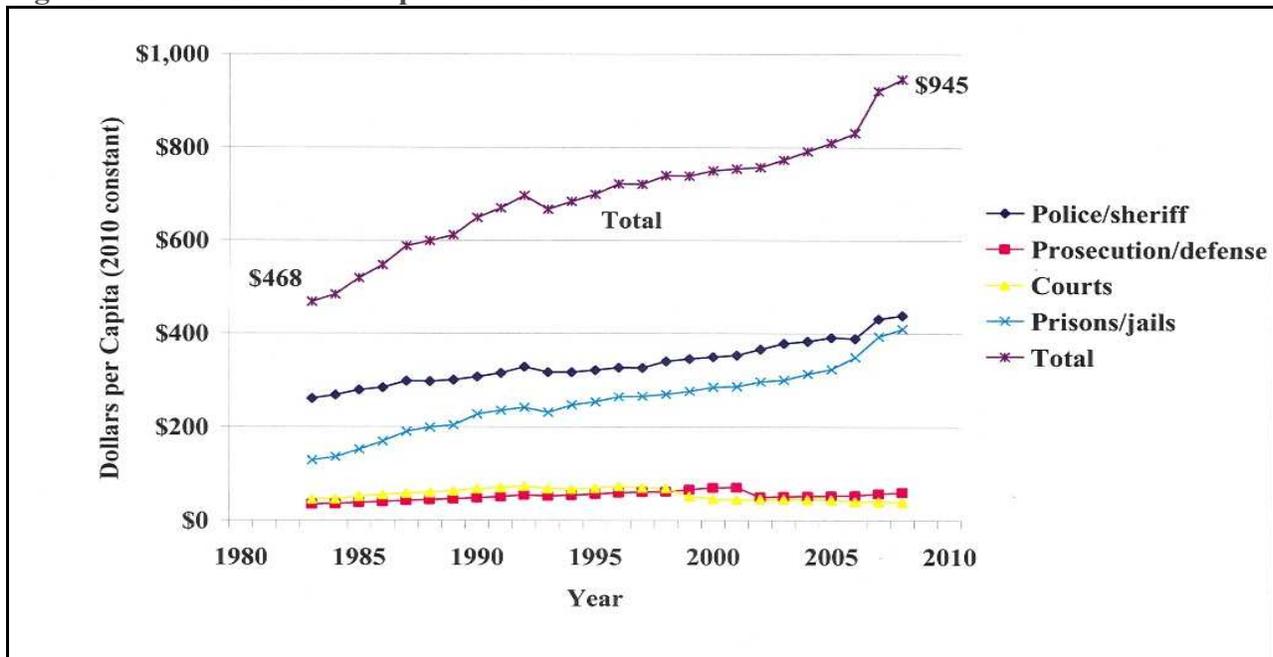
Similarly, the budgets for probation and parole have also been increasing. The most recent data available for probation and parole are from the year 2000. While in fiscal year 1992 the average budgets for both probation and parole came to \$23 million, in the year 2000 the average was \$71 million, an increase of 209 percent. What is most interesting about the budgets for probation and parole is that the largest increases went to the parole system, with their average budgets going from \$25.5 million in 1992 to \$43.1 million in 2000, compared to a very modest increase for probation budgets from \$55.7 million to \$56.3 million. The total budgets for both probation and parole came to just over \$1.7 billion in fiscal year 2000 (Camp and Camp, 2000).

## **A Prison-Building Frenzy**

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Prison construction quickly became a booming business. In 1980 there were only 44 prisons; in 2002 there were 102, with 11 more under construction (Johnson, 2003). During the 1990s a total of 371 new prisons opened. (Approximately 92,000 new beds were added each year.) In 1999 alone, 24 new prisons were opened, at a total cost of just over \$1 billion. The average cost of building a new prison came to \$105 million (about \$57,000 per bed). Also, in 1999 a total of 146 prisons were adding or renovating beds at a cost of \$470 million (about \$30,000 per bed). The total estimated costs of these new building projects come to more than \$2.2 billion (Camp and Camp, 2000). These figures may be a bit misleading. A review of the Federal Bureau of Prisons web site finds that as of October, 2008, there were a total of 180 “facilities” plus 14 private “facilities.” These “facilities” include not only prisons but also “camps” and “correctional complexes” (which include more than one “facility”). Regardless of which source is most accurate, the federal prison system is huge and covers both rural and urban areas all over the country.

**Figure 1 Criminal Justice Expenditures**



Source: (Criminal Justice Statistics Center, 2010)

The construction of new prisons has become such a big business that there are several web sites devoted to the topic. For example, the Government Accountability Office (GAO) (Government Accountability Office, 2008) issues reports on various prison construction projects. Also, many states publish reports on recent or upcoming construction projects (Oregon, State of, 2010; Firestone and Hansen, 2001). One interesting report comes from web site called Reed Construction Data (2008) which shows ten planned prison construction projects around the country. A Google search also turns up dozens of companies advertising for prison construction. One example, among many, is Kitchell. According to their web site they have built “more than 110,000 detention and corrections beds in place,” and they boast that “Kitchell stands among the most experienced program, project and construction management firms for criminal justice facilities in the country. Those years of experience include more than 130 projects in 17 states, among them are 42 state prisons, 30 adult jails, 30 juvenile facilities, four return-to-custody centers, two California Youth Authority institutions, as well as police stations, courts facilities, camps and other justice-related projects” (Kitchell, 2010).

Interested readers may want to pick out a few states at random and see how many prisons presently exist and how many have been built in recent years or will be built in the coming years. Take the state of North Carolina for example. On the web site for the North Carolina Department of Corrections (2010) there is a chart showing the prisons recently opened or about to open in that state. Between 1989 and May, 2008 a total of 26 correctional facilities (including two for young offenders, two work farms and a women’s prison) were opened. Currently eight correctional facilities are under construction. As of October 5, 2010 North Carolina had a total of 70 prisons and 40,371 prisoners and an incarceration rate of 368 as of June, 2008 (up from 28,772 and a rate of 345 in 2002), a rate considerably below the national rate of 504. Has there been a significant increase in crime lately? Not at all. According to the FBI Uniform Crime Reports (Federal Bureau of Investigation, 2010) in 2009 the rate of violent crime was 404 and

for property crime it was 3,668; in 2005 the rate for violent crime was 468 and for property crime it was 4075.

### **Cashing in on Crime: American Correctional Association**

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A good illustration of how companies are “cashing in” on the boom in corrections is found in the amount of advertising done in journals related to this industry, especially those published by the American Correctional Association (ACA). One example comes from two major journals associated with the ACA, such as *Corrections Today* plus several directories they publish. Also, their web site has a special section about advertising opportunities. Twice each year (January and August) they hold conferences during which entire floors of convention centers are reserved for dozens of vendors. A portion of their web site is devoted to attracting vendors. One time on the ACA web site it mentioned all the money spent each year on prisons and jails and said to companies, “Don’t miss out on this prime revenue-generating opportunity.” Currently it is advertising the winter meetings and says to prospective vendors: “We wish you a profitable 2011 and hope you have a great show. To maximize exposure, promote your company before, during and after the show” (American Correctional Association, 2010).

One part of their web site is called the “Buyers' Guide of Correctional Products and Services.” Here interested people can browse through literally dozens of ads listed according to either specific companies, products, or even by state. For instance, by clicking on “plumbing” you get two companies: Acorn Engineering in California and Security Plumbing Suppliers in Virginia (along with their web sites and other contact information). If you go by companies, you will find (among others) Bob Barker Company in North Carolina. Their ad reads as follows:

Bob Barker Company is the worldwide leader in delivering innovative products and services to correctional and rehabilitation customers. Our product categories include, but are not limited to, inmate clothing, footwear, personal care, bedding & mattresses, institutional furnishings, health care, laundry, food service, and our inmate transportation system – VanCell®. Bob Barker Company is family owned and operated, and has satisfied customers for over thirty years. Most orders are shipped same day (American Correctional Association, 2010).

This is merely a small sampling, for there are several other web sites that list company ads aimed at the prison market. Another one is the American Jail Association (AJA). On this site there is a special section called Advertising and Promotional Opportunities. Like the ACA they have an annual conference, this one called the Annual Training Conference & Jail Expo, which will be held in May, 2011 in Cincinnati, Ohio. Within this page the web site says the following: “Speak with representatives from more than 250 companies about their products and services that will help you and your staff do your jobs *more effectively and efficiently*” (American Correctional Association, 2010, emphasis in original).

Yet another one is corrections.com, which organizes its web page by categories of vendors. For example, under the heading “cleaning/sanitation” there are seven pages illustrating several dozen companies, including Americhem Enterprises (they supply products like industrial degreasers, floor finishers, disinfectants, bowl cleaners, etc.), Champion Industries (specializing in

“dishwashing machines for prison applications”), and Somat Corporation (“waste reduction systems for the correctional foodservice industry”). According to their home page, “Corrections.com is the single most recognizable brand online for the global community of corrections. Award-winning daily news is at the core of our business, with the most comprehensive database of vendor intelligence in corrections” (American Correctional Association, 2010).

## **Reach Out and Touch Someone**

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The old telephone company ad that advised customers to “reach out and touch someone” has new meaning, since long-distance phone companies entered into the prison system in the 1970s. Such industry giants as AT&T, Bell South, Sprint, GTE (formerly General Telephone & Electronics Corporation and MCI have found prisons to be an excellent market for long distance business. Indeed, this makes sense because inmates all over the country spend countless hours on the telephone talking with relatives. The Telecommunications Act of 1996 resulted in greater competition among telephone companies and prices began to decline – except for the prison system, which began to see a big rise in revenue. Prisons all over the country began to get a percentage of the revenues ranging from 10 to 55 percent. A survey by the American Correctional Association in 1995 showed, for instance, that New York was making \$15 million per year and California brought in \$9 million, with a total of \$100 million nationwide. By the year 2000 commission revenues went as high as 60 percent in New York. “At least ten states were taking in \$10 million or more from prisoner calling, with California, New York, and the Federal Bureau of Prisons leading the pack with more than \$20 million in phone revenues each” (Jackson, 2007, p. 236-240). All of these profits have come as a result of the fact that for a prisoner to call home requires a collect call.

Part of the revenue comes from the charging of various connection fees, surcharges and per-minute charges ranging from as high as 90 cents for local calls and \$2.25 for long-distance calls, with in some cases a 15-minute phone call costing \$20 or more (Jackson, 2007). At one point MCI installed, for free, pay phones throughout the California prison system. They levied a \$3 surcharge for each phone call made, the cost of which is paid for by the prisoner’s relatives. MCI offered the California Department of Corrections 32 percent of the profits. AT&T had a clever ad that read (in upper case letters): “HOW HE GOT IN IS YOUR BUSINESS. HOW HE GETS OUT IS OURS” (Schlosser, 1998, p. 63). The bulk of the costs to “reach out and touch” a loved one in prison has been borne mostly by low-income and minority people. One writer succinctly summarized the effect of this business:

(T)he ultimate effect of profit-sharing and what amount to price-gouging arrangements in the prison phone sector has been a long-term trend toward excommunication, making contact between prisoners and family members on the outside more costly and therefore more difficult to maintain. But this goes directly against the findings of several decades of recidivism and community impact studies, some of which were used to justify the introduction of prison calling in the first place. Such studies have found a powerful predictor for reoffense is the failure to maintain family and community contact while under incarceration (Jackson, 2007, p. 241).

It is almost as if those in charge of this system actually want high recidivism rates, as this writer further suggests that “a reliable way of increasing the likelihood that prisoners *will* reoffend is to break all ties with the outside world and then place them back on the street years later, with little reentry support, in a community to which they have become a stranger” (Jackson, 2007, p. 241).

This led to a great deal of controversy in California and elsewhere. An investigation by the *Los Angeles Times* found that phone charges benefited the state of California by about \$35 million a year as a result of an agreement with long-distance phone companies. Phone charges to relatives of those locked up in the California Youth Authority resulted in about \$85 million in revenue for the state in 2001. After several years of pressure, an agreement reached in January, 2001 that lowered the charges by 25 percent. A three-year contract was signed with WorldCom and Verizon that cut rates for adult prisoners by 25% and for juveniles by 78%. As a result of this agreement, the average 11 minute phone call to a family member outside the immediate area was to be just over \$5 dollars.

Despite a nation-wide movement by such groups as Citizens United for the Rehabilitation of Errants (CURE), the Center for Constitutional Rights and others who have filed law suits against this practice, fierce opposition from prison officials and telephone companies, it remains to be seen whether and to what extent these practices will continue. The “prison telephone monopolies remain firmly in place and ineffectively regulated throughout large parts of the country” (Jackson, 2007, p. 248).

### **Corporate Interests: The Role of ALEC**

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A little know fact about the prison industrial complex is an organization known as the American Legislative Exchange Council (ALEC). The mere existence of this organization demonstrates the classic connections between politics, economics and the criminal justice system. The membership consists of state legislators, private corporation executives and criminal justice officials. More than one-third of state lawmakers in the country (2,400) belong and they are mostly Republicans and conservative Democrats. They also get involved in school vouchers (Boston, 2007). It was started in 1973 by Paul Weyrich (who also co-founded the conservative Heritage Foundation and recently was the head of a group called the Free Congress Foundation, a far right conservative group). Their mission is to promote “free markets,” along with small governments, “states’ rights” and, of course, privatization. Corporate membership dues range from \$5,000 to \$50,000 annually. Corrections Corporation of America is a member of this group, which is not surprising. However, members also include a veritable “who’s who” of the Fortune 500, such as Ameritech, AT&T, Bayer, Bell Atlantic, Bell South, DuPont, GlaxoSmithKline, Merck & Co., Sprint, Pfizer, to name just a few. Among the companies that have supported ALEC through various grants include Ameritech, Exxon Mobil, Chevron and several corporate foundations, including the Proctor and Gamble Fund, Exxon Educational Foundation, Bell Atlantic Foundation, Ford Motor Company Fund, among many others (Capital Research, 2010).

The web site of ALEC is an educational experience in itself. It proudly lists some of the bills it has been involved in getting passed, plus indicates some very important keynote speakers during the past three annual meetings. Among the notables giving speeches include Attorney General

John Ashcroft, Secretary of Health and Human Services Tommy Thompson (see below), Secretary of Housing and Urban Development Mel Martinez, President and CEO of American Home Products Robert Essner, Chairman and CEO of Pfizer, Hank McKinnell, Florida Governor Jeb Bush, Secretary of Labor Elaine Chao and ultra conservative syndicated columnist Cal Thomas (ALEC, 2010).

In addition to a Board of Directors (consisting of several members of various state legislatures, mostly Republicans), they have a Private Enterprise Board. The latter group includes representatives of some of the largest corporations in America, such as Coors, AT&T, UPS, Wal-Mart, ExxonMobil, Coca-Cola, Johnson & Johnson, Bayer and State Farm, among others. It is interesting to note that the current chairman is Jerry Watson of the American Bail Coalition which, according to their web site, is: "Dedicated to the long term growth and continuation of the surety bail bond industry" (ALEC, 2010). The web site also states the following:

America's premier underwriters of criminal court appearance bonds; Allegheny Casualty Company, American Surety Company, Associated Bond and Insurance Agency, International Fidelity Insurance Company and Underwriters Surety, Inc. (the "Founders") have formed a new national organization, primarily to perform a two-pronged task to educate local government on the benefits of commercial bail bonding and to advance the interests of the Founders' many retail agents (ALEC, 2010).

This organization also puts together papers and policy statements on a wide variety of issues reflecting conservative ideas, including one about the "myth of global warming." Bill Berkowitz, who carefully follows conservative trends, has noted that ALEC sponsored more than 3,100 pieces of legislation between 1999 and 2000, with more than 400 of these bills passing (Berkowitz, 2002). Within ALEC there is a "Criminal Justice Task Force." Among the duties of this group is to write "model bills" on crime and punishment. Among such "model bills" they helped draft include "mandatory minimum sentences," "Three Strikes" laws, "truth in sentencing" and the like. One member boasted that in 1995 alone they introduced 199 bills, including "truth in sentencing" bills, which passed in 25 states. Tommy Thompson, former Wisconsin Governor and previous head of Health and Human Services in the Bush Administration, was once a member of ALEC. He was recently quoted as saying that "I always loved going to these meetings because I always found new ideas. Then I'd take them back to Wisconsin, disguise them a little bit, and declare that 'It's mine'" (Berkowitz, 2002). Edwin Bender of the National Institute on Money in State Politics, says that: "Bayer Corporation or Bell South or GTE or Merck pharmaceutical company sitting at a table with elected representatives, actually hammering out a piece of legislation – behind closed doors, I mean, this isn't open to the public. And that then becomes the basis on which representatives are going to their state legislatures and debating issues" (Biewen, 2002). As everyone knows by now, these kinds of laws were a big reason for the swelling of the prison population, which in turn added new "markets" for capitalist profits. As of the fall of 2008 they are sponsoring several dozen pieces of legislation (ALEC, 2010a).

## **The California Correctional Peace Officer's Association**

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California is a good example of union influence. During the 1990s and early 2000s, the California Correctional Peace Officers Association (CCPOA) became a political force in that state. The union was begun in the 1950s when a prison guard was upset about working conditions, wages and benefits. In 1957 the California Correctional Officers Association (CCOA) was formed. It continued to grow over the years and by the 1980s became involved in supporting legislation that improved working conditions and benefits for correctional staff. . They also began to affiliate with Republican and conservative politics under the leadership of Don Novey as they became strong supporters of harsh sentencing, such as the campaign to pass “Three Strikes and You’re Out” in the early 1990s (CCPOA, 2010).

In 1992 alone this group was the second largest contributor to Political Action Committees, as they contributed just more than \$1 million to various candidates. In 1990 they gave almost \$1 million to Pete Wilson's successful campaign for governor. The total contributions given in 1990 were 10 times that given by the California Teachers' Association (Schiraldi, 1994). They contributed \$101,000 toward Proposition 184, which created the "Three Strikes and You're Out" law (Burton-Rose et al., 1998).

Under Novey’s direction the union saw a vested interest in growing prison populations as reflected in the following figures. In 1980 California had 22,500 prisoners, while the average salary of a prison guard was \$14,400, and the budget for the California Department of Corrections was \$300 million. By 1996 there were more than 140,000 prisoners, the average salary of the guards stood at \$44,000, 58 percent above the national average (more than \$10,000 above teachers - a very telling statistic), while the budget was \$3 billion. Prison jobs constituted almost half of the growth in state jobs during this time. The union had only 5,600 members in 1980; currently they have around 28,000 members, collecting about \$8 million in dues annually and have a budget of around \$17 million (Burton-Rose et al, 1998; see also Cockburn, 1999).

Another example of the politics of this union at the time was their stance toward a program that allowed prisoners to earn college credits at Ironwood State Prison in Blythe (Warren, 2003). This program is one among many examples demonstrating that the more education a prisoner receives while in prison, the lower the recidivism rate. But apparently lowering recidivism rates was not on the agenda. In typical exaggerated conservative language, the union complained that it is not right for taxpayers to fund college courses for rapists, murderers and the like. A union memorandum complained about a similar program at another prison, saying that it is wrong to provide education to prisoners rather than offering tuition assistance “to people in the community who pay taxes and may benefit from these services” (Warren, 2003). A flyer sent to union members working at the Ironwood prison urged them to boycott “all management functions” and urged them to “Just Say No” to tax payer-funded college education for inmates, suggesting that “lifers, some of who [sic] are rapist [sic], molesters and murders [sic] receiving a free college education.” College officials countered this charge, saying that with this program they were able to expand some of the programs, hire new faculty and increase opportunities for disadvantaged students not in prison. National figures cited by the *Los Angeles Times* show that such programs are successful and a program in Arizona resulted in a recidivism rate of only 10 percent, compared to about 60 percent nationally (Warren, 2003).

California prison guards have not been without their own share of controversies, including criminal conduct ranging from having sex with prisoners, running drugs into prison and even manslaughter. One story, which appeared the day before the article about complaints against prisoner education programs, cited numerous criminal incidents against some guards, noting that several who are under investigation are collecting their full salary plus benefits while on paid leave. An estimated 109 prison guards were on paid leave for at least 30 days during the past year, mostly while under investigation. The costs to taxpayers are estimated to be “in the millions” (Morain, 2003).

It should be noted that recently CCPOA has become less partisan and more responsible under the leadership and Mike Jimenez. For example, they are supporting the creation of a “sentencing commission” along with various goals to reduce overcrowding and improve rehabilitation services within the prison system. On their web site it is noted that “CCPOA recognizes the important role that rehabilitation can and should have in the corrections mission — but that this is impossible without the necessary resources and a strong commitment to evidence-based programs to assist inmates in succeeding upon their release” (CCPOA, 2010).

Examples of profits being made from designing, building and supplying prisons with various products have now been discussed. However, 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 next section explores this topic in more detail.

### **The Privatization of Prisons: More Profits for Private Industry**

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A recent development in the criminal justice field, related specifically to the prison system, is the trend toward what is known as *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). Several years ago researchers warned about the tremendous growth in privatization in general, especially within the private police industry. They quoted one source that called this phenomenon “creeping capitalism” or the transfer of “services and responsibilities that were once monopolized by the state” to “profit-making agencies and organizations” (Spitzer and Scull, 1977). It should be noted that “privatization” is a trend that includes more than the criminal justice system. This “contracting out,” as it is often termed, involves a number of services formerly provided by state and local governments, such as public education, health care, waste collection and many more. There are “at least 18 categories of government services” that saw an increase in private-sector involvement between 1987 and 1995 (Laursen, 1996).

Privatization has become, wrote Edward Herman (1997), “one of the mantras of the New World Order. Economic, political and media elites assume that privatization provides undeniable benefits and moves us toward a good society”. The movement toward privatization stems from the recent trends toward greater and greater corporate power. This increased power is linked to the emergence of neoliberalism. Some of the key tenants of this ideology include: (1) The rule of the market (including the “trickle down” theory and the break-up of unions); (2) Reducing public expenditure for social services, such as health and education (many still want to privatize

social security); (3) Deregulation; (4) Privatization of public enterprises; (5) Shifting the idea of seeking what's good for the public to "individualism and individual responsibility" (Shah, 2010). "Part of the design of neoliberal politicians and intellectuals," says Herman "has been to weaken the state as a power center that might serve ordinary citizens and challenge the rule of the market" (Herman, 1997). Contributing to this trend is the increase in capital flow away from urban centers, leaving them in dire financial straits, as governments "have had to limit business taxes and spending on social benefits in order to provide a 'favorable investment climate,' leaving them under financial stress" (Herman, 1997). Through privatization, states can get around voter resistance to prison construction bonds by having private corporations build the prison, who then turn around and send a huge bill to the state and thus taxpayers. This represents a classic case of "socializing the costs and privatizing the benefits" (Dyer, 2000, p. 245).

Private profit is the driving force in the privatization of the correctional system. A report by Equitable Securities in March, 1996 called "Crime Can Pay" included a "strong buy" advice to investors. The report concluded: "We consider the industry very attractive. There is substantial room for continued private-prison growth." The potential for profits did not escaped Wall Street. Back in the early 1990s Ted Goins, of Branch, Cabell and Co., Richmond, Virginia, compiled a list of "theme stocks" for the 1990s. His highest recommendation was for Corrections Corporation of America (Brayson, 1996). A Prudential Securities vice president, who is part of a "prison-financing team," was quoted as saying that "We try to keep a close eye on all the crime bills." Wall Street was indeed eager to back the growth in "crime control stocks" with such companies as Merrill Lynch, Prudential Securities, Smith Barney Shearson and Goldman Sachs among the leaders in support of privatization (Brayson, 1996). One writer noted: "Between 1982 and 1990 California voters approved bonds for prison construction totaling \$2.4 billion. After interest is paid to lenders, the total cost will be \$4.1 billion. Now the big investors are bullish on private prisons." The firm of Raucher, Pierce and Refsnes of Dallas, Texas were the underwriters and investment bankers for Wackenhut Corrections. In the early 1990s, this company was reportedly doing about \$5-7 million worth of business each year, mostly "buying bonds and securities from the private prison companies or the state entities which issue them and reselling them to investors. That securities market is now a 2-3-billion dollar industry, up from nothing eight years ago..." So enthralled about the profits, these securities firms were ready to launch the "next phase" of such development, which was to finance their own construction, with help from securities firms (Thomas, 1994, p. A6).

As of mid-2007 (latest figures available) there were 111,975 state and federal prisoners in private prisons (7.2% of the total, up from 90,000 or 6.5% in 2000) (Couture and Sabol, 2008). As of December, 2000 there were 153 privately operated correctional facilities in the United States (Sentencing Project, 2001). As of June, 2007 the bulk of the prisons were being operated by Corrections Corporation of America (CCA), the GEO Group and Cornell Corporation (Lifsher, 2007). It should be noted that in April, 2010 GEO bought Cornell for \$374 million in cash and stock, which expands its territory considerably (Texas Prison Bid'ness, 2010). Investment counselor Rich Duprey writes a regular column about investment advice and in this article he wrote that GEO is his favorite private prison operator and that this deal "looks like a smart one." He noted that this purchase "will give Geo Group 97 correctional and detention facilities that it will either own or manage, along with 32 behavioral health centers, generating some \$1.5 billion

in annual revenues. It's expected to save Geo as much as \$15 million annually and promises to add to the prison operator's pro forma 2011 earnings per share" (Duprey, 2010).

Private prison companies have even expanded to foreign countries. As Leighton and Selman note: "As private prison companies expanded, they found partners in the United Kingdom (UK), France, Australia, New Zealand, Puerto Rico and South Africa. At times, like in the UK, companies would spend two to three years lobbying and plying politicians with donations to convince government to privatize" (Leighton and Selman, 2011). *Newsweek* recently reported that "GEO increased its revenue by \$20.2 million in the last year by opening up prisons in Australia and the United Kingdom, while also eyeing contracts in South Africa and New Zealand" (Cook, 2010).

The largest, and perhaps the most controversial private prison corporation, is *Corrections Corporation of America (CCA)*. Founded in 1983, the company is headquartered in Nashville, Tennessee and employs more than 15,000 professionals nationwide. I once obtained a copy of their 1995 annual report, at which time they claimed to be the "leading private sector provider of detention and corrections services to federal, state and local governments." There was also a subsidiary, CCA International, which provided similar "services" in foreign countries. Still another subsidiary was TransCor America, which was touted to be "the nation's largest and most experienced prisoner extradition company." At that time, CCA's stock traded on the New York Stock Exchange. It operated 46 correctional facilities, including one in England, two in Australia and two in Puerto Rico. This report bragged about its revenues, going from \$13 million in 1986 to \$207 million in 1995 (an increase of 1492%), while assets increased from \$8 million to almost \$47 million (an increase of 488%) and stockholders equity had gone from \$24 million to \$96 million (up 300%).

Since that time, CCA has entered into some serious problems. 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 "has taken a dive that would make a dot-com blush" (Leighton, 2010). They eventually merged into Prison Realty Trust – a Real Estate Investment Trust (REIT) 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 April, 2000 an audit cast doubt about its solvency. All together, CCA and Prison Trust Realty Trust lost \$265 million in 1999 (Leighton, 2010).

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 per share and on June 7 the stock went back down to \$2 per share. However, the very next week the stock rose by \$1 per share after news that they had been awarded a \$780 million federal contract thanks to the assistance of the former head of the Federal Bureau of Prisons, Michael Quinlan, who became a board member of Prison Realty Trust (typical of private prison companies, which often lure former prison officials to be on their board of directors). A report on the web site of *The Tennessean* 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 December, 1999

to “give up its structure as a real estate investment trust and receive an infusion of 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 (Ward, 2000).

To this date Corrections Corporation of America is the number one private prison corporation in the world, as seen in the following extract from its web site (CCA, 2010):

As a full-service corrections management provider, CCA specializes in the design, construction, expansion and management of prisons, jails and detention facilities, as well as inmate transportation services through its subsidiary company TransCor America. The company is the fourth-largest corrections system in the nation, behind only the federal government and two states.

CCA houses approximately 80,000 offenders and detainees in more than 60 facilities, 42 of which are company-owned, with a total bed capacity of more than 80,000. CCA currently partners with all three federal corrections agencies (The Federal Bureau of Prisons, the U.S. Marshals Service and Immigration and Customs Enforcement), nearly half of all states and more than a dozen local municipalities.

Since its inception, CCA has maintained its market leadership position in private corrections, managing more than 50 percent of all beds under contract with such providers in the United States. The company joined the New York Stock Exchange in 1994 and now trades under the ticker symbol CXW. Headquartered in Nashville, Tennessee, CCA employs nearly 17,000 professionals nationwide in security, academic and vocational education, health services, inmate programs, facility maintenance, human resources, management and administration. The company has been named among “America’s Best Big Companies” by Forbes magazine and ranked number one in the publication’s “Business Services and Supplies” category. G.I. Jobs magazine also named CCA as a “Top 50 Military-Friendly Employer.”

CCA offers offenders a variety of dynamic rehabilitation and education programs, including addictions treatment, GED preparation and testing, post-secondary studies, life skills, employment training, recreational options and work opportunities.

The company also provides valuable economic benefits to its local community partners by paying property, sales and other taxes, and providing a stable employment base that focuses on building careers with unlimited growth and development opportunities. As a strong corporate citizen, recognized by Corporate Responsibility Officer magazine, CCA contributes generously to host communities through volunteerism and charitable giving.

Apparently the “restructuring” has not paid off as well as they had hoped, as the latest price of its stock was \$24.93 as of November 26, 2010, down from \$38.93 on July 2, 2004 (CCA, 2010a).

One of the most recent examples concerns the connection between Arizona Governor Jan Brewer, the notorious Sheriff of Maricopa County Joe Arpaio and CCA. Over the summer reports started to emerge that revealed that two key advisors for Arizona Governor Jan Brewer had close ties to Corrections Corporation of America. Local CBS affiliate KPOH reported that “two of Brewer’s top advisers have connections” to private prison giant Corrections Corporation of America (CCA). Lawrence Lewis, writing for the *Daily Kos*, reported that “Paul Senseman, Brewer’s deputy chief of staff, is a former lobbyist for CCA. His wife continues to lobby for the company. Meanwhile Chuck Coughlin, who leads her re-election campaign, chaired her transition into the governorship, and is one of the governor’s policy advisors, is president of HighGround Public Affairs Consultants, which lobbies for CCA” (Lewis, 2010). Lewis also noted that it just so happens that CCA has a contract with Immigration and Customs Enforcement “to lock up illegal immigrants picked up in Arizona” and obviously sending millions of dollars into the coffers of this company (Lewis, 2010).

### **Some Serious Problems with Privatization**

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One of the problems of privatization, especially when it comes to health care, is that profits are placed well above the needs of the people. Nobel Prize winning economist Milton Friedman once stated that: “Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money as possible” (Wolfe, 1999, p. 12). The article where this comment appears also quotes St. Matthew, who said that “No man can serve two masters...you cannot serve God and mammon.” In this article it was noted that one of the recent trends in managed care is the phenomenon of “unprofitable patients” who have been “dumped by HMO's because, as a result of their age and attendant medical problems, they were not profitable enough.” The article then noted the irony that “what is bad news for the dumped patients is obviously good news for Wall Street and the insurance company owners” (Wolfe, 1999, p. 12). The article concludes with a quote from an editorial in the *New England Journal of Medicine* which stated:

The most serious objection to such [investor-owned] care is that it embodies a new value system that severs the communal roots and Samaritan traditions of hospitals, makes doctors and nurses the instruments of investors, and views patients as commodities...In our society, some aspects of life are off-limits to commerce. We prohibit the selling of children and the buying of wives, juries and kidneys...health care is too precious, intimate, and corruptible to entrust to the market (Wolfe, 1999, p. 12).

A similar conclusion can be drawn about the privatization of prisons.

We have seen numerous instances of serious problems with the privatization of prisons and other components of the criminal justice system. Not that the prison system has been all that successful in reducing crime, but prison administrators, and in fact the entire criminal justice

system, are at least theoretically accountable to the public, since tax dollars support it. With privatization, there is no accountability. Several scandals demonstrate this, such as escapes and cost over-runs. Russell Clemens, an economist with the Department of Research for the American Federation of State, County, and Federal Employees, put the problem in perspective when he noted that the various "problems regarding security, staffing, and quality of services have plagued prison privatization from its inception." He pointed out that in addition to numerous escapes there have been problems pertaining to both health care and food service which characterize "the low quality of service in privately operated prisons" (Dyer, 2000, p. 203). The riots at a private prison in New Jersey operated by Esmor Corrections Corporation are illustrative. After this riot there was a lot of media coverage, with the result that Esmor's stock went from \$20 per share to \$7. Since this riot, numerous private-prison corporations have been caught failing to report problems within their prisons. The reason is simple: such secrecy protects shareholders "from adverse market reactions that would likely occur if a problem were to be reported" (Dyer, 2000, p. 204).

Donna Selman and Paul Leighton, in their insightful analysis of private prisons, document numerous issues surrounding private prisons (Selman and Leighton, 2010). One of their insights is the amount of money extracted from the states that pay these companies to build and/or operate these prisons. Among other things, they compare the top salary and wage earners in public departments of corrections with those of three major private corporations (CCA, GEO and Cornell). Each of the CEO's earned in excess of \$1 million, while the salaries of the directors of state prisons earned from about \$128,000 to \$225,000. In most of the prisons run by private corporations there were fewer prisoners and a lower budget than for state prisons. This was for the year 2007 (Selman and Leighton, 2010, p. 136).

According to Paul Leighton (2010), the Security and Exchange Commission filings that provides, among other things, the annual compensation for key executives with GEO and CCA for 2009. To give just one example, a total of \$8.3 million was given to six executives of the GEO group, plus five additional people who received \$200,000 or more. The compensation included stock options and other benefits. In short, it has become a rather cozy relationship during which these executives smile all the way to the bank. The average compensation per inmate for the 2007 data they supplied. The Chairman of the Board and CEO of GEO, for instance, earned about \$55 per inmate, while his counterpart at CCA earned about \$26. The Cornell CEO did even better, earning about \$58 per inmate. It should be noted that these were just their salaries and did not include stock options and other benefits. In contrast, the Secretary for the California Department of Corrections earned a mere \$1.30 per inmate while the Executive Director for the Texas Department of Corrections earned a mere \$1.07 per inmate (California, State of, 2010).

As already suggested, the profits from the existence of prisons are dependent upon the continued increase in prison admissions. What if prison admissions begin to decline? We are already seeing some evidence of this. For instance, in New York State there has been a recent downward trend in the number of prisoners, resulting in the reduction of prison staff at many prisons. Specifically, in 2001 the New York Department of Corrections began a hiring freeze at 36 of the state's prisons, with the expectation that they will eliminate just over 600 jobs. One facility in upstate New York is illustrative. A \$90 million jail was built in tiny Cape Vincent (near the St.

Lawrence River with a population of 2,400) in 1988. Now with recent downward trends in prison populations they are worried that what they thought was a recession-proof industry may come to an end. One prison worker said, “Who ever thought crime would go down? Who ever thought we would run out of inmates?” (Rhode, 2001).

Prison workers worry, as about \$2.4 billion per year goes into the state prison system, with millions of dollars going into the upstate economy each year. Salaries for correctional officers start at around \$33,000, with raises to \$44,000 after 20 years. Not bad in rural areas where the cost of living is so much lower than in the cities (Rhode, 2001).

Still another example comes from the state of Mississippi. According to a report in the *Wall Street Journal*, a prison operated by Wackenhut in Holly Springs ran into trouble finding prisoners to fill about 130 beds. In fact, recently the state found itself with 2,000 more beds than prisoners! The same is happening in South Carolina, with more than 1,000 empty beds. These developments are bad news for corporations like Wackenhut, who depend upon a steady supply of prisoners. In Mississippi, a state representative who was touring one of their prisons, pointed to a prison guard and said “If we don’t get [more inmates], she might get laid off” (Gruley, 2001). Many who previously support building prisons in Mississippi are now changing their minds. A former police chief who is in charge of the state corrections department, who never had any qualms sending people to jail, now complains that for too many people the only reason to build prisons is to “make money off inmates” and he said that this has “gotten a little too skewed for my liking” (Gruley, 2001).

One of the most detailed analyses of the impact of the privatization of prisons comes from a report by a group known as “Good Jobs First.” In a detailed study of 60 private prisons (constituting half the total privatized prisons in the country), they found that the promised benefits to state and local governments have failed to materialize. More importantly, however, they found that at least 73% of the prison had received a development subsidy from local, state or federal government sources, while over one-third (37%) received low-cost construction via tax-free bonds or other government-issued debt securities, 38% received property tax abatements and another 23% received subsidies for things like water, sewer or utility hook-ups, access roads, etc. The two largest private companies involved in prison building, Corrections Corporation of America and Wackenhut (now GEO Group), were heavily subsidized (78% of CCA prisons and 69% of Wackenhut’s prisons were subsidized). The study could find no evidence of whether or not the privatization of prisons had the desired effects on local communities (Mattera and Khan, 2001). Selman and Leighton provide further documentation of the excessive subsidizing of private prisons. They note that it is important to take into consideration the “overhead costs of participating in the corporate world and relying on Wall Street,” which include the “many fees that go to those who already well-off. Taxpayer money goes to government, which then pays a private prison firm, which then pays fees to an array of large banks, law firms, consultants, lobbyists, and marketing firms” (Selman and Leighton, 2010, p. 158).

Whether or not privatization of prisons continues (and there are some serious doubts that this trend will continue), 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 (security devices, food, linen, etc.).

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Randall G. Shelden most notable achievements at the Center on Juvenile and Criminal Justice is his evaluation of the Detention Diversion Advocacy Project, published by OJJDP in 1999. He is Professor of Criminal Justice, University of Nevada-Las Vegas, where he has been a faculty member since 1977. He received his Masters Degree in Sociology at Memphis State University and Ph.D. in Sociology at Southern Illinois University.

Dr. Shelden is the author or co-author of 14 books, including: *Girls, Delinquency and Juvenile Justice* (3rd edition), with Meda Chesney-Lind (which received the *Hindelang Award* for outstanding contribution to Criminology in 1992); *Youth Gangs in American Society* (3rd ed.), with Sharon Tracy and William B. Brown (Cengage Publishers); *Crime and Criminal Justice in American Society* (with William Brown, Karen Miller and Randall Fritzler, Waveland Press); *Controlling the Dangerous Classes: The History of Criminal Justice* (2nd edition, Allyn and Bacon); *Delinquency and Juvenile Justice in American Society* (Waveland Press); *Juvenile Justice in America: Problems and Prospects* (Waveland Press, co-edited with Daniel Macallair). His most recent book is *Our Punitive Society* (Waveland Press).

Dr. Shelden is also the author of more than 50 journal articles and book chapters on the subject of crime and justice. He has also written more than 100 commentaries appearing in local and regional newspapers. He is the co-editor of the Justice Policy Journal. His web site is: [www.sheldensays.com](http://www.sheldensays.com)

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