

RESEARCH BRIEF • AUGUST 2023

# The Impact of Incarceration on Employment, Earnings, and Tax Filing

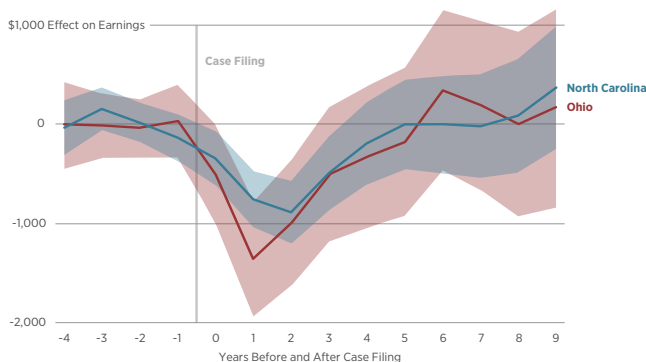
Based on BFI Working Paper No. 2023-108, "[The Impact of Incarceration on Employment and Earnings, and Tax Filing](#)," by Andrew Garin, University of Illinois; Dmitri Koustas, University of Chicago; Carl McPherson, UC Berkeley; Samuel Norris, University of British Columbia; Matthew Pecenco, Brown University; Evan K. Rose, University of Chicago; Yotam Shem-Tov, UCLA; and Jeffrey Weaver, USC

*Incarceration generates short-term drops in economic activity, but has limited long-run impacts. Why? Most defendants' challenges in the labor market begin long before they first enter prison.*

Formerly incarcerated people face severe disadvantages in the labor market, often earning a fraction of what similar people without a history of incarceration take home. But workers with a history of incarceration also face a host of other challenges, including sporadic work histories, less completed formal education, the burden of potential racial discrimination,

and the mark of a criminal conviction itself. This paper explores how spending time in prison shapes outcomes above and beyond these other challenges. The answer to this question is critical to understanding the impact of the massive rise in incarceration in the U.S. over the last five decades, as well as its impacts on the groups most affected, such as men and Black Americans.

**Figure 1** • Effect of Incarceration on Earnings



Note: This figure shows the effect of incarceration on total earnings. Effects are estimated in the year relative to the court filing date indicated on the horizontal axis. 95% confidence intervals are shown with the shaded areas.

The authors match administrative criminal justice records from North Carolina and Ohio to defendants' tax information, resulting in a dataset covering 500,000 criminal defendants charged with felonies since the early 2000s. The unique tax data used allows the authors to see all wages reported to the IRS by employers, as well as non-traditional sources of income such as gig-work and informal self-employment. To isolate the causal effects of incarceration on labor market outcomes, the authors use two distinct strategies. In the data covering North Carolina, the authors use discontinuities in sentencing guidelines to compare outcomes among comparable defendants who receive different sentences (or no sentence at all). In the Ohio data, they compare outcomes among comparable defendants who are randomly assigned to

judges of varying strictness. Although the populations and research strategies used in each state differ, the authors find remarkably similar results across the two states. In both states, the findings show:

- Incarceration generates large, short-run drops in labor market activity. While the initial sentence is served, employment and earnings fall. This dip reflects the natural incapacitation impacts of incarceration, since individuals cannot work in the normal labor market while behind bars.
- Over time, as those sentenced to incarceration are released, labor market activity increases commensurately. After five years, all incapacitation effects have dissipated, and there is no evidence of lower employment, wage earnings, or self-employment as a result of spending time in prison. This result holds for the overall sample of defendants, as well as among defendants who had no prior incarceration history.
- While this recovery points against long-run scarring impacts of incarceration, losses incurred during the period of incarceration are never made up. A year-long sentence reduces cumulative earnings over five years by approximately \$3,300, or 13%. Extrapolating to the full US population, the authors estimate that these impacts result in 6 billion dollars

in lost earnings each year, much of which would have been earned and spent in communities heavily affected by incarceration.

- To understand the limited long-run scarring effects of incarceration, the authors study the labor market outcomes of defendants who are *spared* an incarceration sentence. Although these individuals are not incarcerated, their labor market outcomes show no improvement over the next five years and continue at the severely disadvantaged levels shown prior to their cases. Spared their prison sentence, the authors estimate that the incarcerated individuals studied here would have earned only \$5,000 per year on average.

The takeaway is that merely staving off jailtime is insufficient to overcome the challenges faced by those who interact with the criminal justice system. 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. Future research should delve into these factors to better target investments that improve the labor market outcomes of those impacted by incarceration.

## READ THE WORKING PAPER

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### **The Impact of Incarceration on Employment, Earnings, and Tax Filing**

[bfi.uchicago.edu/working-paper/2023-108](https://bfi.uchicago.edu/working-paper/2023-108)

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