

Economics of Private Prisons

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Private vs Public Prisons



- A public prison is owned and operated completely by the government. The government provides infrastructure, staffs the guards and administration, while also overseeing incarcerated individuals and everything that happens inside the prison.
 - Public prisons may hire private contractors for things like food service, cleaning service and maintenance.
- A private prison takes much of the burden off the government, and places it in the hands of a private corporation. In a private prison the government is responsible for sentencing, classifying and assigning inmates to prison and also providing oversight.
 - Private prisons enter contracts with state or local governments to run facilities, rather than having the government own and operate the prison.

How Private Prisons Make Money

- When a private prison enters a contract with the government, the basis of payment to the corporation who owns the prison is established.
 - In most cases the corporation is paid based on the number of inmates the prison houses.
 - Assuming full capacity and including administrative costs, think about it costing \$100 per day to house an inmate. The prison holds 1,000 inmates.
 - The corporation can offer its services to the government and markup its prices, to say \$150 per day to house an inmate.
 - The government will generally agree to these terms as long as the markup price is less than what it would cost if it was publicly run. That difference is where private prisons make their money.
 - The markup cost in this model at maximum capacity could theoretically allow the private prison to make an additional \$50,000 per day.
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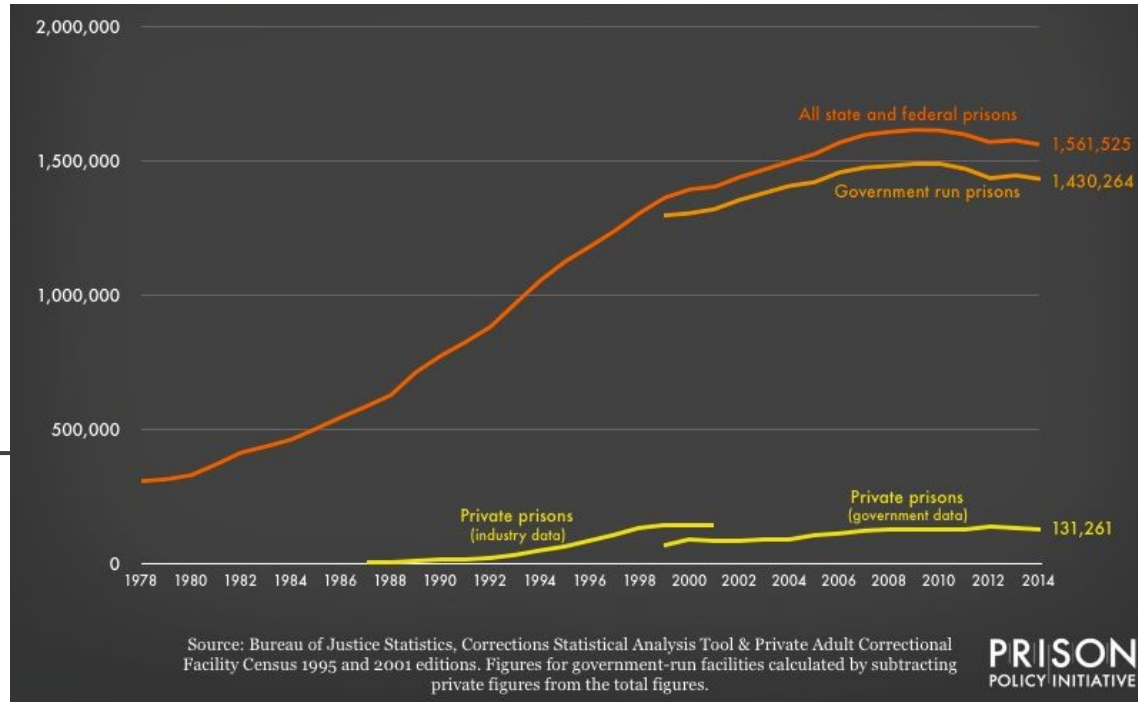
- As private prisons gain revenue, they may be able to land another contract with the government, which would allow them to recreate the same model in the previous slide.
- Private prisons may save the government money while also being able to make profit. This begs the question, what is the problem with private prisons?



The Problem

- The main goal of the prison system is to rehabilitate incarcerated individuals.
 - Recidivism rates measured between 2008-2018 between 24 different states indicate a recidivism rate of around 82%, putting the main goal above in question.
 - As private prisons are for-profit, they also may find incentives to cut staff-pay, or other services to reduce their daily costs of operation. Say they reduce cleaning services in the prison, reducing their cost to house an inmate from \$100 per day to \$90 per day. That \$10 per day across 1,000 inmates adds up.
 - If private prisons were 100% effective, they would be working themselves out of business.
 - In the past few decades the use of private vs government operated prisons has come to the forefront of public policy discussions. Debates question whether these private prisons' end goal is to rehabilitate individuals or if it's to make money. For these prisons to continue operating they rely on steady streams of inmates to replace those who have finished their sentences.
 - Private prison corporations often lobby lawmakers in hopes for stricter laws, or for harsher enforcement of existing laws. More people in the system means more money for the private prison. Many argue this is the entire reason the war on drugs started, a set of laws that incarcerates thousands of individuals per year.
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Growth of Private Prisons



As of 2019, roughly 116,000 people are incarcerated in private prisons, which represents 8% of the total federal and state prison population.

Reference

Bryant, Sean. "The Business Model of Private Prisons." *Investopedia*, Investopedia, 24 Mar. 2022, <https://www.investopedia.com/articles/investing/062215/business-model-private-prisons.asp#toc-the-bottom-line>.

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