

# Incarceration and Invisible Inequality

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## **Abstract**

Standard measures of economic disadvantage among young men became increasingly optimistic through the 1980s and 1990s due to the increase in the U.S. incarceration rate. I quantify the concealed inequality due to incarceration by (1) constructing employment to population ratios that include prison and jail inmates among those out of work, and (2) calculating black-white wage ratios that adjust for attrition from the labor market due to joblessness and incarceration. By 2000, among non-college black men, aged 22 to 30, the jobless rate (one minus the employment ratio) based on the Current Population Survey stood at 29.9 percent, in comparison to the adjusted rate of 42.1 percent that includes the prison and jail population. If we account for the large numbers of low-education men without work or incarcerated, racial inequality in hourly wages in 1999 would have been about twice as high as its observed level. Adjusting for racial disparities in joblessness and incarceration suggests that young black men have experienced virtually no real economic gains on young whites in the 15 years from 1999.

Although numerous, the poor are invisible in America's affluent society. The everyday hardships of low-income families are unfamiliar to those who are economically comfortable. Poor people are seldom depicted in the popular culture, in movies or on television. The poor are especially invisible during periods of economic prosperity. At the end of the 1990s, unemployment rates dropped to historically low levels but large numbers of workers remained poor while working in minimum-wage jobs. In the context of a booming stock market and rising incomes among the rich, growth in the numbers of low-income workers fell outside our understanding of the major economic trends. The working poor, wrote Katherine Newman (1999, xiii–xiv), “have attracted very little attention. They do not impinge on the national conscience.” David Shipler (2003, 11) sounds a similar theme, observing that low-wage workers “blend into familiar landscapes and are therefore overlooked. They make up the invisible silent America that analysts casually ignore.” Cyclical affluence, it seems, erases the poor from public consciousness.

A strong economy also concealed the poor from public view in the early 1960s. The unemployment rate was again extremely low, and the United States was enjoying a period of sustained economic growth in which the wages of even low-skill workers grew strongly. The mood of economic optimism was sobered when Michael Harrington pulled back the curtain on U.S. poverty with the publication in 1962 of *The Other America*. During that earlier economic expansion, Harrington also found that the poor had disappeared from the outlook of policymakers and the middle class. In the affluent society of the early 1960s, “the millions who are poor in the United States tend to become increasingly invisible. Here is a great mass of people, yet it takes an effort of the intellect and will even to see” (Harrington 1962, 10). Why

are the poor invisible? Harrington (1962, 13) observes “poverty is often off the beaten track.” *The Other America* thus spanned rural Appalachia, the rented rooms and boarding houses of the elderly, and the urban ghettos of the big cities to document the lives of millions of Americans without steady work or subsistence.

In part because *The Other America* invigorated anti-poverty policy in the 1960s, the demography of the poor has significantly changed. Between 1959 and 1998, the poverty rate among the elderly declined from 35 percent to 10 percent in response to a dramatic increase in the provision of social security benefits. Structural changes in the economy reduced the numbers of the rural poor, as farm employment declined significantly over the last four decades. As in the early 1960s, however, the invisibility of today’s poor remains rooted in the physical and social distance between whites and African Americans. Residential segregation dividing black neighborhoods from white withstood legally-mandated integration and black economic progress throughout the postwar period (Massey and Denton 1994). Poor urban blacks are the most isolated. The most recent data from the 2000 census showed that blacks were most segregated in cities where racial inequality in incomes was highest (Wilkes and Iceland 2004). The underclass, the master concept for a generation of poverty researchers, pinpoints the profound separation of poor blacks from the American mainstream. The underclass being chronically jobless, is outside the class structure. Not just poor, the underclass appears behaviorally deviant, mired in crime and family disruption. The underclass is thus defined by its social remoteness—its invisibility—as much as its deprivation. This remoteness has a physical reality (the poor live separately from the middle class), and a social reality (the everyday routines and experiences of the poor are unlike those of the middle

class).

The invisibility of the poor thus results not from immiseration, but inequality. The poor are invisible not because they are in desperate straits, but because they are beyond the horizon of middle class social experience. If poverty and unemployment were commonplace, as they were during the Great Depression, middle class families would also know the anxieties and deprivations of job loss and the dole queue. Under mass unemployment, economic misfortune is palpable and more commonly attributed by the middle class to the failures of society, rather than individual deficiency. Orwell, for example, on the road to Wigan Pier in 1937 was struck not by the social isolation and hypersegregation that marks today's urban poverty, but by the vast ubiquity of idleness in northern England. "Even the middle classes," he writes, "are beginning to realize that there is a such a thing as unemployment" (Orwell 1958, 87). Sociologists of the life course see the Great Depression as forging an entire birth cohort. Poverty in this case was formative, imprinted on the collective biography of a generation reaching midlife after the Second World War. The generation of the Great Depression in some ways experienced a more disorderly path through the life course. The pressure of economic circumstances often delayed marriage but adolescence was cut short by the necessity of finding a job (Elder 1974; Hogan 1981). Contemporary poverty, however, is a by-product of inequality, that diverts economic losers from the beaten track of the social mainstream.

The prison boom makes a new contribution to the invisibility of the poor in a very profound sense. Imprisonment conceals criminal offenders by removing them from the poor communities that feed the penal system. These inmates with a shadowy status that affects a variety of official statistics that record the economic well-being of the population. In many cases, prison and

jail inmates simply do not count in the government measures of economic activity, joblessness or poverty. The invisibility of the penal population in our official accounts underlines the depth of inequality generated by incarceration. The paper aims to bring the penal population back into to our assessment of economic trends and inequalities over the last twenty years. As we'll see, much of our optimism about declines in racial inequality and the power of the U.S. model of economic growth, are misplaced once we account for the disappearing poor, concealed behind the walls of America's prison and jails.

#### INCARCERATION AND OFFICIAL STATISTICS

Imprisonment renders the disadvantaged literally invisible because the penal population is omitted from the data sources used to track economic trends. Government statistics like poverty rates, unemployment rates, and wage levels are compiled from large surveys run regularly by the Census Bureau. The surveys draw from a large list of American households. People who live in some kind of institution like an old age home or army barracks are excluded from the survey. Among young men, the most common institutionalization is incarceration in prison or jail. These prison and jail inmates, as we know, are overwhelmingly minority men with low levels of schooling. When we count the poor or the jobless, vast numbers of young disadvantaged men are simply ignored because of their incarceration. While the poor are invisible in the lives of the middle class, the penal population suffers a more fundamental exclusion, from official accounts of the economic well-being of the population.

At one level, this is unremarkable. Employment rates, for example, are defined only for the noninstitutional population. Prison and jail inmates fall outside the definition, and outside the official statistics of the labor market.

However, statistics on employment and wages are useful because they tell us something in general about the economic status of the population, not just the government-defined population. The demographer Clifford Clogg (1974) makes this observation in relation to the unemployment rate. Although official unemployment refers just to the nonworking labor force actively seeking work, the unemployment rate is also an important but imperfect indicator of labor utilization—the degree to which the population is productively engaged. It is relatively straightforward to measure the unemployment rate, but a more complete measure of labor utilization would provide a more accurate of the economic self-sufficiency and well-being of the whole population.

The penal system dramatically influences the utilization of labor. Prison and jail inmates, mostly young able-bodied men, are not in paid employment. Beyond the reach of household surveys, prison and jail inmates have no economic status, either productive or unproductive. How should we classify the economic status of the penal population? Some might say that prison work programs are a type of employment. Inmates in work programs should therefore be counted as employed. Work in prison industries, however, confers none of the rights or economic independence that we associate with paid employment. Work programs are not covered by minimum wage or industrial relations laws, an inmate's standard of living is not improved by work in prison industries, and inmates of course are not free to quit their jobs and search elsewhere. Thus, the Census Bureau rightly regards the incarcerated population as not working, reserving the employment classification for those in paid jobs on the open labor market.

If the economic status of the penal population is jobless, the penal system produces a large reallocation of economic resources that also renders prison and jail inmates invisible in official statistics. We can more accurately gauge

the economic status of the population and measure the labor allocative effect of the penal system by calculating alternative figures that include the incarcerated population.

How much difference does it make to simply count these incarcerated men when we assess the economic status of the population? One simple approach to this question compares a common measure of employment—the noninstitutional employment to population ratio—to an alternative figure that includes the prison and jail inmates in the population. Following our analysis of hidden joblessness in the penal system, we study how racial inequality in wages might be influenced by incarceration through the 1980s and 1990s.

#### INCARCERATION AND HIDDEN JOBLESSNESS

Employment in the population is usually measured by an unemployment rate or an employment-to-population ratio. The unemployment rate is too restrictive for studying socially marginal groups because it does not count the long-term jobless who are discouraged from seeking work. The employment-to-population ratio is a simpler measure counting just those with jobs as a fraction of the population. Because my interest centers on those out of work, I will report a jobless to population ratio—one minus the typical employment ratio. If we rely on the usual labor force surveys, the jobless consist of the unemployed and those who are not in the labor force, including invalids, students, and others who are not seeking work. I make two adjustments to standard statistics based on household survey data to provide a more complete account of the population. First, to measure the share of the population who are gainfully employed, I include the military in the count of the employed population. Second, prison and jail inmates are added to the count of those who are not employed.

The share of the penal population among the jobless increased with the incarceration rate between 1980 and 2000. Figure 4.1 shows jobless rates for white, Hispanic, and black men aged 22 to 30 at these two points in time. The shaded portion of each bar in the figure represents the incarcerated fraction of the jobless population. In 1980, 90,000 prison and jail inmates accounted for only about 1 in 20 jobless young white men. By 2000, the number of young white males behind bars had climbed to 185,000 and 1 out every 8 of those out of work were incarcerated. In 2000, the conventional jobless rate for young white men was 10.6 percent; it rises to but 12.0 percent once the penal population is counted.

The contribution of incarceration to joblessness is larger for Hispanics and blacks. In the twenty years from 1980, the number of young incarcerated Hispanic men grew from 25,000 to 130,000. By 2000 the penal population accounted for 30 percent of all joblessness among Hispanic males aged 22 to 30. This level of incarceration adds 4 percentage points, lifting the conventional jobless rate from 10.3 to 14.3 percent in 2000. Overall rates of employment are lowest for African Americans, regardless of whether prison and jail inmates are counted among those not working. In 1980, in the noninstitutional population alone, 22.9 percent of young black men were out of work, roughly double the jobless rate for whites at that time. Joblessness among young blacks rises to 26.7 percent in 1980 once prison and jail inmates are added to the population. Between 1980 and 2000, the incarcerated population of young black men increased from 110,000 to 285,000. One out of every three young black men out of work in 2000 was in prison or jail. Household survey data indicated that joblessness stood at 23.7 percent of young black men in 2000, but adjusting for incarceration added nearly 10 points, lifting the true jobless rate to 32.4 percent. Young black men were the only group to experience a

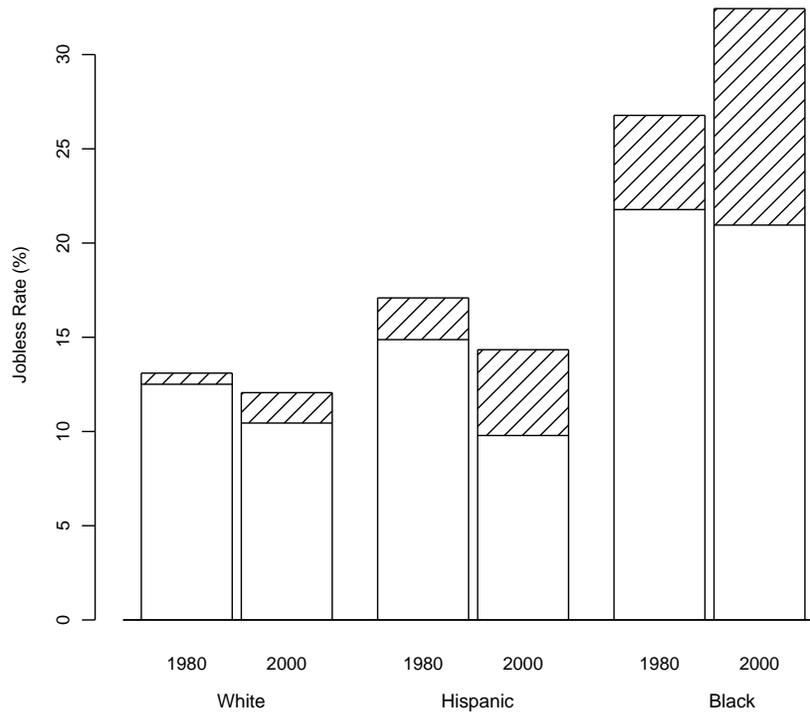


Figure 4.1. Percent jobless among men aged 22–30 in 1980 and 2000, by race and ethnicity. The shaded portion of each bar indicates the fraction of the incarcerated population among the jobless.

steep increase in jobless between 1980 and 2000, and this was largely due to the increase in the penal population.

#### *Educational Inequality in Hidden Joblessness*

The contribution of the penal system to low rates of employment among young black men is larger if we focus just on men who have never been to college—the dropouts and high school graduates. Figure 4.2 compares conventional jobless rates based on the household survey to adjusted rates that

include prison and jail inmates. (As before, military personnel are also included in all these jobless figures.) In this case, joblessness is reported just for noncollege men, aged 22 to 30 in 2000. Accounting for the penal population adds little to our understanding of the prevalence of employment among low-education white men. The conventional jobless rate is 11.7 percent, and 3 points higher at 14.7 after the penal population is counted. The discrepancy in jobless rates is a little larger for Hispanics. Conventional statistics tell us that 10.2 percent of all young noncollege Hispanic men were out of work in 2000. This figure rises to 15.3 percent once we account for joblessness due to incarceration. The jobless rates for blacks are remarkably high. Although standard data sources show that joblessness among young noncollege black men stood at 29.9 percent in 2000, the true jobless rate in the population, including prison and jail inmates, was 42.1 percent. Among young low-skill black men, the penal system accounts for about a quarter of all joblessness.

If we focus on the bottom of the educational distribution, the high school dropouts, the share of concealed joblessness in the penal system is larger still. Figures for young black male dropouts suggests the noninstitutional jobless rate increased 15 points from 34 to 49 percent in the twenty years from 1980. If we include prison and jail inmates among those out of work, the true jobless rate increases from 41 to 65 percent. Only by counting the penal population do we see that fully 2 out of 3 young black male dropouts were not working at the height of the 1990s economic expansion. Of those not working, nearly half were in prison or jail.

Differences between conventional jobless rates and adjusted rates that include prison and jail inmates point to the large biases in employment estimates based on household surveys. To put these biases in perspective, the household surveys are designed to produce accurate estimates of employment,

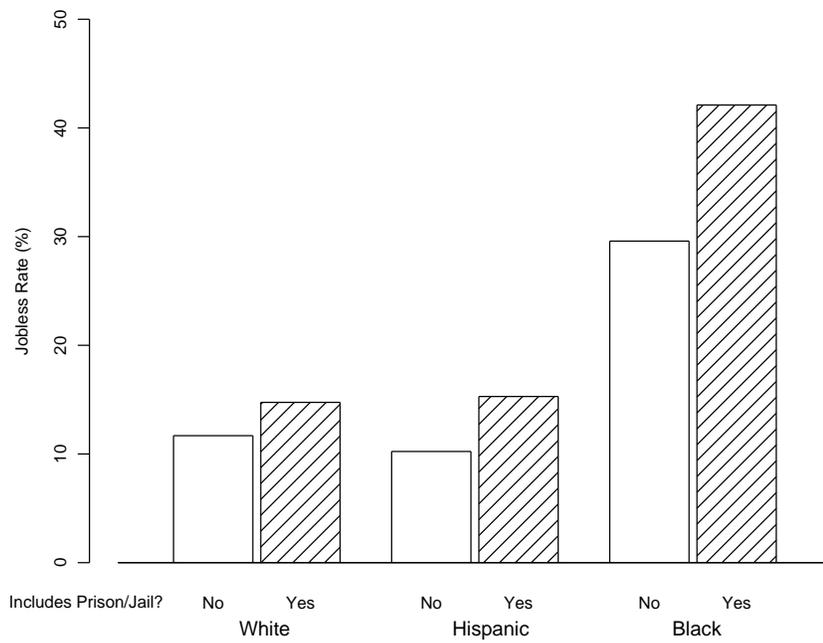


Figure 4.2. Jobless rates for non-college men aged 22 to 30 by race and ethnicity, in 2000. The unshaded bars show jobless rates based on the noninstitutional population. The shaded bars add prison and jail inmates to the jobless count.

to within fractions of a percentage point. By omitting the penal population, standard estimates underestimate the true jobless rate by as much as 25 percentage points.

These statistics tell us several things. First, standard labor force data significantly over-estimate the prevalence of employment among young black men, particularly those without higher education. Rates of joblessness among young black men, already high in official statistics, are really one-fifth to one-quarter higher given so many men in prison and jail. Second, because of the large racial disparity in incarceration, racial inequality in employment is significantly, understated by standard data sources.

### *Racial Inequality in Joblessness*

Inequality can be measured with the ratio of black to white jobless rates. To study how racial inequality conceals inequality, we focus just on the employment situation of noncollege men aged 22 to 30. Figure 4.3 shows the trend in the black-white ratio in jobless rates for the noninstitutional population and for the corrected rate that includes prison and jail inmates. The trend lines slope upwards indicating that racial inequality in employment increased significantly, both in the noninstitutional population and in the general population as a whole. Standard statistics suggest that the black-white ratio had increased to around 2.5 by 2000; young black noncollege men are 2.5 times more likely to be out of a job than their white counterparts. Including prison and jail inmates raises the ratio to 2.9, indicating that standard data sources understate racial inequality by about one-fifth among young men with just a high school education.

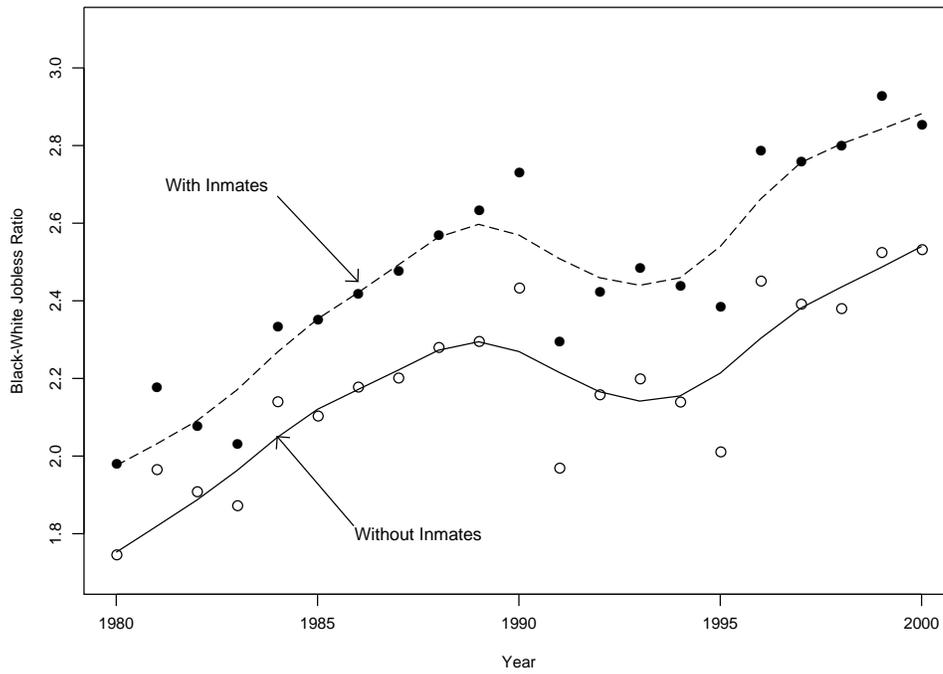


Figure 4.3. Trends in the black-white ratio in jobless rates, non-college men, aged 22-30, 1980-2000. The solid line shows the ratios for jobless rates in the non-institutional population. The dashed line shows the ratio in jobless rates including prison and jail inmates.

*The 1990s Expansion, Revisited*

Including the penal population in our estimate of the jobless rate also provides a more accurate understanding of the link between the economic status of socially marginal men and trends in the economy as a whole. In a remark that became a hypothesis for countless poverty researchers, President Kennedy famously observed that a “rising tide lifts all boats.” A strong economy, he suggested, would provide economic benefits to even the most disadvantaged. For most of the postwar period until the early 1970s, this appeared to be true. Strong economic growth was associated with increased wages for low-skill workers with little education. The rising-tides hypothesis appeared to break down following the recession of 1973. For the next twenty years, through the ups and downs of the business cycle, income inequality increased steadily and workers in the bottom wage of the income distribution increasingly lost ground.

The rising tides hypothesis was reprised during the 1990s economic expansion. From 1992 to 2000, the United States enjoyed its longest and largest peacetime economic expansion. The official unemployment rate dropped from 7.5 percent in 1992 to 4.0 percent in 2000, while the economy added about 18 million new jobs. The strong labor market was celebrated partly because of the gains it was thought to bring to workers with the least market power. In February of 1999, the *Washington Post* (February 6, A Section, p. A1) sounded a familiar theme: “Unemployment rates among blacks and Hispanics fell last month to the lowest levels since the federal government began tracking them in the early 1970s, as the nation’s booming economy created more jobs than expected, lifting many of the unemployed who have been left behind during other good times.” The *New York Times* (December 13, 1998, Section 3, p. 4) similarly reported that “after nearly eight years

of growth, the tightest labor market in decades is having a noticeable effect on [young black men's] participation in the work force and on employers' willingness to hire them." In an otherwise buoyant assessment of the labor market, the *Times* added cautiously, "The employment figures do not reflect the growth in the percentage of young black men who are in jail or prison, so it is unclear whether things have improved quite as much as the jobs data show." Indeed, the penal population was invisible in the government jobs data, and no figures counting inmates among the jobless were published in official statistics or by the media.

Did the surging labor market of the 1990s improve employment among young and low-skill men? The most common barometer for the performance of the labor market as a whole is the unemployment rate. We can study whether the boats of young minority men were lifted by the rising tide of job growth by comparing the overall unemployment rate of the labor force to jobless rates for young noncollege men. Figure 4.4 plots national unemployment rates against the noninstitutional and incarceration-adjusted jobless rates for white, Hispanic and young black when who have not been to college. Among young white noncollege men, the top left hand panel shows the jobless rate among noninstitutional men. There is a clear positive relationship between overall unemployment and joblessness among young low-skill whites. The regression line indicates that a 1 point fall in overall unemployment is associated with a 1 point fall in the jobless rate for white male youth in the noninstitutional population. Counting prison and jail inmates among those out of work slightly weakens the relationship, so that a 1 point fall in unemployment accompanies .7 percentage point fall in the jobless rate for young noncollege whites. Employment rates among young Hispanics are more tightly linked to overall unemployment. The strong positive relationship between overall

unemployment and joblessness among young Hispanic men. Regardless of how joblessness is measured among, falling unemployment rates in the late 1990s is associated with increasing employment noncollege Hispanics in their twenties.

The connection between overall unemployment rates and jobless rates for young black low-skill men is very weak, however (Figure 4.4). If we look just at noninstitutional men, the trend line slopes upwards indicating that a 1 point fall in unemployment has been associated with .8 percentage point fall in the jobless rate among young black men without college education. If prison and jail inmates are counted in our assessment of the jobless rate, the trend line slopes downwards indicating that the economic prospects of young black men largely became detached from the path of the labor market as a whole. Joblessness significantly increased among young noncollege black men at the end of the 1990s when economic conditions were generally improving for the rest of the population.

In sum, prison and jail inmates are invisible in the official labor statistics that describe the economic well-being of the population. Once we add the penal population to our count of the jobless, the prevalence of employment can be seen to be dramatically overestimated among young low-skill black men. More than this, ignoring the penal population also causes us to underestimate the rise in racial inequality in employment. By 2000 young whites with just a high school education were about three times as likely to be holding a job as their black counterparts. Finally, linking trends in incarceration-adjusted joblessness to the national unemployment rate shows that the economic fortunes of men whose incarceration risks were highest became completely detached from trends in the labor market as a whole. As the unemployment rate sank to historically low postwar levels in the late

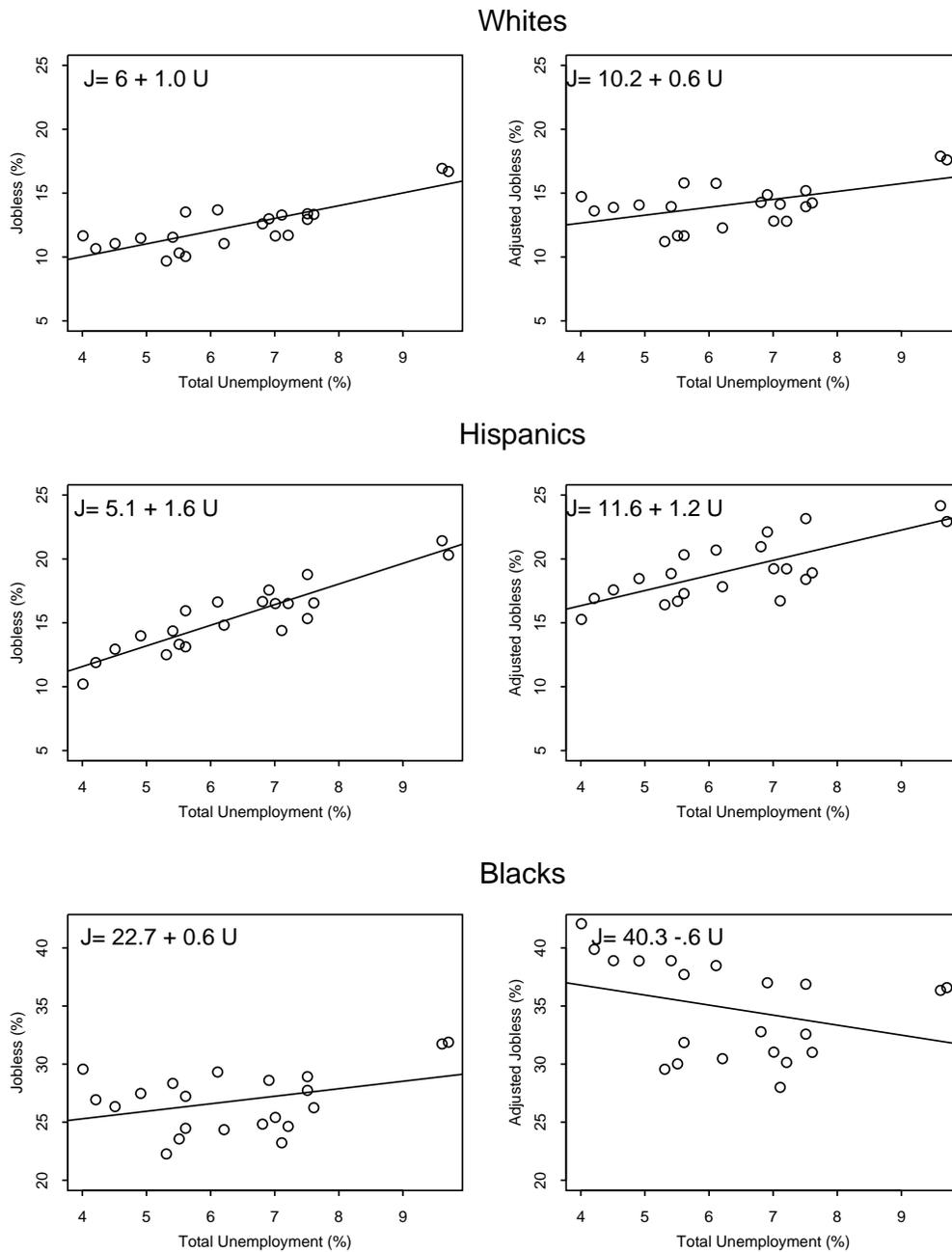


Figure 4.4. Total unemployment rates by noninstitutional (left hand panels) and incarceration-adjusted (right-hand panels) jobless rates for non-college men aged 22 to 30, 1980–2000. Regression lines indicate the trend. (All jobless rates count military personnel as employed.) 16

1990s, jobless rates among noncollege black men in their twenties rose to their highest levels ever. This increase in joblessness was propelled by historically high incarceration rates.

#### INCARCERATION AND THE RACIAL GAP IN WAGES

Although the penal system has concealed significant joblessness among young low-education black men, employment figures provide just one indicator of economic status. We can also consider how income and wage trends are affected by the hidden disadvantage produced by high incarceration rates. All things being equal, wage and employment rates should move together. When the economy is expanding, demand for labor will be strong and employers will compete for workers, driving up wages and the level of employment. However, the risk of joblessness is not distributed evenly across the labor market. Employment among low-skill men lagged behind the rest of the labor force. If low-skill men, who are likely to earn low wages, drop out of the workforce, the average level of wages may actually increase. Low-wage workers who drop out no longer form part of the wage distribution, and the average wage rises because the bottom end of the wage distribution is erased through joblessness. In this case, the rise in average wages is not due to any real improvement in the economic situation of wages earners; it is just an artifact of declining employment at the bottom. Labor market researchers call this a “selection effect.” If those selected for employment are a nonrandom sample of all workers, the average wage will no longer reflect the typical economic status of all workers.

The selection analysis helps us understand the puzzle of declining employment among black men through the 1960s, a period when wages were growing strongly. Many researchers attributed the rapid growth in wages of

black men relative to whites to the passage of the Civil Rights Act and other measures that reduced racial discrimination in the labor market. Butler and Heckman (1977) observed that income-transfer benefits increased at the same time as passage of the Civil Rights Act. Increased welfare benefits, they argued, drew low-wage men out of the labor force. Increased average earnings of blacks relative to whites was due to declining employment among low-pay black workers rather than an upward shift in the income distribution.

Other have researchers wondered if earnings is a good measure of black economic progress given low employment rates among black workers. Welch (1990, S42) asks if the “improvement in black/white wage ratios is an illusion.” Jaynes (1990) observes that “the most important problem” for research on race relations “is to explain why, if the market’s relative valuation of black labor has increased, black employment has been declining.” These comments reflect a suspicion that increased wages is an artifact of declining employment. If low earners are discouraged from seeking work or if they are in prison, average incomes will increase, not because pay is going up but because those at the bottom have dropped out of the workforce (Heckman 1989). Under these conditions, deepening economic disadvantage may be misinterpreted as economic progress.

The sample selection analysis has contemporary relevance in the context of the prison boom. Just as mass incarceration removes prison and jail inmates from official employment statistics, it also removes them from the wage distribution. This selection analysis puts wage trends of the 1980s and 1990s in a new light. From the mid-1980s to the late 1990s, the black-white gap in wages was shrinking among young men (Figure 4.6). In 1985, average hourly wage of white men in their twenties exceeded for young black men by about 26 percent. By the end of the 1990s, racial inequality in hourly wages

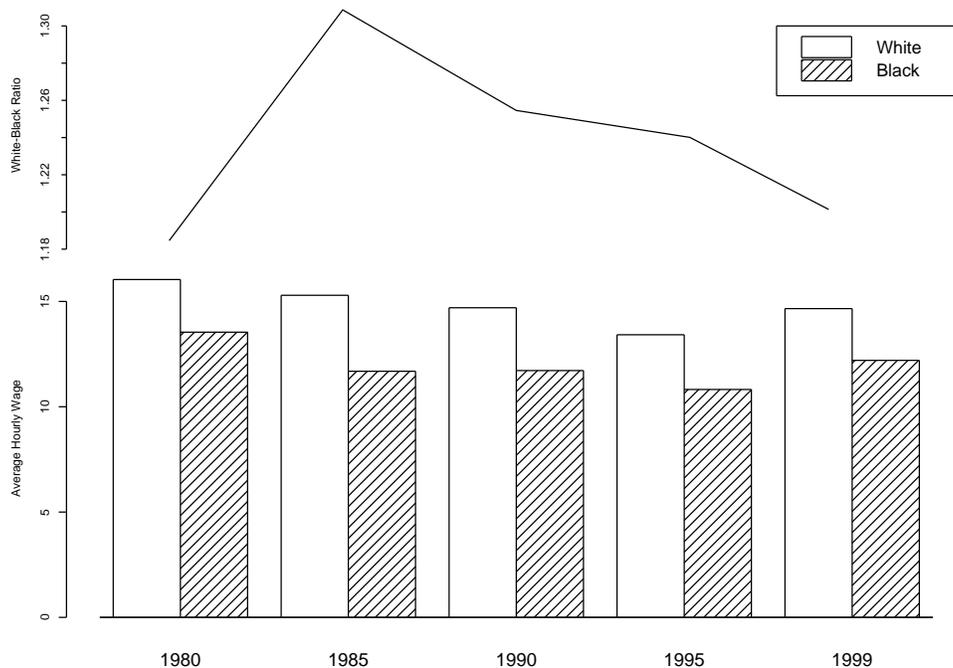


Figure 4.5. Average hourly wages of black and white male workers, aged 22 to 30, 1980–1999. (Wages are in 2003 dollars.)

had declined to 21 percent. We know, however, that joblessness among black men is steadily increasing during this period, in large part because of the steep increase in the incarceration rate. Is the decline in wage inequality the product of a real improvement in the labor market situation of young black workers, or is it simply an artifact of escalating rates of imprisonment and other joblessness?

To assess the effect of sample selection on racial inequality in wages, we predict wages for nonworkers and reconstruct the wage distribution including these predicted wages. These predicted wages can be interpreted as the wage offers that nonworkers would have received had they been in the labor force.

More generally, we can understand this exercise as an effort to monetize the economic status of marginal segments population who are typically ignored in studies of economic inequality.

Earlier research focused on trends from the 1960s through the 1980s. To study wage inequality through the 1990s, we analyze data from the Current Population Survey and correctional surveys of inmates. Our estimates of inequality are based on hourly wages, although we found similar results for weekly earnings. The analysis is restricted to non-Hispanic, nonfarm, civilian men aged 22 to 30. Like previous research, we predict the wages of the jobless given age and education (Blau and Beller 1992; Chandra 2003) that capture the main human capital differences in wages.

The jobless in our data fall into two categories. First, there are the nonworkers. These are men who are unemployed and looking for work, and those not in the labor force who are not actively seeking employment. To impute the wages of these men, we simply match them to the wages of workers according to age and education. The wages offers that nonworkers are likely to receive will be lower than the wages we observe among workers. A more realistic estimate of the hypothetical wage level of nonworkers takes just a fraction of the observed wage among workers. Other research suggests that nonworkers will earn about 60 percent as much as full-time full-year workers, so we multiply wages by .6 (Blau and Beller 1992, Juhn 1997, and Chandra 2003 make similar adjustments).

Second, there are prison and jail inmates. The hypothetical wage offers of incarcerated men are likely to be much lower than those for nonworkers. Fortunately, data are available that provides the wage level of prison and jail inmates prior to incarceration. Correctional surveys of inmates, fielded periodically by the Bureau of Justice Statistics, ask respondents about their

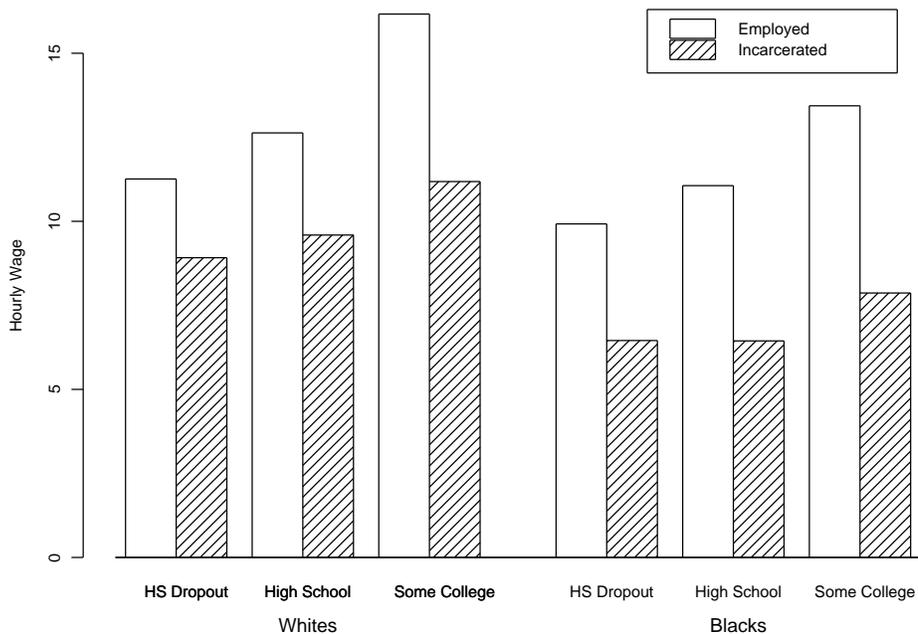


Figure 4.6. Hourly wages of workers and prison and jail inmates at the time of incarceration, males aged 22 to 30, by education, 1999. (Wages are in 2003 dollars.)

wages immediately before incarceration. About a third of inmates were not working when admitted to prison or jail. Pre-incarceration wages are reported by 30 to 50% of respondents in each of the nine correctional surveys we analyze. these data are used to estimate the hypothetical wage that inmates would receive if offered jobs on the open labor market.

Underscoring their low of levels of ability and poor employment records, prison and jail inmates earn significantly less at the time of their incarceration than other men with the same level of education. Figure 4.6 shows that young white dropouts earned just over \$11.00 an hour. By comparison, young white prison and jail inmates averaged just \$8.90 an hour at the time

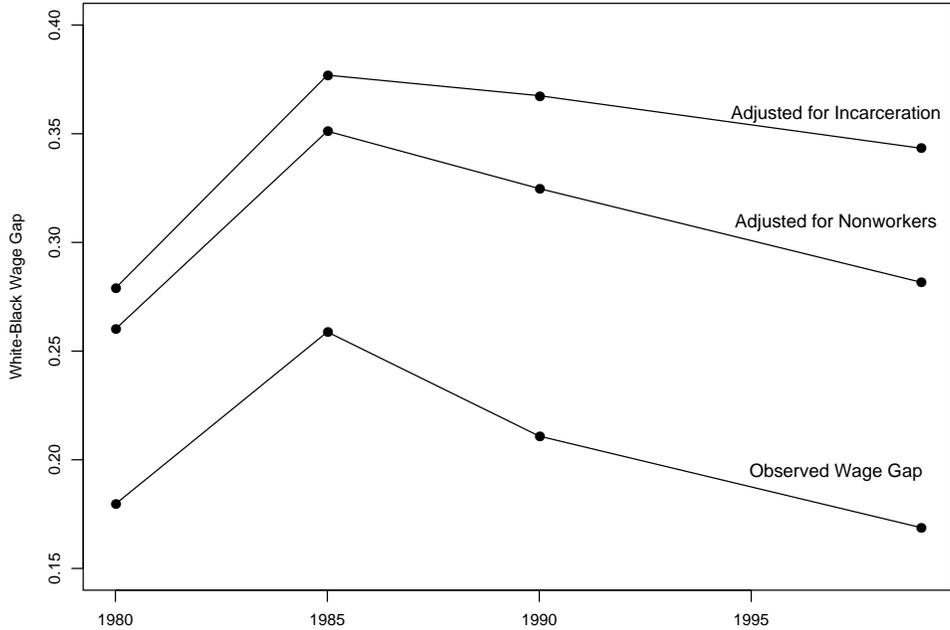


Figure 4.7. The observed white-black hourly wage ratio and wage ratios adjusted for nonworkers and incarceration, men aged 22 to 30, 1980–1999. (The wage ratio is measured by the differences in mean log hourly wages.)

of their incarceration. the wage gap grows with education. Young whites with some college earned more than \$16.00 an hour in 1999, while those in prison or jail earned just \$11.18. There is also a large wage gap between workers and inmates, among African Americans. earnings gap between prison and jail inmates and non-inmates is also large among African Americans. Despite the relatively low earnings of black workers, their wages exceed those of inmates by about 70 percent.

Figure 4.7 shows three different measures of racial inequality in young men’s wages. The lower line shows just the observed level of wage

inequality calculated from the usual household survey. In 1980, the hourly wage of young white men exceed that for black men by 17 percent. Racial inequality in hourly wages increased through the early 1980s, and peaked in 1985. In this year, whites earned about 25 percent more than blacks. Over the next 15 years, however, wage inequality steadily declined. By 1990, racial inequality in wages had fallend to about 14 percent. At the the height of the 1990s economic expansion, in 1999, the hourly wages of young white men exceeded that for young black by just 16 percent. Between 1985 and 1999, the white-black ratio in wages had declined by by 9 percentage points, or more than a third of the observed wage ratio. Was this gain in gain in relative wages among young black men a real relative improvement in the income of young black men, or was it just an artifact of declining employment fueled by the growth in imprisonment?

The upper time series in Figure 4.7 begins to answer this questions by showing estimates of the level of wage inequality we would observe if first nonworkers and then prison and jail inmates were fully employed. If we take account just of the unemployed and those who are not in the labor force, our estimates indicate that the young white men would earn about 26 percent more than young black, 9 percentage points higher than than the observed difference in wages. Over the next five years, this adjusted level of wage inequality grew even more sharply than the observed level of wage inequality. In 1985, whites are estimated to enjoy hourly wages 35 percent higher than those of blacks. Although the adjusted wage gap between blacks and whites is estiamted to decline from the mid 1980s to the end of the 1990s, the equalization in adjusted wage is smaller than the equalization in equalization in actual wages.

Finally, the top series in Figure 4.7 reports the level of white-black wage

inequality adjusting for nonworkers and prison and jail inmates. What would trends in wage inequality look like if nonworkers were fully employed, and those incarcerated also held jobs in the open labor market. Because of their low levels of education and their very low level of earnings, prison and jail inmates add further to the race gap in wages. Reflecting the very large number of poor men incarcerated, wage inequality among young men would have been about 50 percent higher (37 compared to 25 percent) if the entire population were fully employed. What's more, the decline in inequality since 1985 would have been very modest, if not for increasing joblessness due to incarceration through the 1990s. After adjusting for nonworkers and prison and jail inmates, racial inequality in wages is estimated to fall just 5 percent (from 37 to 35 percent), instead of the observed decline of 36 percent. By 1999, the observed ratio of white to black hourly wages understated the relative economic status of young black men by about 45 percent because such a large number of low-skill black men were out of work or in prison or jail. The decline in the adjusted wage ratio between 1985 and 1999 was one-quarter as large as the decline in observed wages.

In sum, this analysis shows that racial gap in wages provides a poor indicator of the relative economic status of young black men. Because of their high rates of unemployment and incarceration the economic disadvantage of black men is largely hidden from standard statistics on the wage gap. If we account for the large numbers of low-education men out of work or in jail, racial inequality in 1999 would have been about twice as high as its observed level. Adjusting for racial disparities in joblessness and incarceration also suggests that young black men have experienced virtually no real economic gains on young whites in the 15 years from 1999. Indeed, around three-quarters of the apparent gains in relative wage is due not to a real

improvement in the economic situation of African Americans, but to the escalating rates of imprisonment and idleness.

#### ECONOMIC PROGRESS AMONG BLACK YOUTH IN THE 1990S

There is strong evidence for large inequalities in wages and employment among young black men through the 1980s and 1990s. These statistics, as bad as they are, overstate the economic status of young black men and underestimate racial inequality. Standard labor force statistics provide an optimistic picture of the status of young black men because so many poor young black men are institutionalized, and thus outside the scope of labor market accounts.

The effects of the prison boom on concealed inequality are especially important as we interpret economic trends through the 1990s. From 1992 to 2000, the United States enjoyed its longest and largest peacetime economic expansion. The unemployment rate dropped from 7.5 percent in 1992 to 4.0 percent in 2000, while the economy added about 18 million new jobs. These effects were widely celebrated not least because of the beneficial effects at the margins of the labor market, among low-skill workers. Strong economic growth and low unemployment, it seemed, could significantly improve living standards for the most disadvantaged in society.

Incorporating prison and jail inmates in assessments of economic trends and estimates of racial inequality suggest that the 1990s expansion did little to improve the situation of economically marginal black men. Jobless increased through the late 1990s when job growth was strongest, and blacks employment rates significantly fell behind those of whites. Racial inequality in wages declined from the mid 1980s to the late 1990s, but we estimate that two-thirds of this increase was due to attrition from the labor force largely

caused by rising incarceration rates.

The performance of the U.S. labor market at the end of the 1990s moved to the center of economic policy debates both in the United States and Western Europe. By standard accounts, the labor markets of Western Europe were performing poorly compared to the American. France, Italy, and Germany had all experienced very high levels of unemployment throughout the 1990s. High rates of official unemployment accompanied a high level of long-term unemployment, stagnant job growth, a high rate of disability, and significant youth unemployment. The booming labor market in the United States, by contrast, created large numbers of new jobs, drove unemployment to full employment levels, and, it seemed, provided significant economic benefits to economically vulnerable groups—minorities, and low-education workers.

Researchers pointed to institutional differences to explain why the United States was doing so well, and why Europe was doing so poorly. Institutional analysis of labor markets focused on the effects of social policy and industrial relations (Crouch 1985; Colbjørnsen and Kalleberg 1988; Korpi 1990; Kolberg and Esping-Andersen 1990; Hicks 1994; Janoski, McGill and Tinsley 1997). For this research, the United States provided a model of market deregulation. U.S. unions were weak and the welfare state affected only those at the fringes of the job market. Contrast Europe where employment relations are highly regulated. Unions set wages for entire economies, and welfare states significantly influence the supply and demand for labor.

These trends suggest unregulated labor markets yield strong employment performance. Of all the labor markets of the advanced economies, the United States best approximates the competitive model of neoclassical theory. In this model, job seeking is intensified by meager state support for the unemployed and low unionization allows wages to adjust to market conditions.

In Europe institutions introduce inefficiency: large welfare states and strong unions stifle labor demand and reduce work incentives (Olson 1982; Lindbeck 1985; Giersch 1993; OECD 1994a). In short, the unregulated labor market of the United States produced low rates of jobless, while the expansive welfare states and labor unions of Western Europe created large-scale idleness and sluggish economic performance.

We challenged this analysis by arguing that labor markets are embedded in a wide array of social arrangements that extend beyond the welfare state or industrial relations. In the United States, criminal justice policy provides a significant state intervention with profound effects on employment trends. The magnitude of state intervention is reflected in budget and incarceration figures. In the early 1990s, \$91 billion was spent on courts, police, and prisons, dwarfing the \$41 billion spent on all unemployment benefits and employment related services (*Statistical Abstract of the United States* 1995, table 585). By 1996, 1.63 million people were being detained in American prisons and jails—a threefold increase from 1980 (Gilliard and Beck 1997, 1). These figures suggest that incarceration generated a sizeable, nonmarket, reallocation of labor overshadowing state intervention through social policy.

More generally, this analysis treats the penal system as a labor market institution and provides evidence that the prison boom has generated substantial hidden inequality. By institutionalizing large numbers of low-education and African American men through the 1990s, official employment and wage statistics for those at the margins of the labor market were artificially optimistic. It was widely claimed that the 1990s economic expansion produced real economic gains for even the most disadvantaged. We can see that this

claim does not apply to young non-college black men, once we take account of the economic disadvantage concealed in the America's prison and jails. We can think of the penal system's concealed inequality as the short-run effect of incarceration, the immediate consequence of institutionalizing large number of working age men. Of course, nearly all those men are released from incarceration, and many negotiate the obstacles to job seeking as ex-offenders. This long-run effect of incarceration on the economic opportunities of men who have been released from incarceration, is the topic we turn to next.

## APPENDIX. DATA SOURCES

*Labor force data* Counts for employment and the noninstitutional population, and the earnings regressions used for the imputation of wages were estimated using annual labor force data from the Merged Outgoing Rotation Group files of the Current Population Survey (NBER 2001).

*Survey correctional data* Counts of the prison and jail population, and pre-incarceration wages, and characteristics of the penal population were estimated using data from the Survey of Inmates of Federal Correctional Facilities (1991), the Survey of Jail Inmates (1978), the Survey of Inmates of Local Jails (1983, 1989, 1996), the Survey of Inmates of State Correctional Facilities (1979, 1986, 1991), and the survey of State and Federal Correctional Facilities (1997) (Bureau of Justice Statistics, October 1994, February 1997a, February 1997b, June 1997, May 1994, October 1993, February 1997c, 1999, 2000). Inter-survey years were interpolated.

*Administrative correctional data* Unpublished annual counts of prison and jail populations for blacks and whites were supplied by the Bureau of Justice Statistics. Jail figures are the estimated overnight count for June 30 each year. The prison population is the count at year's end.

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