

# CAPX

## The economic case for American criminal justice reform

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The latest US jobs report showed that the American economy gained 157,000 jobs in July, and the unemployment rate inched down to 3.9 per cent. Meanwhile, the quarterly economic report showed the economy growing at 4.1 per cent, the highest quarterly growth rate since 2014.

However, the labour force participation rate (the share of working-age people who are either employed or looking for work) remains low — only Italy has a lower labour force participation rate among prime working-age men than the United States.

Increasing labour force participation is key to sustaining economic growth. One of the ways the US government could do that is by rethinking its approach to the opioid crisis, which is keeping people away from work.

What is needed is a shift away from an attitude of punishment to an attitude of rehabilitation in our criminal justice system.

The United States has the highest incarceration rate and largest prison population in the world. According to the Prison Policy Initiative, roughly 2.4 million people are incarcerated in the US, with 1.36 million in state prisons, 720,000 in local jails, and 210,000 in federal prisons.

While there are many factors that contribute to these abnormally high numbers, from overcriminalization to long prison sentences, one factor driving such high incarceration rates is recidivism, namely ex-cons returning to prison after committing crimes. In the United States, 76.6 per cent of released prisoners were rearrested within five years.

In Norway, by comparison, only 20 per cent of prisoners return to prison after five years. This discrepancy is largely due to an attitude of “restorative justice” in Norwegian prisons which

emphasises reintegration into society. In the United States, retributive justice, an understanding of criminal justice that focuses on punishment rather than rehabilitation, still dominates.

According to the Center for American Progress, criminal recidivism reduces annual GDP by \$65 billion a year. Moving to a less punitive criminal justice system in which prisoners have access to more educational and job-training opportunities would reduce recidivism, and, by expanding the labour force, boost the economy. Furthermore, removing occupational licensing laws that prevent criminals from entering certain professions would help accelerate economic reintegration.

The economic case for criminal justice reform bleeds over into debates over drug policy. The Tax Foundation estimates that the marijuana industry is valued at \$45 billion dollars a year: federal legalisation of marijuana would bring black market businesses into the legal economy, turning careers of crime into respectable enterprise. Furthermore, addressing the opioid crisis would have significant, positive economic effects.

Opioid addiction has had a large negative impact on labour force participation, and the estimated economic cost of the opioid crisis is almost \$80 billion. Treating opioid addiction as a public health issue instead of a criminal justice issue, in tandem with avoiding overprescription of opioids, would not only save lives but also improve future economic prospects.

These changes would also help curb rising deficits. Thanks to the recent tax cut and omnibus spending package, the federal deficit will be exceed one trillion dollars in 2019 and going forward, even during an economic boom. Reducing incarceration would reduce government spending: we spend over \$80 billion on incarceration every year.

A fall in recidivism would also help reduce outlays for federal, state, and local governments. Marijuana legalisation, too, would reduce spending: the libertarian-leaning Cato Institute recently found that legalisation of cannabis would decrease state spending by \$6 billion and federal spending by \$4 billion annually. Decriminalisation of all drugs, meanwhile, would reduce state spending by \$29.4 billion and federal spending by \$18.5 billion.

These reforms would also raise revenue. Increasing labor force participation by moving people from incarceration into gainful employment would grow the economy, and therefore the tax base. The same would be true for addressing the opioid crisis.

Bringing illegal drug markets into the legal economy would also boost tax revenue: the Tax Foundation estimated that marijuana legalisation would lead to \$28 billion on tax revenue, including \$7 billion in federal revenue. Alternatively, the Cato Institute projects that decriminalisation of all drugs would lead to \$19.6 billion in state revenue and \$39.2 billion in federal revenue.

Taken together, these reforms would not balance the budget or usher in a new period of consistent 4 per cent annual GDP growth. But the larger workforce criminal justice reform could create would grow the economy while reducing, rather than growing, budget deficits at all levels of government.