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Before proceeding, we should describe the economics of what Joan Robinson described as "military Keynesianism". For our purposes, it is useful to identify supply-side and demand-side impacts. There are two important supply side effects of massive spending on the military. First, maintenance of large standing armies helped to remove a relatively large number of young, lower-skilled and lower-educated males from the labor force. This group traditionally faces higher-than-average rates of unemployment, and the unemployment gap has widened considerably over the course of the post-war period. The military served as a siphon to remove those with a high probability of becoming unemployed—especially young black males. Many observers have noted that young males of most post-tribal societies are particularly at-risk for engaging in a variety of anti-social behaviors unless they are kept otherwise occupied. The other "supply side" impact was on technological advancement and development of infrastructure that might "spin-off" to enhance productivity of the non-military sector. There were also two primary demand-side effects: the demand for goods and services generated directly by the government's spending, as well as the induced "multiplier" effect on consumer demand. Because much of the government's spending on military hardware created relatively high-paying jobs in the advanced industrial sector, the induced demand was important in keeping aggregate demand high.

However, military Keynesianism also carried with it some aspects that made it difficult to sustain over a long period. First, the technological spin-offs were probably fairly limited outside a few well-known examples (development of the 747, the Internet). To the extent that military spending did not enhance productivity of the non-military sector, it would

add to the aggregate markup over costs, thus, would be inflationary. This effect was enhanced due to the fact that military spending largely resulted in "hiring-off-the-top" as the military-industrial complex hired the best-educated workers (here, of course, we are not speaking of the "grunts" in uniform, but rather the workers producing military hardware). Second, for a variety of reasons, maintenance of a large standing army encouraged evolution of "cold wars" into real "hot wars" that transformed the participants and society at large in socially disruptive ways. In a significant proportion of cases, young men returning from hot wars became less employable and even highly anti-social. Further, social unrest resulting from US participation in hot wars made large-scale military intervention less practical. With the removal of the Soviet Union as a viable threat, it became very difficult to justify continued expansion of military spending. Downsizing of the standing force along with enhanced technology of the hardware led to significant upgrading of the qualifications such that the military no longer serves its traditional function of "employer of last resort" for the poorly educated. While "defense" still plays an important role in maintaining aggregate demand, it is not likely that military spending will rise as fast as GDP in the future.

For this reason, I was intrigued by the possibility that penal Keynesianism might substitute for (or, at least, add to) military Keynesianism. On the supply side, imprisonment acts as a substantial outlet for excess labor supply, essentially drawing from among the same population that used to find its way into the armed forces. And while the prison system used to be fairly low-tech, it is increasingly relying on fairly high-tech products and services of private industry. In addition, and unlike the military

sector, the prison sector actually produces goods and services that can be purchased in markets by consumers. As we shall see, utilization of prisoners in production is growing and is being actively encouraged by public policy. Furthermore, penal Keynesianism increases demand directly and through a multiplier; and spending on prisons is growing rapidly—much faster than spending on the military. Let us examine these points in more detail.

First, however, let us briefly say something about the history of imprisonment. The modern prison really only dates back to 1550, and wide-scale use of imprisonment for the purposes of punishment only dates from the 18th and 19th centuries. Throughout western history, incarceration was used primarily to hold the accused until trial, or to hold the convicted until debts or fines were paid. The modern notions that the guilty should be held in prison to punish and/or reform them, or to force them to "pay their debt to society", or to protect society from rapacious criminals were all foreign to concepts of justice until remarkably recently. Indeed, in early Western society, transgressors were forced to pay to victims a compensation established in public assemblies (the verb "to pay" derives from "to pacify", indicating the original purpose of such compensations, which was to prevent blood feuds from developing). The evolution of "justice" in the West involved the gradual usurpation of the right of victims to compensation by the authorities who claimed the right to levy fines on transgressors—not to prevent crimes (and thereby eliminate the ability to levy fines!) but as a revenue source. With the development of capitalism and the concomitant development of an underemployed and displaced class, crimes committed by those without the ability to pay increased

drastically, leading to expanded use of the death penalty. As victims had gradually become excluded from compensation, they quite naturally supported greater use of capital punishment. In practice, however, societies never carried out such severe sentences. The Mediterranean nations tended to commute death sentences to service in the galleys, while the northern European nations tended to commute them to "transportation" (banishment).

The modern prison actually developed as a result of a reformist movement to reduce the harshness of penalties, in particular, to substitute for the death penalty, as well as for various forms of physical torture. At the end of the 18th century and through the first half of the 19th, an important reform movement sought to use the prisons as a means to rehabilitate criminals. This movement took hold especially in America, with various competing approaches running model prisons. However, the progressive prison reform movement was, by most accounts, held to be a failure and was essentially abandoned in the US by the 1960s. Rehabilitation programs were almost always underfunded and rarely adopted by most of those running the prisons systems. They were probably misunderstood, as "coddling" by the population at large, and, in any case, not supported by uncompensated victims who usually support more severe punishment. Even many progressives would probably today argue that the notion that prison can be used for the purposes of rehabilitation is a proposition with little empirical support. Thus, we arrive at the more-or-less universally held view that incarceration in prisons serves to punish criminals, to protect society from criminals for a stipulated period, and to deter would-be criminals.

The problem is that the vast majority of criminals will eventually return to society, and one probably cannot conceive of a system that would render perpetrators less fit to live in civil society than long periods of incarceration under conditions of inhumane punishment—which is exactly the punishment that the public wants to impose. What is particularly interesting about this is the extent to which incarceration is relied upon as the predominant form of punishment for a wide variety of crimes—from public intoxication to armed robbery to use of illicit drugs to murder. Of course, fines and probation are also used for "lesser" crimes—particularly for "white collar" crimes. In all the Western tradition—from the German tribes to Greece and Rome and through to medieval Europe--incarceration was used as punishment in only exceptional cases.

Let us quickly turn to an examination of the characteristics of today's prisoners. The vast majority have low educational attainment: three-fourths are functionally illiterate; 13% have achieved an education of 8^{th} grade or less and another 33% had some high school, meaning that almost half had not graduated from high school (versus 17% of the US population as a whole); only 13.5% had attended college (versus half of all Americans). Employment rates for adults who do not graduate from high school are low and falling: in 1970, nearly 65% of Americans aged 25-64 without a high school degree were employed, but that fell to just over 50% by the mid 1990s. We do not have good data on pre-incarceration employment of US prisoners, but data from California show that only 35% of inmates who served short (1-2 year) sentences were employed prior to being arrested. Given the low employment rates of Americans without a high school degree, and the very

low educational status of prisoners, it is likely that the vast majority of US prisoners were not employed at the time of arrest. As discussed above, the prison system draws from the pool of the least educated young adults (and, for the most part, the prison population is male), a pool that might have found "employment" in the military two decades ago. However, even with clean records, most prisoners today would not be eligible for military recruitment because of their low educational status.

Sometime in the year 2000, the US prison and jail population should reach 2 million. The vast majority of these are young males who would be of prime working age. By contrast, there are currently about 4 million adults over age 25 counted as officially unemployed. As discussed, half of those incarcerated—1 million--do not have a high school degree; the total number of officially unemployed adults with comparable educational attainment is less than 900,000. There are less than 12 million employed adults without a high school degree in the US today. If we take account of the relatively young age distribution of prisoners, it is certain that more than ten percent of all prime-age males without a high school degree are currently serving time in jail or prison. Note, also that the number in prison at any point in time significantly understates the number of people who have served time. Another 4 million (mostly males) are on probation or parole. While I do not have good data on the educational status and employment experience of this group, it is probably not too far-fetched to suppose that perhaps half of those are males without a high school degree. Thus, at any point in time, perhaps 3 million of the approximately 15 million adult males without a high school degree are being supervised within the correction system.

Averages, of course, can be quite misleading. While Blacks account for about 12% of the US population, they make up over 40% of the prison population. On June 30, 1994 nearly 7% of all black men were incarcerated. In 1990, 23% of all black males between the ages of 18 and 30 were in prison or jail or on probation or parole (versus only 6% of white males of similar ages). It is estimated that 42% of all black men in Washington DC between the ages of 18 and 35 were under the control of the correctional system; as many as 85% of all black men in the city face arrest at some time in their lives. In 1994, 40% of all black males in their twenties were in jail or prison, or on parole or probation (the similar figures were 5% for white males and 11% for Hispanic males). It is likely that in some cities, a greater number of high school dropouts are behind bars than are officially counted as employed.

The total numbers of prisoners as well as the costs of incarceration are increasing rapidly. The total number of prisoners (prisons and jails) grew from under 600,000 in 1981 to 1.8 million by 1998. The incarceration rate (number incarcerated per 100,000 population) reached 668 in mid year 1998. At current rates of growth, the incarceration rate will reach 1900 by 2025. Total justice expenditure (includes federal, state, and local spending on police protection, the judicial and legal systems, and corrections) grew from under $36 billion in 1982 to $120 billion by 1996. Per capita justice spending has increased from about $150 per year in 1982 to nearly $450 in 1995. Corrections spending is growing faster than other components of the justice spending, reaching $150 per capita per year by 1995. Most spending is at the state and local level (in 1994, of the total $35 million spent

on corrections, $32 million was at the state and local level). The direct cost of incarceration runs at about $25,000 per year per inmate, but indirect costs (including support of the prisoner's family) raise that substantially (it is estimated that direct and indirect costs of incarceration now total $500 per year per US family).

Let us assess the "Keynesian" impacts of our prison system in comparison with military Keynesianism.

Labor supply: has removed substantial numbers; poor regarding preparation for employment

Just as the military used to remove significant numbers of low-skilled young males from the labor force, prisons and jails remove nearly 2 million mostly young, and mostly male, individuals from the potential labor supply. Prisons "recruit" from among a population that is no longer able to choose military service because of rising qualifications of the armed forces. The vast majority of prison "recruits" is not employed prior to arrest, indeed, is probably "out of the labor force". However, while military service probably enhanced the employability of many (perhaps most) recruits, it is not clear that imprisonment changes the behavior of prisoners in a manner which makes them more desirable. On average, prisoners commit 12-15 crimes per year after release from prison, with an estimated cost to society of $80,000 per year per releasee. Presumably, this is not the sort of behavior that employers seek in a potential employee. With the near abandonment at attempts to rehabilitate prisoners, and with cuts to spending on education in prison, it is unlikely that most prisoners leave prison better prepared for employment. Given that a large portion of prisoners was not counted as unemployed before arrest

(because the individuals were out of the labor force) and that a large proportion of released prisoners probably remain outside the labor force, it is unlikely that penal Keynesianism is as successful at lowering measured unemployment rates as military Keynesianism had been.

It is true that there is a growing movement to increase employment in prisons and jails. Currently, little more than 6% of prisoners work in jobs other than those directly related to prison support. About 75,000 prisoners produce goods for use in the public sector while another 2500 work for the private sector producing marketable goods and services (in contrast, 600,000 work in prison support). This stands in stark contrast to the situation at the turn of the century—in 1889 90% of prisoners worked, with many leased to private firms and farms. Use of prison labor in for-profit production has been rising in the last few years. For example, TWA employs inmates to handle telephone reservations—as hilariously documented in Michael Moore's film. Other uses of prison labor already include telephone solicitation for long distance phone companies, computer assembly, data entry, athletic shoe manufacture, and employers include Lee Jeans, Microsoft, Boeing, and Victoria's Secret (no doubt a relatively popular employer).

A variety of forces are pushing to substantially increase the ratio. Prison employment is seen as a means to enable prisoners to earn wages to compensate victims, support families, and pay for prison room and board. However, prison employment is currently estimated to be only one-third as productive as nonprison employment (not surprising, given the skill level of prisoners), and it is likely that that ratio will decline as more

prisoners become employed (if, as is likely, those currently employed have above-prison-average productivity). Others emphasize that employment in prison will help prisoners to obtain jobs after release, thereby reducing recidivism. Unfortunately, most studies find that prison employment only reduces recidivism by 3-8% (although Marshall cites one study showing a 20% reduction). Furthermore, if increased prison labor results in displacement of low-skilled non-prison labor, it is likely that at least some number of the displaced will commit crimes and land in prison. Indeed, on not-implausible assumptions of elasticities, employing prison labor would result in large net costs to society because the benefits resulting from slight reductions of recidivism and greater prison output would be more than offset by higher unemployment and increased crime rates outside prison. One can imagine the kinds of incentives that would be created if the only jobs available for the low skilled were inside prison walls.

Finally, and perhaps most surprisingly, increased employment of prison labor is being encouraged as a way to compete with imports from low wage countries. HR2558 would encourage private contracting of low wage prison labor specifically exempted from minimum wage laws if it competes directly with "foreign made products" (defined as those that otherwise would have been produced outside the US). This represents a rather surprising turn of US policy, given objections to supposed use of Chinese convict labor to increase its international competitivity.

Technology and infrastructure: some spin-offs; use of prisons as factories

While the spin-offs of military Keynesianism were probably overstated, they were significant in at least some key areas. Recall that the interstate highway system, as well as the student loans that many of us received was justified in the name of national defense. In contrast, many prisons are a hundred years old, with technologies that have changed little. Still, lots of new prisons are being constructed and some of these are high tech. For example, the new "supermax" prisons utilize high tech surveillance and round-the-clock lock-up of inmates, two-to-a-cell. Food is pushed through slots in the door, and the only human interaction an inmate has is with his "roomie". "Recreation" consists of one hour alone in a "kennel" attached to his cell, just large enough for jumping jacks. Spin-off technologies might find application in home security (or in the disciplining of wayward children and pets). More importantly, new prisons bring new infrastructure to host towns—roads, businesses serving guards, prisons, and prisoner families, and new homes. While prison and related infrastructure construction is not yet nationally significant, it is already locally and even regionally important in many areas. For example, prison construction and operation is the most important growth industry in upstate New York. Eight new prisons have already been added, including a $180 million "supermax" prison in Malone—which already had two medium security prisons. Indeed, the number of prisoners in Malone is equal to a third of the population. In a stunning display of economic rationality, a small town near Kansas City recently voted for a new prison over a new university on the recognition that incarceration, not education, is the growth industry for the new millennium.

Demand stimulus: locally important, nationally too small

Similarly, prison construction and operation provides an important stimulus to aggregate demand in many areas, but is still too small to add much to our nation's GDP. Indeed, it is not clear that prisons add net demand at all. As discussed, prisoners cost society $25,000 per year while incarcerated, but $80,000 per year when released. Unfortunately, I do not have estimates of the pre-incarceration costs of maintaining those who will become prisoners, so it is impossible to tell whether costs increase or decrease upon first imprisonment. But it seems likely that post-incarceration costs are far higher than incarceration costs, which could imply that aggregate demand is actually increased once prisoners are set free (because, for example, society must spend more on security, policing, parole officers, replacement of stolen goods, and so on). It is possible, however, that prison serves as a useful training ground that enhances the criminal skills of the incarcerated so that they can increase aggregate demand once freed.

On the other hand, it is clear that penal Keynesianism is an important source of demand at the local level. The new supermax in Malone will create 510 sorely needed jobs (guards, administrators, and clerical workers) to help replace the 750 Tru-Stitch Footwear jobs lost to downsizing. Prison jobs in upstate NY are so desirable that the waiting list for a transfer to one of the eight prisons is now six to seven years. New prisons also create significant numbers of jobs in local businesses; for example, Malone's prison expansion has led directly to construction of four new drug stores (prisons are major consumers of drugs) and eight convenience stores (serving guards and prisoner families).

With respect to world aggregate demand, increased prison labor that produces goods and services for market will almost certainly lower demand by displacing higher wage labor. Thus, domestic prison labor would act much like low wage labor overseas in depressing world aggregate demand and generating slower economic growth. Even at the level of US states, prison construction and operation probably adds little to demand because it merely displaces other types of spending. Both California and New York, which long had two of the best systems of higher education, now spend more on prisons than on higher education and it is likely that justice spending has displaced education funding.

In sum, it appears that penal Keynesianism is a poor substitute for military Keynesianism on either the supply side or demand side. While it does remove some low-skilled individuals from the labor force, it probably does not return them with enhanced characteristics that employers find appealing. It doesn't add much technology or infrastructure that would help long term productivity growth. And while it boosts demand on a local and regional basis, it may well add next to nothing on a national or international scale.

The detrimental aspects of penal Keynesianism probably outweigh the negative aspects of military Keynesianism. Imprisonment almost certainly has negative impacts on the character of most inmates. Many are stripped of their voting rights. There are strong reasons to believe that the judicial system treats people of color in a much harsher manner than whites are treated—a topic that is largely beyond the scope of this paper.

Imprisonment of a substantial number of the young males deprives inner cities of husbands and fathers, and of potential workers of prime age.

Is there an alternative to penal Keynesianism (and to military Keynesianism)? In recent years there has been growing support for a nation-wide program of Public Service Employment (PSE) that would guarantee that a sufficient number of jobs would be made available to all who are ready, willing, and able to work. (Minsky, Harvey, Gordon, Papadimitriou, Mitchell, Wray) In my version of the plan, the federal government would establish a fixed, universal wage and benefit package for PSE workers. All state and local governments as well as approved nonprofit agencies would be permitted to hire as many PSE workers as desired, with the federal government paying the wage and benefit package. There would be two restrictions placed on hiring practices: first, PSE could not be used as replacement workers for existing employees, and second, each employee would receive only the wage and benefit package established by congress. From time-to-time, Congress would approve pay and benefit increases for PSE workers, much as it now occasionally increases minimum wages. If state and local governments and nonprofits are unable to identify a sufficient number of jobs to employ all those who show-up; the federal government would create additional jobs. Other plans would use the federal government as the primary employer of PSE workers.

The target population for the PSE program would be the low-skilled, poorly educated population we have already examined. During recessions, higher skilled workers who lost their jobs would also be able to find temporary work in PSE; however, it is presumed that

they would be the first hired out of the pool as economic conditions improved. We know from our examination of job prospects during the Clinton expansion that even a robust labor market does not significantly improve the chances that a high school dropout will find work. Indeed, we have shown that over the entire Clinton "rising tide", the number of high school dropouts who were employed actually fell. High school graduates fared slightly better, however, we found that upwards of 94% of all net jobs created over the Clinton expansion went to the half of the population that attended college. There is no reason to believe that job prospects for those who do not attend college will improve in the future, and while average educational levels are rising overtime, there is still a significant portion of the population that drops out of high school. As we have noted, almost half of the males who drop out of high school are not employed. Further, 10% of all young male dropouts are in prison at any point in time.

It is somewhat ironic that there is a movement to employ high school dropouts who are incarcerated, yet, there is no concerted effort to provide jobs for the portion of high school dropouts who are not (yet) in prison. Obviously, not all high school dropouts will commit crimes, and perhaps even the majority of young high school dropouts who do not obtain employment will never become prisoners. Still, there is a disturbingly high correlation between dropping out of high school and becoming incarcerated and between being imprisoned and not being employed previously. Young men who are not employed and who have dropped out of high school are in great danger of becoming prisoners.

If it is true that prison employment reduces recidivism (estimates range from 3%-20% reduction), increases chances of obtaining jobs after release (by 20%), and reduces probability of committing crimes upon release (by 20%) in spite of all the negative influences on character (actual and perceived) of serving time in prison, then employment outside prison should be even more effective at accomplishing such social benefits. Further, as we have discussed, employing prisoners in the absence of a universal PSE program may simply reduce employment opportunities of the non-imprisoned. At the very least, we should offer the same employment opportunities to those who are not imprisoned as we offer to inmates. Conventional economic analysis would suggest that adverse incentives be created if going to prison enhances one's prospects of employment! Certainly, we would not want to suggest that employment opportunities in prison would induce individuals to commit crimes in order to become incarcerated as a means to obtaining employment and skills enhancement, but one must be concerned with the impact that lack of employment opportunities has on the behavior of young male high school dropouts.