

# USING PRIVATELY AND PUBLICLY MANAGED PRISONS IN THE SAME STATE YIELDS COST BENEFITS, STUDY FINDS

## State Correctional Systems Can Reduce Costs by Using Both Systems of Prison Management

A study by Vanderbilt University finds that state correctional systems which use private prisons in addition to public prisons experience lower rates of growth in the cost of housing their public prisoners when compared with states that do not contract with private correctional providers.

The published study, titled “Do Government Agencies Respond to Market Pressures? Evidence from Private Prisons,” focused on the use of public and privatized prisons from 1999 to 2004 – a period when the use of privatization increased from 13 states to 34 states (with about 7.5% of prisoners nationally under private management).

“The fundamental conclusion is that, over that six-year period, states that had some of their prisoners in privately owned or operated prisons experienced lower rates of growth in the cost of housing their public prisoners – savings in addition to direct cost savings from using the private sector,” said report author James Blumstein.

The report states that the results from a cost-analysis standpoint are “an important finding and should provide policy makers with an additional reason to favor privatization of some portion of a state’s prisons.”

### Among the study’s important findings:

1. States that had inmates in private prisons experienced lower rates of growth in operating costs for housing public prisoners.
  - Between 1999 and 2004, the average cost of housing of prisoners in a public facility grew by about 5 percent in states without a private prison; states with some prisoners in privately run prisons had their average costs increase by less than 2 percent.
  - Introducing private prisons into a state correctional system appears to reduce the growth in public prison per capita expenditures by about 3% annually – with a two year lag before the cost savings start to accrue.
  - The study suggests that the greater the percentage of inmates in private prisons, the greater the cost savings for publicly managed prisoners. For example, states with less than 10 percent of prisoners in private facilities had an average growth rate of almost 2 percent in the per diem cost of housing publicly managed prisoners. This is compared to a growth rate of 1.36 percent for states with 10-20 percent of offenders in private facilities and .036 percent for those with more than 20 percent of offenders under private management. Blumstein warned that these particular findings should be regarded as tentative or suggestive, not definitive, given the small number of states with more than 20 percent of their prisoners under private management.
2. In 2004, the average Department of Corrections expenditures in states without private prisoners were approximately \$493 million. The study suggests that if the average state were to introduce private prisons, the potential savings for one year in Department of Corrections budgets for public prisons could be approximately \$13 million to \$15 million – savings the state would receive in addition to those already earned by using private prisons alone.
3. The study did not draw a definitive conclusion about why the costs savings occurred, but suggested two likely explanations:
  - Competition between public and private facilities leads to more competitive pricing.
  - Public facilities are introduced to operating procedures that enable them to lower costs.
4. The study did not weigh the benefits of public versus private incarceration, but referenced previous findings that suggest private prisons perform as well or better than public counterparts. The study references the *Harvard Law Review* which concluded that privately-operated prisons not only bring about “clearly positive

direct cost savings,” when compared with publicly-operated prisons, but also, on balance, “outscore public prisons on most quality indicators.” It also referenced a review by Segal and Moore (with the Reason Foundation in *Weighing the Watchmen* report) that “there is clear and significant evidence that private facilities provide at least the level of service that government-run facilities do.” The study notes that to the extent that these findings are accurate, they add positive qualitative dimensions to the positive direct and indirect cost dimensions in the consideration of the role of privately operated prisons.

5. The study notes that cost savings appear to be more significant in states that have privately-managed prisoners in-state than those who send their prisoners to privately-managed facilities in other states – again, supportive of the learning hypothesis.

This study addresses the important question of whether or not the existence of privately-managed prisons in a state

provides competitive or other pressures that help control costs in the public sector. It focuses on privatization not as a substitute for public management but as a symbiotic partner that influences public management through such mechanisms as competition (for public resources) or education (e.g., know-how transfer).

The study finds that cost savings from privatization is itself a product of competition, and that competition has beneficial effects on the entire system...Whether from fear of being privatized themselves, or pride in showing they can compete, or from being compared by higher authorities, workers and management throughout the system respond to privatization. The existence of private prisons provides an important incentive through competition for public managers to control their costs.

**The study was published in late 2008 in the *Virginia Journal of Social Policy and the Law* and may be viewed online at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=441007](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=441007).**

## Data Collection:

The average growth in per diem publicly-managed prisoner costs was 2.03% for the 12 states that always had private prisoners, compared to 4.80% for the 13 states that never had prisoners under private supervision. At the same time, average per capita general state expenditures grew from \$1,375 to \$1,714 (2.79% growth rate). Thus, state expenditures per prisoner were growing at a faster rate than overall per capita state spending (3.26% versus 2.79%). Other variables included in the study were the percent of capacity utilization of public prisons in a state, whether or not there are outstanding court orders affecting state prison conditions, the percent of public sector unionization, and a measure of state fiscal health.

The study obtained data from the Bureau of Justice Statistics (BJS) and the *Corrections Yearbook*. Department of Corrections expenditures were taken from the National Association of State Budget Office (NASBO) State Expenditure Report.

For each state, the study estimated a weighted average per diem cost, multiplied by the estimated number of private prisoners, and subtracted from the total state corrections budget (net of capital expenditures) to arrive at an estimate of the public prisoner cost of corrections. The per diem cost of publicly-managed prisoners rose during 1996 – 2004 by 3.26% annually – from \$67.34 to \$87.05.

## About the researchers

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