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Abstract

Despite the strong relationship between the rise in mass incarceration over the last forty years and racial inequality in employment and wages, few studies have examined the long-term consequences and spillover effects of criminal justice contact on the black-white wealth gap in the United States. In this paper, we investigate the mechanisms whereby the local and distal incarceration of a family member affects household wealth. Using data from the Survey of Income and Program Participation (SIPP), the Current Population Survey (CPS), and the Survey of Inmates in Local, State, and Federal facilities, we apply ordinary least squares and instrumental variables approaches to estimate how a family member’s incarceration influences household wealth. We also quantify the relative fraction of the black-white wealth gap attributable to differential growth in incarceration over time by race and educational attainment. Preliminary findings indicate that approximately 21.8 percent of the black-white wealth gap is attributable to incarceration and that educational differences in the likelihood of criminal justice contact explain between 17.3 and 23.0 percent of household wealth. Our findings demonstrate how contemporary patterns of mass incarceration contribute to the maintenance of social inequality in wealth and form barriers to economic security for other household members.

Key Words: incarceration, wealth, inequality, race

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Introduction

Rising wealth inequality has received considerable attention in the current election cycle, as presidential candidates openly discuss static wages, growing debt, and household savings. At the same time, criminal justice reforms aim to limit the reach and pull of mass incarceration in America. However, no scholarship has linked these two disparate conversations to better understand the relationship between incarceration and household wealth. In order to address this omission, we examine the direct and indirect (spillover) effects of mass incarceration on household savings and wealth in this paper. Due to the racial inequality in both areas, this research also expands our understanding of racial differences in wealth accumulation.

Background and Importance

By the end of 2013, there were almost 6.9 million adults under correctional supervision, with 2.23 million in prison or jail (Glaze and Kaebel, 2014). Current estimates indicate that approximately 65 million (or 27.8% of) Americans have a criminal record (Rodriguez and Emsellem, 2011). The risk of incarceration is not uniform, as young black men with low levels of education have the highest likelihood of spending time behind bars (Pettit and Western, 2004; Pettit et al., 2009; Western and Wildeman, 2009; Pettit, 2012). This racial and educational disproportionality in incarceration has created numerous and well-documented social and economic consequences. Having a criminal record reduces employment and earnings (Pager, 2003; Pager and Quillian, 2005; Western and Pettit, 2005; Western, 2006; Pettit, 2012); limits civic participation and inflates voter turnout (Uggen and Manza, 2002; Pettit, 2012); and creates new forms of non-dischargeable legal debt owed to correctional and justice systems (Harris et al., 2010). Importantly, incarceration’s negative effects also spread to families, households, friends, and neighbors (Johnson and Raphael, 2009; Lum et al., 2014).

Despite the growing research on mass incarceration and the importance of wealth for economic wellbeing, little is known about the long-term consequences of imprisonment on the wealth accumulation of former inmates and their families. Using the NLSY79, Maroto (2015) found that ex-offenders were less likely to own their homes, with home ownership declining by an additional 28 percentage-points after incarceration. Moreover, her work documented that an ex-offender’s net worth decreased by an average of $42,000 after incarceration. These findings point to other important questions that have not been raised and cannot be answered using NLSY data; namely, 1) how has mass incarceration affected the wealth profiles of ex-offenders and other family members (e.g., parents, romantic partners, and dependents), and 2) how much of the black-white wealth gap is attributable to mass incarceration?

In addressing such questions, this project contributes to research on race, wealth, incarceration, and poverty. Wealth inequality has widened along racial lines with the recent economic downturn and its uneven recovery (Pfeffer, Danzinger, and Schoeni, 2013; Wolff 2014). In 2013, the wealth of white households was 13 times the median wealth of black households, up from a ten-fold factor in 2010 (Kochhar and Fry, 2014). Although multiple explanations that include differences in income and education, as well as segregation and discrimination within credit markets, explain some of these disparities, large racial wealth gaps remain. In addition, understanding racial differences in household wealth due to mass
incarceration will also help to inform scholarship on issues of poverty and deprivation. For instance, Sykes and Pettit (Forthcoming) found that children of incarcerated parents faced severe deprivation after the Great Recession, but nearly 2.1 million children (or 81% of minors) with an incarcerated parent were enrolled in at least one social program (SNAP, CHIP, WIC, Welfare, or reduced lunch). The $8.7B spending cut for food stamps contained in the 2014 Farm Bill, which will reduce monthly benefits by $90 (Resnikoff, 2014), now means that households on this social program will need to make up the difference either from income or from savings, thereby affecting the generation of wealth for people at the lower end of the economic distribution.

**Data and Methods**

We leverage data from multiple sources to create a unique dataset for investigating our research questions. We employ data from the Survey of Income and Program Participation (SIPP) to examine family composition, wealth portfolios, and entrances (or exits) from the household. Data on assets and liabilities are contained in topical modules collected during waves 3, 6, and 9. We focus on the 1996-2008 panels because they include information on two variables central for our analysis: 1) whether the household member was institutionalized and 2) the day of entry/exit from the household.

Table 1 shows the weighted percentage of men 20-34 who were institutionalized by race and education. Although these percentages are low, the pattern of institutionalization by race and education comports with the relative distribution of racial and educational inequality in incarceration (Pettit, Sykes, and Western, 2009). Pettit (2012) contends that household-based surveys that draw their samples on the non-institutionalized population, like SIPP, produce biased national estimates of wages, employment, educational attainment, political participation, and even the incarceration rate.

To address these issues, we construct civilian incarceration rates using data from the Current Population Survey (CPS), the Bureau of Justice Statistics (BJS), and the Survey of Inmates in State and Federal Correctional Facilities (SISFCF) and Local Jails (SILJ). We match the race-sex-age-education distributions between SIPP and the inmate data to reweight household-based sampled weights in SIPP. We therefore use the civilian incarceration rates in Pettit, Sykes, and Western (2009) to adjust the SIPP sample weights to include the incarcerated for household members reporting institutionalization, a new methodology for incorporating inmates into national estimates that either previously excluded or undercounted them.

In our analyses, we employ an instrumental variables approach to identify the effect of incarceration on household wealth, measured as total net worth. We use day of entry/exit from the household as an instrument for incarceration, as inmates often cycle in and out of penal institutions at the beginning, middle, or end of the month. This instrument satisfies instrumental relevance and exogeneity because the day of entry/exit is correlated with incarceration (i.e., the day the sentence began or ended), but the instrument is uncorrelated with the error associated with incarceration’s impact on the accumulation of wealth (i.e., the day of the week one begins or ends incarceration should not matter for generating wealth).

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2 Researchers have applied this approach in various publications to understand sample selection bias associated with the exclusion of inmates from national household-based surveys (Western and Pettit, 2005; Pettit et al., 2009; Wildeman, 2009; Pettit, 2012; Ewert, Sykes, and Pettit, 2014; Sykes and Pettit, 2014; Sykes, 2014). In particular, this research shows that the difference between household sample surveys and inmate population surveys depends greatly on question wording and how the race-sex-age-education distributions align (Sykes, and Pettit, 2014).
Preliminary Results

Preliminary results indicate a strong relationship between household wealth and the incarceration of a family member. In addition, we find that for 1996, incarceration explained approximately 21.8 percent of the black-white wealth gap, and educational differences, which influence the likelihood of criminal justice contact, explained between 17.3 percent and 23.0 percent of household wealth. We are currently extending this method to other panel years in the SIPP series where institutionalization and day of entry/exit from the household are present.

Table 1: Percentage of Male Household Members Age 20-34 who were Institutionalized by Race and Educational Attainment, U.S. 1996

<table>
<thead>
<tr>
<th></th>
<th>Less than High School</th>
<th>High School Diploma</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>NH-White</td>
<td>1.2%</td>
<td>0.3%</td>
<td>0.04%</td>
</tr>
<tr>
<td>NH-Black</td>
<td>5.7%</td>
<td>1.2%</td>
<td>0.51%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>0.7%</td>
<td>1.1%</td>
<td>0.54%</td>
</tr>
<tr>
<td>Total</td>
<td>1.7%</td>
<td>0.6%</td>
<td>0.14%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations from SIPP data using survey weights.
References


