Incarceration and Labor Market Outcomes: Evidence from a Natural Experiment

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Abstract: Due to the disproportionate rates of incarceration between whites and minority groups, particularly blacks, the literature on mass incarceration has focused on the labor market consequence of incarceration in prison and the implications of those effects for racial inequality. In this study we leverage a natural experiment based on the random assignment of judges to criminal cases in Michigan to examine the causal effect of incarceration in prison as compared to probation and the effects of prison and probation sentence length on labor market outcomes. Our analysis improves on prior empirical work in three ways. First, we specify a clear counterfactual comparison among those with some probability of being sentenced to prison, being sentenced to probation, and we also deal with possible selection bias via the judge random assignment natural experiment. Second, we examine effect heterogeneity by sentence length, which provides an opportunity to differentiate between sets of possible mechanisms for prison’s effects on labor market outcomes. Third, we examine directly the hypothesis that incarceration in prison relegates former prisoners to the secondary labor market.