

Increased Competition in Department of Corrections Will Lead to Additional Savings

By Geoffrey F. Segal

Summary

Privatizing prisons is hardly a new idea and studies show that it maintains service levels while dramatically cutting costs. With the state government still trying to bounce back from its latest round of budgetary bungling, why aren't we hearing more about this alternative from the politicians?

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With Virginia facing a billion dollar plus deficit, it will take some creative thinking to balance the budget. The key, of course, is doing so without cutting services or raising taxes. Several ideas have been put forward, many of them new and untried in the state. However, one old idea with which Virginia has prior experience still remains as viable today as it did when the Commonwealth first tried it in 1998.

New research shows that not only do the private prisons themselves save money, but they also put external pressure on the public prison system further constraining the escalation of costs—a win-win for Virginians as our legislators in Richmond try to balance the budget.

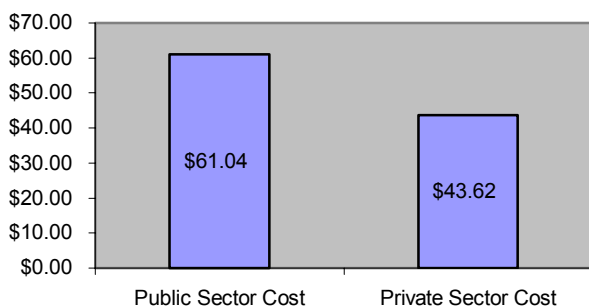
Virginia is not alone, about three-fifths of all U.S. states have private prisons. Virginia has one, the Lawrenceville Corrections Center. A host of studies have been conducted that show significant savings in the range of 5 to 20 percent when the corrections function is privatized. However, two new studies take a slightly different approach to prison privatization and cost savings. These studies sought to identify the effects of competition and privatization on the prison system as a whole as opposed to just one institution.

James Blumstein and Mark Cohen, both professors at Vanderbilt University, conducted the first study. They analyzed whether the use of private prisons by state correctional departments had any impact on the rate of growth in states' public corrections system operating budgets. Anecdotal evidence of this phenomenon already existed from time-series data in Texas and Arizona, but a systematic analysis had never been done.

Using data for 1999 – 2001, the study found that states utilizing private prisons had considerably more success in keeping public corrections spending under control than states with no private prisons. During the period studied, states with private prisons saw the growth in daily costs of housing prisoners in the public corrections system reduced by 8.9 percent, or about 4.45 percent each year.

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Average Inmate Cost Per Day: A Public/Private Cost Comparison



One of the most significant findings was that turning over even a small portion of prison populations resulted in big savings. States with less than 5 percent of their prison populations in private facilities experienced a 12.5 percent increase in expenditures versus an 18.9 percent increase in those states with no private prisons. However, states with larger percentages under private management had even greater savings with growth in expenditures at only 5.9 percent during the period studied.

A second study was conducted by the Rio Grande Foundation in New Mexico. It compared state per-prisoner budgets across forty-six states. This study measured an entire department's spending rather than just a particular prison's spending, accounting for the cost-savings *public prisons* achieve in response to private competition. Not surprisingly, the results were in line with those of Blumstein and Cohen.

To measure the extent of privatization, the study relied on the percentage of prisoners in each state currently under private management. Holding other factors constant, and controlling for factors that could affect spending, they found that states with 5 percent of their prison population in private prisons spent approximately \$4,804 less per-prisoner in 2001 than states without any privatization. However, as states increase the use of privatization, they increase their savings as well. For example, New Mexico which houses 45 percent of its inmates in private facilities spent \$9,660 less per-prisoner in 2001 than states with no privatization. This savings was equal to nearly a third of what the median state spent per-prisoner.

While the Blumstein and Cohen study looked at privatization's effect on the *growth* of prison expenditures, the Rio Grande study was more of a snapshot of how expenditures differ subsequent to varying degrees of privatization in 2001. While the two studies didn't measure the exact same things, the similar findings nonetheless tell a compelling story. States that utilize competition and privatization for corrections save money. Furthermore, the more one privatizes, the more money one saves.

Virginia currently has one private prison housing 1570 inmates. Out of a total prison population of 27,213 (1046 are out-of-state), 5.8 percent of Virginia's inmates are in private prisons. According to the two studies, by partially privatizing Virginia is saving money and is constraining its costs better than states that have not privatized correctional facilities. However, both studies also note that as more competition and privatization occurs, savings escalate.

Virginia has not privatized any correctional facilities since its first venture in 1998. Simply increasing the number of facilities subject to competition would save millions of dollars. Even if one were to cut the Rio Grande estimate in per-prisoner savings almost in half to only \$5000 per-prisoner, if Virginia increased corrections competition and privatization to New Mexico levels (45 percent) the state would save more than \$130.8 million dollars. It's an idea our leaders in Richmond can't ignore.

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