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Unemployment shocks for individuals on the margin: Exploring recidivism effects

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ABSTRACT

This paper analyzes the impact of unemployment on the likelihood of returning to criminal activity for a sample of individuals with criminal records who are actively seeking employment. I use administrative data from the New York State Division of Criminal Justice Services, Department of Labor, and Department of Health, to track unemployment and arrest outcomes for this sample between 2008 and 2014. To identify the unemployment–arrest relationship, I use industry-specific variation in unemployment trends caused by the recession in 2008–2009, along with individual fixed effects to control for time-constant individual heterogeneity. The 2SLS estimates suggest that increased unemployment has large effects on rearrests for individuals with criminal records who are now active in the labor market, with substantial heterogeneity by race and sex. The results suggest larger estimates than those typically found in literature, indicating that targeting employment programs at those “on the margin” could substantially reduce rearrest rates for such individuals.

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1. Introduction

It is widely known that crime rate in the United States has been declining by many measures for some years – a fact that has contributed to increased academic interest in the relationship between change in crime and trends in economic factors like employment and poverty. At least in theory, there is a strong foundation for such economic factors to play a role in criminal activities by altering payoffs associated with legitimate and illegitimate sources of income. Yet such relationships are hardly ever seen in empirical data. For example, the decline in crime rates has been largely unaffected by the recession of 2008 – a fact that was considered surprising, despite ample evidence that performance of the economy does not have a large impact on aggregate crime rates (Levitt, 2011). Clearly, such aggregate measures ignore the implications of economic theory on behavioral response to incentives by overlooking the space where these incentives matter – individuals “on the margin”. Indeed, the tightest evidence here is generated from studies that focus on factors like unemployment rates for young men, or individuals likely to be affected by changes in the minimum wage, or those with prior involvement with the criminal justice system.

The most compelling theory for increased crime from unemployment is the rational choice theory, where crime is viewed as an economic activity – one that supplements a legal source of income (Becker, 1968). This theory implies a tradeoff between legal and illegal activities, where

a rational individual chooses the optimal amount of time between the two by maximizing their payoffs following the expected gains from the two activities. Although the motivation to commit crimes may be unique to each individual, it may be reasonable to assume that every individual reacts to incentives (Ehrlich, 1973). This tradeoff should potentially be higher for individuals with lack of other options like financial dependency on the state or shared household income.

At the same time, unemployment could trigger psychological factors not directly related to income utility. The general strain theory in criminology considers employment as a means of association with the conventional society, where lack of employment may elicit negative pressure or strain on an individual (Agnew, 2002). The theory describes strains as objective negative events where individuals are deprived of the opportunities to achieve their goals, and therefore react in violent or anti-social behavior as a means of alleviating negative emotions. By definition, this theory would apply to individuals who are actively seeking but unable to find employment, which triggers their level of “strain”.

Another important contribution to the theoretical motivation behind the unemployment and crime relationship, specifically at the macro level, was offered by Cantor and Land (1985). They describe two offsetting effects of unemployment or negative trends in economy – an opportunity effect and a motivation effect. On one hand, increase in unemployment should have a lagged positive effect on crime through increasing motivation, while on the other hand, it may have a negative

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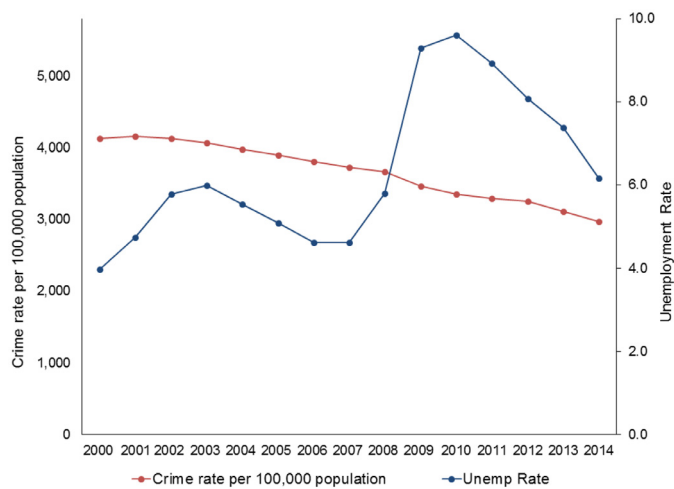


Fig. 1. United States Unemployment Rates and Crime Rates.

Source: FBI Uniform Crime Reports Statistics and U.S. Bureau of Labor Statistics.

effect through reduced opportunities like reduced access to workplace and people, or lower prosperity levels in the society in general.

Despite the reasonably indisputable implications of these theories, there exists little, if any, evidence of a strong relationship between aggregate unemployment and crime. In a simple time trend plotted in Fig. 1, there is no correlation between annual unemployment rate and crime rate in the United States during the years 2000–2014 (BLS, 2015; FBI, 2014). This trend covers a period of great economic turmoil with the onset of recession towards the end of the year 2007, after which there is a steep increase in unemployment rates. Yet there seems to be no change in the rate of change of crime rate as covered by the FBI statistics.¹ Clearly, the aggregate measures do not do justice to the theory surrounding the unemployment and crime relationship.

Levitt (2001) summarizes the problems with using such national level aggregated data in three points: First, aggregate data tends to overlook local variation in unemployment and crime variables used in the analysis. For example, in the trend shown in Fig. 1, North Dakota, Nebraska and South Dakota had unemployment rates of 5.2% or lower at the end of the recession around November 2011, while in states like California, Nevada and Michigan, the unemployment rate remained above 10% during the same period (BLS, 2015). Second, analyzing time series trends in aggregate data suffers from methodological issues where only a few covariates can be included due to limiting degrees of freedom, which poses a challenge to the causal interpretation of the relationship. Third, Levitt points out that the behavioral channels through which unemployment may affect crime cannot be studied on national-level data.

This third point provides the motivation for the current study. The tightest evidence on behavioral effects of unemployment should be seen from analyzing individuals over time, especially those who are more likely to turn towards crime – and in that, individuals who have demonstrated risky behavior in the past form a special case. Understanding the role of social and economic functions including employment is key to the efforts to rehabilitate such individuals. There are many employment programs directed at individuals who are just released from prison, but most studies find weak, if any, effects of these programs on the likelihood of recidivism (Baker and Sadd, 1981; Piliavin and Gartner, 1981; Markley et al., 1983; Maguire et al., 1988; Menon et al., 1992; Finn and Willoughby, 1996; Van Stelle et al., 1995). Some researchers have

¹ Although not shown in this graph, the trend is similar for different types of crimes including property crime rates which are expected to be more strongly correlated than violent crimes, with economic factors like income and unemployment.

contended that many employment programs may not actually increase employment (Bushway et al., 2016), which raises the question of who exactly does employment matter for? If individuals who are just released from prison are not universally willing to work, then these studies do not capture the work and crime tradeoff where it matters the most – for able and willing to work individuals. This has implications for studies that use aggregate data as it has been found that a small proportion of the population of offenders are responsible for most of all criminal activity (Wolfgang et al., 1987).

In this paper, I use administrative data from New York State on individuals with relatively older criminal records who are now active in the labor market, thus being higher risk than the general population, but lower risk than people just out of prison. I track their employment and arrest outcomes for six quarters and estimate the causal impact of unemployment on the likelihood of a rearrest. Specifically, I study a sample of individuals with a criminal history who have self-selected into applying for employment to work in unlicensed positions involving direct access care. All individuals were required to undergo a state-mandated background check before they received “final” employment offer, and a non-trivial proportion of them were not cleared to work based on their criminal history. I construct a panel data model and use exogenous time varying, industry-specific negative employment shocks together with failing this background check to identify the unemployment levels for this sample. In doing so, I exploit variation from two factors – 1) all individuals in my sample have a job offer but some of them fail the background check and are therefore denied employment as direct access care workers, and 2) crucially, some people fail in “good” times – when the economy was doing well and they could have been employed in another industry, while others fail in “bad” times – when the economy was facing a recession. This enables me to use an instrumental variable along with individual fixed effects in a panel data framework to identify the effect of unemployment on rearrests.

The remainder of this paper is organized as follows: Section 2 summarizes the current evidence on the question; Section 3 discusses the context and the characteristics of the sample analyzed in this chapter; Section 4 presents the empirical strategy; Section 5 discusses the instrumental variable properties; Section 6 discusses the results along with heterogeneous effects in the sample; and Section 7 concludes the chapter with policy implications.

2. Backdrop and current evidence

Since Gary Becker’s seminal study on crime and punishment (Becker, 1968), many empiricists have tried to estimate the employment–crime relationship, mostly using data aggregated by some geographic unit. Before the 1990’s, there was only one empirical study that attempted to study the impact of work on crime using individual units (Schmidt and Witte, 1984), although this study was based on individuals just out of prison, making it difficult to apply their results to the general population. Grogger (1997) produces the first microeconomic model of the economic incentive of crime, which has been subsequently modified by a few studies (Machin and Meghir, 2004). Estimating the empirical relationship to identify a causal link in this framework is difficult – a simple bivariate estimate of the correlation between unemployment and crime will not reflect the true (criminal) returns to unemployment due to several factors. First, these estimates are expected to be spuriously driven by unobservable factors that make individuals who are less motivated, more impatient etc. more likely to be unemployed, and simultaneously more likely to be involved in criminal offending. Second, being out of work could increase consumption of various criminogenic goods (like alcohol and drugs) which makes individuals more likely to engage in illegal behavior. Third, the direction of causality remains a problem in a large part of the active literature. It should be noted especially in a panel data framework that individuals once arrested are more likely to be absent from further activity, in that they may be incarcerated or jailed,

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