

The Minimum Wage, EITC, and Criminal Recidivism*

Amanda Y. Agan[†]

Michael D. Makowsky[‡]

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Abstract

For recently released prisoners, the minimum wage and the availability of state Earned Income Tax Credits (EITCs) can influence both their ability to find employment and their potential legal wages relative to illegal sources of income, in turn affecting the probability they return to prison. Using administrative prison release records from nearly six million offenders released between 2000 and 2014, we use a difference-in-differences strategy to identify the effect of over two hundred state and federal minimum wage increases, as well as 21 state EITC programs, on recidivism. We find that the average minimum wage increase of 8% reduces the probability that men and women return to prison within 1 year by 3.8%. This implies that on average the wage effect, drawing at least some released prisoners into the legal labor market, dominates any reduced employment in this population due to the minimum wage. These reductions in re-convictions are observed for the potentially revenue generating crime categories of property and drug crimes; prison reentry for violent crimes are unchanged, supporting our framing that minimum wages affect crime that serves as a source of income. The availability of state EITCs also reduces recidivism, but only for women. Given that state EITCs are predominantly available to custodial parents of minor children, this asymmetry is not surprising. Framed within a simple model where earnings from criminal endeavors serve as a reservation wage for released prisoners, our results suggest that the wages of crime are on average higher than comparable opportunities for low-skilled labor in the legal labor market.

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[†]Department of Economics, Rutgers University. Email: aagan@economics.rutgers.edu

[‡]John E. Walker Department of Economics, Clemson University. Email: mdmakow@clemson.edu