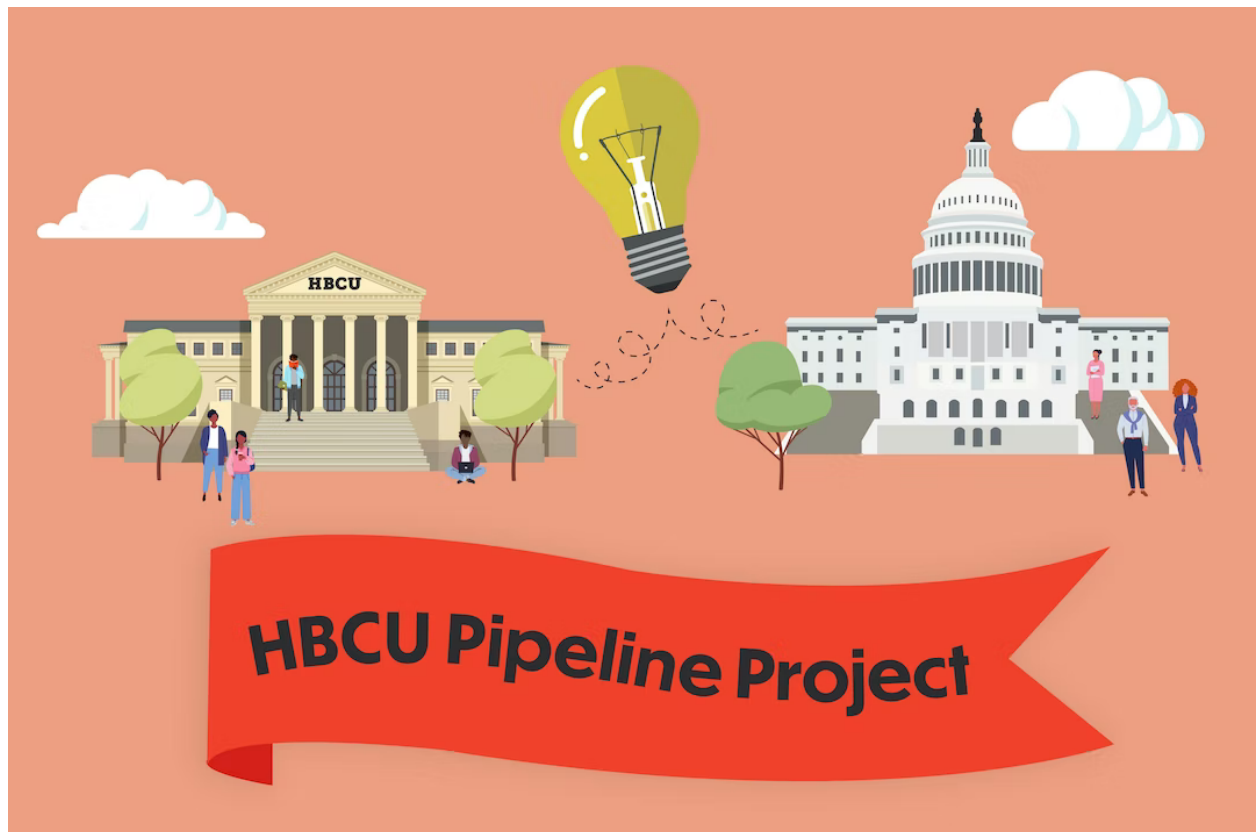


How Entrepreneurship Can Reduce Crime & Recidivism



Dr. Miesha Williams

Associate Professor of Economics at Spelman College

Takeaways

For many would-be entrepreneurs, risk aversion is one of several things that keep them from beginning the journey to starting and growing their own business. In this report, we discover that there is strong entrepreneurial potential hidden where you'd least expect it. Formerly incarcerated individuals are 45% more likely to become entrepreneurs compared to similar non-justice-involved people. Ex-incarcerates are more open to risk and opportunities of chance. This, coupled with the barriers they experience in the labor market, make the formerly incarcerated—when properly equipped—prime candidates for entrepreneurial endeavors. Entrepreneurship and self-employment do more than provide a pathway to economic security in these communities, they also can reduce recidivism.

The incarceration rate in the United States—the world’s highest—has been steadily declining every year of the last decade.¹ In fact, 70% of the correctional population is under community supervision with the opportunity to live and work as our neighbors while supporting their families.² Even still, the criminal justice system has an outsized impact on communities of color. As more of the formerly incarcerated rejoin local communities, economic opportunities can be scarce. Difficulty integrating back into the workforce and securing housing can weigh heavily on individuals with criminal histories. These challenges can lead to rearrest and incarceration.

There is no one solution to reforming our criminal justice system as well as reducing crime and recidivism. But a recent academic study between myself, Armel Irankunda, Gregory N. Price, and Norene E. Uzamere shows that entrepreneurship can provide economic opportunity and an alternative pathway for individuals separating from the prison system. Below, we show that there is strong entrepreneurial potential hidden where you’d least expect it.

Barriers to Reentry

In neighborhoods with high incarceration rates, Black individuals account for 67% of incarcerations, and unemployment for men in those areas is 13%.³ Compare that to neighborhoods with low incarcerations rates—Black individuals account for only 2% of incarcerations, and unemployment for men in those areas is 2%.⁴

When these individuals re-enter society after incarceration, they face myriad challenges to support both themselves and their families. Incarceration has been known to stigmatize ex-offenders in the labor market, erode job skills for ex-inmates, affect social and human capital, and wear away employment prospects when ex-incarcerates begin their relationship with the penal system in their youth.⁵ When Black and Hispanic people re-enter society after incarceration, they generally have lower total earnings than white people due to racial and ethnic inequalities in employment.⁶ Further, ex-offenders returning to their homes can impact location decisions for businesses, secondary job market prospect displacement for low-skill workers, and eventually the long-run demands for good and services.⁷

The Promise of Self-Employment

Starting a business involves a significant amount of risk-taking, no matter who the entrepreneur is and their background. The question our research team wanted to answer was: *do individuals re-entering society after incarceration possess risk-taking characteristics that could help them decide to and succeed in being self-employed?* If so, the extent to which ex-incarcerate/convict status increases risk-taking attitudes could potentially render self-employment and entrepreneurship as a pathway to economic security. More broadly, it could reduce recidivism, thereby decreasing the costs of mass incarceration, which has racially disparate effects.⁸

To understand the effect of incarceration status on self-employment, we examined data from the US General Social Survey (GSS), a nationally representative survey of adults in the United States that has collected information on contemporary American attitudes, behaviors, and opinions for the last five decades.⁹ At the beginning of our study, we did not assume that any group characteristic, such as incarceration, predisposes individuals to pursue entrepreneurship. Using GSS data, we observed that ex-incarcerates engage in individual risk-taking behaviors to a higher degree than other groups. We found that many are more willing to take on opportunities of luck or chance and have a greater propensity to engage in risky behaviors, such as drug use and sexual promiscuity. While these behaviors may be unfavorable in wider society, they revealed an advanced likelihood to engage in the risk of self-employment.

We found strong evidence that being connected to the justice system as a former incarcerated increases the possibility of being self-employed. Our work suggests that since the formerly incarcerated are less risk averse and more likely to experience challenges in the labor market, they are prime candidates for self-employment and entrepreneurial endeavors. Our research reports this outcome as being particularly true for African Americans. Notably, our findings track with another recent study from Stanford's Kylie Jiwon Hwang and Columbia's Damon Jeremy Phillips. They found that formerly incarcerated individuals are 45% more likely to become entrepreneurs compared to similar non-justice-involved individuals.¹⁰

This work contributes to growing research that confirms the beneficial impacts of entrepreneurship to the economy and individuals. Researchers have found that not only can entrepreneurship improve employment rates, spur innovation, improve total factor productivity and gross domestic product, it can also improve well-being and overall happiness.¹¹ In order for more justice-involved individuals to benefit from entrepreneurship's effects, we must implement policies that equip and enable them in such endeavors.

Policy Implications

Since entrepreneurship provides a unique opportunity to improve the lives of the formerly incarcerated, there are a number of actions policymakers should take to bolster self-employment possibilities for this specific population. For example:

1. **Reduce Barriers to Capital:** Like for many of America's entrepreneurs, financing a small business or microenterprise can be difficult for citizens separating from the justice system. In 2020, the Small Business Administration removed criminal history prohibitions from its 7(a), Microloan, and 504 loan programs.¹² However, applicants that are on probation or parole—that is, 70% of the total correctional population—are categorically barred from receiving any financial assistance from the SBA and its partnered lenders. Furthermore, although a prior felony does not exclude an applicant from consideration, it does subject them to a character review with standards that are unstated in the SBA's operating guidelines.¹³ Increasing transparency and reducing the barriers to accessing capital for all justice-involved individuals could reduce crime, recidivism, and mass incarceration.
2. **Incentivize Hiring and Doing Business:** Other efforts by Congress could help reduce the disruptions experienced in the labor market and supply chains when workers must report to jail or prison. Congress could also combat incentives of suppliers who wish to hire formerly incarcerated workers for meager wages.
3. **Pre-Release Entrepreneurship Programs:** Congress could offer funding opportunities to states and non-profits that wish to create business development and entrepreneurship programs inside of correctional facilities. These programs can prepare individuals to successfully navigate the immediate post-release period by helping them to find a substitute for illicit activity and provide structure and training for their long-term self-sufficiency goals.
4. **Expand Post-Release Programs:** Some initiatives focus on individuals who have already rejoined society and may be struggling to successfully access employment opportunities. By expanding community-based programs to expose the formerly incarcerated to self-employment options, we can help to prevent them from becoming discouraged workers who leave the stressful labor market and decrease their likelihood to re-offend.

About the Author: Dr. Miesha Williams is Associate Professor of Economics at Spelman College, an HBCU. She recently completed her position as Visiting Scholar in residence at University of Southern California Sol Price School of Public Policy. During that time, she completed her 8th year with Morehouse College – also an HBCU – where she was department chair for two years. She earned a B.S. in economics from an HBCU – Florida Agricultural and Mechanical University – in 2007. She researches macroeconomic policies in Africa and the U.S as well as issues impacting various demographics. In the past, she obtained funding from the Koch Foundation to develop research on crime and recidivism. The resulting research is published in *The American Economist*. She is a Board Member of the National Economic Association, secretary to the African Political Economic Association, and research associate in University of New Orleans Entrepreneurship Center. Williams' M.A. (2010) and Ph.D. (2014) in Economics are from University of Alabama.

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