



The Benefits of Prison Spending Reform

By Michael LaFaive

Summary

The Michigan Department of Corrections is an area policymakers should consider for spending reform, both in operational and employee costs.

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The Michigan Department of Corrections currently gobbles up \$2 billion annually, \$1.9 billion of which comes from the general fund budget. Policymakers should look at prisons, as there is potentially hundreds of millions of dollars in savings available in just this one area.

Ideas for reform can and should include privatization (to varying degrees) and perhaps wresting concessions from corrections employees. Gov. Rick Snyder, to his credit, has made it clear that he intends to privatize food services operations of prison stores, which could save \$9.5 million. More can be done.

Michigan spends a fortune on corrections both in absolute and relative terms. At a recent conference co-sponsored by the Citizens Research Council of Michigan, the organization reported that in 2008 Michigan ranked 6th among the 50 states in spending on corrections (as a percentage of income). Michigan ranks 6th among 46 states (four were excluded) in salary alone for corrections personnel, and that corrections pay has grown faster than both inflation and the state civil service average for salary increases, according to the CRC.

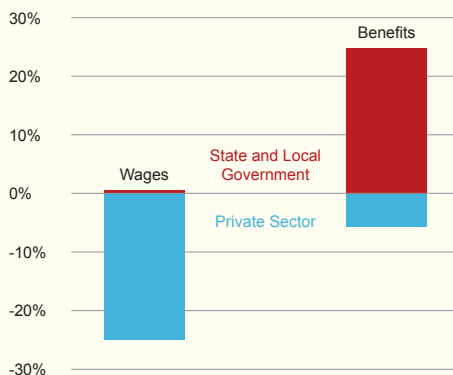
At the same conference, the nonpartisan House Fiscal Agency reported that DOC personnel costs went up an average of 3.7 percent annually from fiscal 1997 through fiscal 2010, and that these increases in non-salary fringe benefit and retirement costs are the primary driver (6.5 percent and 6.3 percent respectively) of cost increases related to personnel.

Mackinac Center analysts have repeatedly explained the fact that government employee compensation at all levels — particularly with regard to benefits — is very expensive. We calculate that benchmarking all government employee benefits packages in the state to private-sector averages would save \$5.7 billion annually. About \$700 million of that total can be attributed to state civil service employee benefits, including those for corrections workers, who make up 29 percent of all state employees.

The Mackinac Center has examined comparative corrections spending in the past, and a couple of the findings are worth repeating.

In a 2007 essay titled “What Price Government,” I analyzed prison guard responsibilities and compensation at the state’s privately built and

Growth of Michigan Wages and Benefits Since 2000



Source: Calculations based on data from the Bureau of Labor Statistics and the Bureau of Economic Analysis

operated youth correctional facility in Baldwin compared to those of guards in the state system. The differences were stark.

At the time, the state reported a pay range for corrections officers (level 8) of \$14.35 to \$21.06 an hour, or between \$27,500 and \$40,400 annually plus fringe benefits such as vacation and a sick pay. This compensation was earned even during the initial training period. Private corrections guards for the Baldwin prison started at \$14.48 an hour after training.

The biggest compensation differential, however, was in non-salary benefits, including retirement benefits. Our 2007 piece indicated that the private, for-profit operation of the Baldwin facility would share 50 percent of the cost of health insurance with employees who chose to add dependents to their insurance plans. So, if the total cost of insurance was \$700 monthly for a family plan, the employee would pay \$350 of that. At the same time, a state employee with a family of four might pay less than \$63 a month in insurance premiums while the state would contribute more than \$1,100.

So wresting compensation concessions from corrections employee unions is probably a great way to lower the cost of running state prisons. Another option is privatization.

Privatization can include more than just contracting out for management of existing facilities or services within a particular prison. In 2003 we reported, for instance, that Tennessee had collected proposals from private prison officials to run the entire state prison system.

The proposal with the greatest savings would have shaved 22 percent off of the state prison tab. If that percentage could be saved in Michigan, it would amount to more than \$418 million in annual savings, and the cost of providing prison services would probably grow more slowly, too. Large-scale privatization is hardly unprecedented: New Mexico houses about 45 percent of its prisoners in privately managed facilities.

There are countless options for reforming spending in state government, and policymakers should consider all of them. Prisons are an obvious area due to the absolute and relative high cost of running them.

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