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CORRECTIONS CORPORATION OF AMERICA IRRESPONSIBILITY  
AND  
INVESTOR BEHAVIOR

BY

BRITNEY ANNE MAJURE  
Master's Degree, Department of Political Science, 2016

THESIS

Submitted to the University of New Hampshire  
In Partial Fulfillment  
of the Requirements for the Degree of

Master of Arts  
in  
Political Science

September 2016

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Thank you to the strong women and kind men in my family and life circle who have taught me the importance of compassion and willful human action.

*“Accountability: Market forces play a major role in correctional companies providing the best services and management of prison facilities. Should a contractor not perform, they put themselves in a position to lose business”*

*- Corrections Corporation of America<sup>1</sup>*

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<sup>1</sup> “Correction Partnerships Increase Performance and Accountability.” Corrections Corporation of America. May 27, 2010. accessed March 24, 2016. <https://www.cca.com/insidecca/correctional-partnerships-increase-performance-and-accountability>.

## ABSTRACT

### CORRECTIONS CORPORATION OF AMERICA IRRESPONSIBILITY AND INVESTOR BEHAVIOR

by

Britney Anne Majure

University of New Hampshire, September, 2016

Prison reformists, lawmakers, human rights activists, lobbyists, investors, government agencies, and other civil and government actors play a large role in the state of the private prison industry's rate of growth, especially in the past 15-20 years. A 2001 Bureau of Justice Statistics study concluded that big cost savings promised by the private prison industry in the United States "have not materialized."<sup>2</sup> Corrections Corporation of America's stock price took its largest plunge in 2000 and never bounced back to its late 90s high.<sup>3</sup> However, despite successful divestment campaigns and legislation against prison privatization after reports of irresponsibility, CCA stock has issued dividends to their investors since 2012,<sup>4</sup> and several analysts currently list CXW (CCA stock) as a recommended buy and hold.<sup>5</sup> Although the United States federal prison population dropped in 2014 for the first time since 1980 (along with private populations), CCA's stock price remains relatively the same today as the day Attorney General Eric Holder made the announcement.<sup>6</sup> Since the fall of

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<sup>2</sup> U.S. Department of Justice. *Emerging Issues on Privatized Prisons*. Bureau of Justice Assistance. February 2001. accessed April 23, 2015. <https://www.ncjrs.gov/pdffiles1/bja/181249.pdf>.

<sup>3</sup> All stock prices taken from Google Finance.

<sup>4</sup> CCA company reports.

<sup>5</sup> Zack's Stock Ratings, <http://www.zacks.com/stock/quote/CXW>.

<sup>6</sup> U.S. Department of Justice. One Year After Launching Key Sentencing Reforms, Attorney General Eric Holder Announces First Drop in Federal Prison Population in More Than Three Decades. <https://www.justice.gov/opa/pr/one-year-after-launching-key-sentencing-reforms-attorney-general-holder-announces-first-drop-0>.

share prices, CCA has converted to a REIT in order to avoid corporate taxes and focused heavily on litigating and lobbying to influence voting decisions on sentencing, regulations, and law enforcement. This lobbying assists in filling prison beds and winning government contracts, with lobbying expenditures over \$3.3 million in 2005.<sup>7</sup> With respect to economic, social, and political indicators and by juxtaposing the theories of Adam Smith, Milton Friedman, and Karl Polanyi this study will focus on whether CXW investors can influence the re-embedding of the economy (the subordination of the markets to social relations),<sup>8</sup> with a quantitative focus on the fluctuation of CXW stock prices and their relationship to reports of CCA irresponsibility in the media.

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<sup>7</sup> “Corrections Corporation of America.” Opensecrets.org. accessed May 1, 2016.  
<https://www.opensecrets.org/lobby/clientsum.php?id=D000021940&year=2016>.

<sup>8</sup> Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. 1944. 3<sup>rd</sup> ed. Boston: Beacon Press, 2001. viii.



## TABLE OF CONTENTS

<b>Preface</b>	ix
<b>Introduction</b>	1
<b>Background and Literature Review</b>	4
<i>The Birth Of Western Privatization, Prison Privatization, and Neoliberalism</i> .....	5
<i>Evaluations of Prison Privatization</i> .....	10
<i>ASA, Adam Smith, and Prison Privatization</i> .....	14
<i>CCA's Bright Idea: A History of CCA</i> .....	17
<i>CCA Stock &amp; Company Health History</i> .....	21
I. From \$9 to \$140 Per Share... to Near Bankruptcy: October 1986-December 2000	21
II. From Near Bankruptcy to \$30 Per Share: Post-2000 and Post-9/11 America	25
III. Steady Times for CXW: Post-2008	28
<i>Private Prison and CCA Irresponsibility and Accountability Measures</i> .....	31
<i>Self-Sustaining Markets, Consequences of Neoliberalism, &amp; The Disembedded Economy</i> ..	36
<i>Could Investors Assist in Holding CCA Accountable for Irresponsibility?</i> .....	40
<b>Methodology</b>	45
<b>Findings</b>	55
<b>Discussion and Future Research</b>	
I. Discussion of Quantitative Findings	64
II. Limitations	65
III. Future Research	66
<b>Conclusion</b>	68
<b>Afterword</b>	70
<b>Bibliography</b>	71
<b>Vita</b>	76
<b>Appendix</b>	78

## Preface

Why markets and private prisons? The gathering and testing of theories are often provoked by personal experiences and “everyday reasoning and common sense”.<sup>9</sup> From 2009-2012, I conducted research in Norwegian prisons and observed public prisons humanely rehabilitating individuals in a manner that also assists in lowering rates of recidivism. After moving back to the United States and considering the high incarceration rates and recidivism in my own country, I began to question what actors are involved in the rate of progress of the system and whether privatization is helping or hurting, with respect to human rights and reducing inmate populations. Considering personal common sense, it appeared that imprisoning persons in a profit driven market will only raise imprisonment rates, encourage a society to incarcerate more individuals, and drop human rights standards with respect to costs. In my graduate research at the University of New Hampshire, I focused on the largest private prison enterprise, Corrections Corporation of America, the company’s effects on the corrections industry, and what survival techniques the entity has employed in their 30+ year history.

Lobbying is an important survival tool for CCA, as they strive to increase populations (through sentencing and law enforcement), reduce regulations, and win government contracts. For example, CCA almost doubled their lobbying expenditures from 2001 to 2002, \$470,000 to \$850,000, and in turn CCA’s federal contract amounts increased over five folds in subsequent years afterwards, \$30,740,866 in 2002 to \$161,472,185 in 2003.<sup>10</sup> With the upswing of neoliberalism and privatization in the 1980s arises contract, lobbying, and accounting mechanisms in favor of sentencing and policy changes benefiting private corrections companies. Private prison companies can now “serve as vehicles for backdoor financing,” as they wheel and deal in many ways in order to

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<sup>9</sup> Neuman, W. Lawrence. *Basics of Social Research: Qualitative and Quantitative Approaches*. Pearson August 5, 2011.

<sup>10</sup> Lobbying figures were taken from Opensecrets.org, and government contract amounts were taken from Fedspending.org.

keep the prison debts off of their books and push the risks back onto the public sector.<sup>11</sup> CCA's conversion to a Real Estate Investment Trust (REIT) in 2013 is a prime example of the entity's smart business methods of avoiding taxes while partaking in government contracts funded by public tax revenues.

CCA spends millions of dollars each year lobbying in order to influence voting decisions that will affect how humane they must function with respect to regulations, and whether or not they will fill their prison beds and make a profit.<sup>12</sup> In Karl Polanyi's 1944 work *The Great Transformation*, the economic sociologist tells us the capitalistic markets desire a disembedded economy, or an economy without regulations, and they attempt to influence politicians to pursue this goal.<sup>13</sup> Polanyi also states there is a double movement, where the market expands continuously by disembedding but is met by a countermovement (government) that checks its expansion by re-embedding the economy.

In prior research, I found a significant relationship between CXW stock prices and the percentage of custody population held under private custody. My quantitative results displayed that a rise in CXW stock price can predict a rise in the percentage of custody population in private custody in that same year.<sup>14</sup> Considering these results and the dramatic history of CXW stock price fluctuations, my research began to question whether or not investors could play a role in this countermovement (or re-embedding), and whether or not these results would assist Polanyi's theories or in fact defend the classical economists like Milton Friedman's notion of self-regulating markets. This thesis tests whether stock prices are affected by media reports of CCA irresponsibility.

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<sup>11</sup> Herivel, Tara J., Kevin Pranis, et al. *Prison Profiteers: Who Makes Money from Mass Incarceration*. New York: The New Press, 2008.

<sup>12</sup> "Corrections Corporation of America." Opensecrets.org. accessed May 1, 2016. <https://www.opensecrets.org/lobby/clientsum.php?id=D000021940&year=2016>.

<sup>13</sup> Polanyi, Karl. 1944.

<sup>14</sup> Majure, Britney Anne. "Modern Day Western Prison Privatization Sustainability." [https://www.academia.edu/20120105/MODERN\\_DAY\\_WESTERN\\_PRISON\\_PRIVATIZATION\\_SUSTAINABILITY\\_An\\_Economic\\_and\\_Political\\_Analysis\\_of\\_the\\_American\\_Paradigm](https://www.academia.edu/20120105/MODERN_DAY_WESTERN_PRISON_PRIVATIZATION_SUSTAINABILITY_An_Economic_and_Political_Analysis_of_the_American_Paradigm).

## Introduction

Corrections Corporation of America opens the company code of conduct with the Chinese proverb “Clear conscience never fears midnight knocking.”<sup>15</sup> They emphasize to their investors they are both “socially responsible and a strong corporate citizen.”<sup>16</sup> The private correction entity’s website is full of promises, not only to investors, but commitments to “stakeholders and others who may be interested” in their business.<sup>17</sup> How does CCA hold up to these claims? According to a 2003 Corporate Research Project of Good Jobs First report, CCA has been “widely vilified for poor management practices” and “abuse, violence, and escapes.”<sup>18</sup> Investors hold influence over corporate social behavior with voting power in shareholder meetings and investment actions, such as choosing whether or not to invest in shares of a company stock after media reports of irresponsibility. With respect to CCA investors, how do they respond for instance when *The New York Times* reports on a history of “unnamed and uncounted” deaths in a CCA immigrant facility?<sup>19</sup>

There are competing theories which try to explain an individual’s behavior in market transactions. This study tests which of these theories is evident in the behavior of those investing in the private prison industry by examining the relationship between media reports of irresponsibility under CCA custody and CCA stock prices. By juxtaposing the theories of Adam Smith, Milton Friedman, and Karl Polanyi, this study asks whether investor decisions can be

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<sup>15</sup> “Code of Conduct.” Corrections Corporation of America. accessed March 23, 2016. <http://www.cca.com/Media/Default/documents/Social-Responsibility/Fostering-Meaningful-Careers/CCA%20Code%20of%20Conduct.pdf>.

<sup>16</sup> “Investor FAQs.” Corrections Corporation of America. accessed March 23, 2016. <https://www.cca.com/investors/faq>.

<sup>17</sup> “CCA Human Rights Policy Statement.” Corrections Corporation of America. accessed March 23, 2016. <http://www.cca.com/Media/Default/documents/Social-Responsibility/Protecting-Inmate-and-Detainee-Rights/Human-Rights-Policy-Statement-2014.pdf>.

<sup>18</sup> Mattera, Philip, Mafruz Khan, and Stephen Nathan. “Corrections Corporation of America: A Critical Look at its First Twenty Years.” *Corporate Research Project of Good Jobs First*. May 2003. <http://www.prisonpolicy.org/scans/grassrootsleadership/cca.pdf>.

<sup>19</sup> Bernstein, Nina. “Deaths in Immigration Detention.” *The New York Times* January 9, 2010. accessed March 24, 2016. [http://www.nytimes.com/2010/01/10/us/10detain.html?\\_r=0](http://www.nytimes.com/2010/01/10/us/10detain.html?_r=0).

used as tool of the markets to self-regulate, calling into question Smith and Friedman's theories of a self-regulating market<sup>20</sup> and Polanyi's theories concerning the double movement.<sup>21</sup> The research question is the following: How do reported claims of corruption and human rights abuses affect the speculative value of CCA stock, and which economic theory do these findings support? If Polanyi's fictitious commodities, land, labor, and capital, are in fact protected through the market self-adjusting (investors not investing or selling after reports of abuse), then there is no need for a double movement (the intervention of the government with regulations after the market fails to self-regulate). It is predicted in this research that reports of CCA abuses are correlated with changes in the price of CXW stock shares, and investors view CCA irresponsibility as 'bad for business' and will sell or choose to not invest after the reportings. Are investors commoditizing land, labor, and capital as Polanyi suggests, or are they responding to these reports and using their self-interests to regulate and assist in re-embedding the economy with social protections, making the need for state protection unnecessary?

Most CCA company shares are owned by corporate entities.<sup>22</sup> Therefore, it is important to note this research considered that the intentions and the conscience of an individual differ greatly from a corporate entity. However, regardless of the intentions of the investor and CCA, which classical and neo-classical economists would state are profit maximization and self-interest, thriving markets are deeply embedded in society according to Polanyi. To what degree can media reports affect the bottom line, especially in an industry where investors are aware they are buying into the concept of imprisoning society for profit? This study researches how claims of corruption and human rights abuses affect the speculative value of CCA and investor behavior

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<sup>20</sup> Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

<sup>21</sup> Polanyi, Karl. 1944.

<sup>22</sup> Welch, Michael and Fatiniyah Turner. "Private Corrections, Financial Infrastructure, and Transportation: The New Geo-Economy of Shipping Prisoners." *Social Justice* 34.3/4 (2007-2008): 56-77.

and whether these findings will support Smith and Friedman's theories of a self-regulating market.

While it is clear that there are moral implications for this study the research does not necessarily ask a moral question. This research does not necessarily consider investor intentions, as this is an entire field of studies already covered heavily by scholarship. However, after reviewing the lack of scholarship examining the behavior of investors of the private prison industry, I strive to demonstrate whether or not these particular investor actions in the private prison stock market are correlated with reports of CCA abuses in the media, regardless of the intentions of that investor being socially conscious or self-interested in profit maximization. Under the assumption that investors of prison stock are some of the less socially conscious investors in the market, this study found it interesting to view them as indirect actors in the field of human rights, whether they are aware of this possibility, or not.

After reviewing the history of Western privatization, private prisons, and CCA as a public company with the assistance of past scholarship, this study will describe the results found in a quantitative multivariate time series analysis of CXW stock prices in comparison to media reports of CCA abuses and whether investor actions can indirectly hold CCA socially responsible through market actions alone.

## Background and Literature Review

Before approaching the methodology and findings of the quantitative research, it is helpful to survey the background and theory provoking and surrounding this research. First I will review the history of Western privatization and privatized corrections and the formation of the Corrections Corporation of America and its company stock, while considering past scholarship and some analysis of privatization and privatized corrections. While many studies since the worldwide spread of privatization in the 1980s and 90s have focused on evaluating policies and privatized practices, few have chosen to study why privatized policies developed so rapidly since the birth of neoliberalism.<sup>23</sup> Empirical research concerning what practices the private prison industry has utilized to flourish in the past few decades is lacking in particular. Additionally, arguments for (and even against) free markets often “pay no attention to the social consequences of the doctrines.”<sup>24</sup> I would like future research to incorporate this study into a comparison of incarceration rates and other social consequences. While touching on evaluations of privatized practices, this review of privatization and economic literature will focus on the rise of neoliberalism and privatization in the West, with a particular focus on how privatized corrections evolved and survives today.

This study will also present examples of reported and documented CCA irresponsibility and what mechanisms hold the corrections entity accountable. What laws and organizations regulate private corrections, and how is CCA held accountable for their actions? This thesis will argue that CCA has used corporate social responsibility mechanisms and lobbying as their main tools for survival against the negative reports and court filings against them.

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<sup>23</sup> Yarrow, George. “A Theory of Privatization or Why Bureaucrats are Still in Business.” *World Development* 27.1 (1999): 157-168.

<sup>24</sup> Stiglitz, Joseph E. Foreword. *The Great Transformation: The Political and Economic Origins of Our Time*. By Karl Polanyi. 1944. 3<sup>rd</sup> ed. Boston: Beacon Press, 2001. viii.

This section will also highlight some competing theories that attempt to explain an individual's behavior in market transactions and whether these theories assist in explaining the behavior of CCA and their investors. Before presenting evidence from the multivariate times series analysis concerning which of these theories is evident in the behavior of private prison industry investors, I will explore Adam Smith's theories concerning privatization and self-interest,<sup>25</sup> Milton Friedman's neoliberal theories of a self-regulating market,<sup>26</sup> and Karl Polanyi's theories concerning the double movement.<sup>27</sup>

### *The Birth of Western Privatization, Prison Privatization, and Neoliberalism*

Privatization<sup>28</sup> as an alternative to inefficiencies of the state dates at least to classical antiquity. Although the ancient Greeks and Romans contracted out the majority of services to the private sector,<sup>29</sup> some scholars blame the fall of the Roman Empire on the costs of bureaucracy.<sup>30</sup> Comparative-historical research identifies many scholars wringing their hands, mulling over the privatization debate and whether public or private ownership of public goods and services is best, economically and socially speaking. The rise of human rights post-Enlightenment<sup>31</sup> and labor rights post-Industrialism<sup>32</sup> brought more attention to the individuals involved in these private practices and the need for regulations. Government and public interest in privatization has waxed and waned historically, with most recent research focused on whether or not costs are

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<sup>25</sup> Smith, Adam. *The Wealth of Nations*. New York: Bantam Dell, 1776.

<sup>26</sup> Friedman, Milton. *Capitalism and Freedom*. University of Chicago Press, 1962.

<sup>27</sup> Polanyi, Karl. 1944.

<sup>28</sup> Defined in the Definitions section of this paper as "the transfer of ownership of business, services, or property from the public sector to the private sector, or the government contracting out, or outsourcing services to a private entity."

<sup>29</sup> Parker, David and David S. Saal. *International Handbook on Privatization*. Edward Elgar, 2003. 25-6. citing: Robert Sobel, *The Pursuit of Wealth*. New York: McGraw-Hill, 1999.

<sup>30</sup> Bartlett, Bruce. "How Excessive Government Killed Ancient Rome." *Cato Journal* 14.2. (Fall 1994): 287-303. accessed May 5, 2015. <http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/1994/11/cj14n2-7.pdf>.

<sup>31</sup> Hunt, Lynn. *Inventing Human Rights: A History*. W.W. Norton & Company, 2007. 40.

<sup>32</sup> Upton Sinclair, Karl Marx, and Lewis Hines are only a few of the many writers who can be referenced for a history of labor rights in the West.



reduced under private ownership and/or operation. Prisons, postal services, utilities, tax collection, health care, police, and even education are all services that have been put up for debate considering the degree of responsibility of the state to be the caretaker. It is generally excepted now that prisons and other public institutions being run by for-profit firms are “ways to make public services more competitive.”<sup>33</sup> There is also general consensus about the importance of government regulation, but the argument lies within the best way this is done.<sup>34</sup> With that said, there are important differences among scholars’ views. Some are easy to disregard with “ideology and special interests masquerading as economic science and good policy,”<sup>35</sup> especially with respect to policy studies concerning the private prison market, where a study could assist or hurt CCA from receiving the next government contract.

This thesis concerns privatization arguments beginning with classical economics works written during the beginning of the Industrial Revolution, as this is also the beginnings of joint-stock trading and laissez-faire economics (mid-18<sup>th</sup> century to present). Early (and even modern day) arguments for privatization concern how nations could build wealth selling government property publically. This can be found in classical British economy literature, such as the 1776 writings of Adam Smith in *The Wealth of Nations*:

In every great monarchy of Europe the sale of the crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown. In countries where lands, improved and cultivated very highly, and yielding at the time of sale as great

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<sup>33</sup> Singer, P.W. *Corporate Warriors: The Rise of the Privatized Military Industry*. Ithaca: Cornell University Press, 2001. 7, 213.

<sup>34</sup> Stiglitz, 2001. viii.

<sup>35</sup> Stiglitz. 2001. viii.

a rent as can easily be got from them, commonly sell at thirty years' purchase, the unimproved, uncultivated, and low-rented crown lands might well be expected to sell at forty, fifty, or sixty years' purchase. The crown might immediately enjoy the revenue which this great price would redeem from mortgage. In the course of a few years it would probably enjoy another revenue. When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated.<sup>36</sup>

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The people play a large role in Smith's notion of the nation building wealth, with revenue increases deriving from "consumption of the people" and government expenses being "defrayed by taxes."<sup>37</sup> In Smith's point of view, privatizing the government lands would benefit society:

The revenue which, in any civilised monarchy, the crown derives from the crown lands, though it appears to cost nothing to individuals, in reality costs more to the society than perhaps any other equal revenue which the crown enjoys. It would, in all cases, be for the interest of the society to replace this revenue to the crown by some other equal revenue, and to divide the lands among the people, which could not well be done better, perhaps, than by exposing them to public sale.

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Smith places a limit on the privatization of government property by stating that "land for the purposes of pleasure and magnificence – parks, gardens, public walks, etc." which are "considered as causes of expense, not as sources of revenue" should be "the only lands

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<sup>36</sup> Smith, Adam. 1776. 1041.

<sup>37</sup> Smith, Adam. 1776. 1041-1042.

which...belong to the crown.”<sup>38</sup> This stages the future of Western governments contracting out or selling property that will draw revenue and then taxing individuals for the use of property owned and maintained by the government. These lines are often blurred, as for example, CCA also benefits from public tax through the awarding of government contracts.

At what point in history does the privatization of corrections arise? Prison studies expert Charles Campbell dates privatized imprisonment to the convict leasing system, which originally involved private parties responsible for the detainment and care of prisoners at the end of the American Revolution. Under this system, after a battle ended, elites loaded society ills onto hulks, which then became prison ships.<sup>39</sup> Private sector involvement in the American prison industry emerged at the end of slavery and the American Civil War, when workforces needed supplementation<sup>40</sup> during America’s Second Industrial Revolution. This penal labor practice peaked around 1880, but was abolished in 1942 by President Franklin D. Roosevelt, partly due to human rights concerns. In place of this system emerges a more concrete version of private contracting, which the American, Australian, British, and other English speaking governments and private prison companies utilized extensively after President Ronald Reagan’s declaration of the “War on Drugs” in the 1980s.<sup>41</sup>

The birth of neoliberalism with its laissez-faire economics advanced privatization in the late 1970s and early 1980s, “a revolutionary turning-point in the world’s social and economic

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<sup>38</sup> Smith, Adam. 1776. 1042.

<sup>39</sup> Campbell, Charles. *The Intolerable Hulks*. Heritage Books, 1993.

<sup>40</sup> Lichtenstein, Alex. *Twice the Work of Free Labour: The Political Economy of Convict Labour in the New South*. Verso Press, 1996.

<sup>41</sup> The 1970s and 80s witnessed the Nixon and Reagan Administrations “War on Drugs,” which is defined differently by opposing parties concerning drug policy debate. According to Human Rights Watch, Nixon’s “War on Drugs” caused soaring arrest rates. However, the most dramatic increase of incarceration begins post-1980. In the 1980s, while the number of arrests for all crimes had risen by 28%, the number of arrests for drug offenses rose 126%, according to Austin J. McVey AD’s *The 1989 NCCD Prison Population Forecast: The Impact of The War on Drugs*.

history.”<sup>42</sup> Paul Volcker changed monetary policy dramatically while in control of the U.S. Federal Reserve, and thereafter the Fed fought against inflation disregarding many of its consequences (in particular concerning unemployment). Margaret Thatcher became Prime Minister of the United Kingdom in May 1979, with an initiative to curtail trade union power and end the inflationary stagnation that took over the country in the preceding administrations. Ronald Reagan took office in the United States in 1980 with the goal of saving the American economy by backing up Volcker’s actions at the Fed and “adding his own particular blend of policies to curb the power of labour, deregulate industry, agriculture, and resource extraction, and liberate the powers of finance both internally and on the world stage.”<sup>43</sup> Reagan and Thatcher profoundly boosted privatization in the 1980s, giving way to increasing numbers of Western government contracts with private industries for the delivery of public goods and services. These contracts involved everyone from private military and security firms to competitive energy and utility suppliers. The boom in private prisons in the 1980s and 90s was not only an American one, the debate and implementation of “governments contracting with private firms to operate and even own prisons, jails, and other places of imprisonment,” was also happening at this time in Australia, the United Kingdom, and other English-speaking countries.<sup>44</sup> The *Neoliberalism Philosophies* section of this thesis (p. 42) will present arguments concerning why neoliberalism advanced privatization dramatically.

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<sup>42</sup> Harvey, David. *A Brief History of Neoliberalism*. Oxford University Press, 2005. 2.

<sup>43</sup> Harvey, David. 2005. 2.

<sup>44</sup> McDonald, Douglas C. “Public Imprisonment By Private Means: The Re-emergence of Private Prisons and Jails in the United States, the United Kingdom, and Australia.” *The British Journal of Criminology* (1994): 34. 29-48. accessed May 2, 2015. <http://www.jstor.org/stable/23638186>.

## *Evaluations of Prison Privatization*

Most findings identified in this literature review utilize a “comparative efficiency approach,”<sup>45</sup> concerning whether public or private prisons are more efficient with respect to price. Geoffrey Segal and Adrian T. Moore’s 2002 study for the Reason Public Policy Institute, a libertarian think tank, is often cited, which evaluated 28 private prison cost studies and found that “virtually all of them found private prisons to provide significantly lower cost – on average between five and 15 percent.”<sup>46</sup> However, this research found it most important to emphasize studies of why private prisons arose and why so rapidly, as these studies assist in studying the effects of neoliberalism and investor actions on the health of the private prison industry. A major question of this study lies in the social costs of privatization methods and the actors that influence the state of prison privatization. Malcolm Feeley’s 2014 research maintained that theories asserting “privatization is inconsistent with the modern state” are erroneous, and he concluded with “a call for policymakers and judges to imbue their future privatization decisions with local knowledge and time-honored pragmatism.”<sup>47</sup>

Periodicals also often point to the “perverse incentives”<sup>48</sup> of privately run prison systems, where the more prisoners a company houses, the more it gets paid, leading to a conflict of interest on behalf of the private entities which, in theory, are not motivated to rehabilitate prisoners. Private prison opponents infer that, “if private prisons worked to reduce the number of

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<sup>45</sup> Dolovich, Sharon. “State Punishment and Private Prisons.” *Duke Law Journal* Vol. 55. No. 3. 437-546. December 2005.

<sup>46</sup> Segal, Geoffrey and Adrian T. Moore. “Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services.” Reason Public Policy Institute. *Policy Study* (2002): 289.

<sup>47</sup> Feeley, Malcolm M. “The Unconvincing Case Against Private Prisons.” *Indiana Law Journal* 89.4.3. (Fall 2014): accessed May 3, 2015. <http://www.repository.law.indiana.edu/ilj/vol89/iss4/3/>.

<sup>48</sup> W.W. “The Perverse Incentives of Private Prisons.” *The Economist* August 24, 2010. [http://www.economist.com/blogs/democracyinamerica/2010/08/private\\_prisons](http://www.economist.com/blogs/democracyinamerica/2010/08/private_prisons).

repeat offenders, they would be in effect reducing the supply of profit-producing inmates.”<sup>49</sup> According to the Bureau of Justice Statistics, the imprisonment rate of sentenced prisoners under the jurisdiction of state or federal correctional authorities per 100,000 U.S. residents went from 187 in 1984 to 500 in 2010,<sup>50</sup> while private prison populations rose to 8% of total prison populations by 2010.<sup>51</sup> With the upswing of privatization in the 1980s arises contract, lobbying, and accounting mechanisms in favor of sentencing and policy changes benefiting private corrections companies, according to critics of privatization. Kevin Pranis states in *Prison Profiteers* that private prison companies can “serve as vehicles for backdoor financing,” as they wheel and deal in many ways in order to keep the prison debts off of their books and push the risks back onto the public sector.<sup>52</sup>

This research identified several scholars also considering this current model of privately run corrections in the United States insufficient with respect to public and social values. Award-winning Columbia University professor Elliott Sclar’s book *You Don’t Always Get What You Pay For* gives the pros and cons of privatization in American business. He argues that almost all public institutions and agencies in America are fair game for privatization; however, he reminds readers that one does not need to be corrupt in order to botch public contracting. Sclar calls on taxpayers and politicians to realize that poorly managed privatization can often collide with vital public values and that privatization is often only pitfalls and promises.<sup>53</sup>

Regarding efficiency, research findings exist for most possible outcomes, as there does not appear to be a general consensus regarding which facilities are more efficient and financially

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<sup>49</sup> Ritter, Michael J. “Resolved: For-profit prisons in the United States should be banned.” *The Forensic Files* December 2014. accessed April 20, 2015, <http://debateon.weebly.com/uploads/7/8/2/2/7822220/tff.pfd.dec.14.pdf>.

<sup>50</sup> Bureau of Justice Statistics, <http://www.bjs.gov/index.cfm?ty=nps>.

<sup>51</sup> Mason, Cody. “Too Good To Be True.” The Sentencing Project, January 2012. accessed April 19, 2015, [http://sentencingproject.org/doc/publications/inc\\_Too\\_Good\\_to\\_be\\_True.pdf](http://sentencingproject.org/doc/publications/inc_Too_Good_to_be_True.pdf).

<sup>52</sup> Herivel, Tara J. *Prison Profiteers: Who Makes Money from Mass Incarceration*. 2008: 38-9.

<sup>53</sup> Sclar., Elliott D. *You Don’t Always Get What You Pay For*. Cornell University Press. November 29, 2001.

sound, public or private.; however, as mentioned earlier, Segal and Moore’s 2002 study for the libertarian think tank Reason Public Policy Institute is often cited stating that all of private prisons studied “provide significantly lower cost – on average between five and 15 percent.”<sup>54</sup> Andrei Shleifer argued in 1998 that “private ownership should generally be preferred to public ownership when the incentives to innovate and to contain costs must be strong.”<sup>55</sup> James Blumstein, director of the Health Policy Center at the Vanderbilt Institute for Public Policy Studies, found that states that used private prisons could possibly save up to \$15 million per year.<sup>56</sup> However, research presented by Ruth Wilson Gilmore in *Golden Gulag*, a 2007 analysis of the California prison boom, states private prison companies have not been found to be financially stable.<sup>57</sup> Interesting here is the fact that one of the founders of CCA is a Vanderbilt alumni, and CCA lists other Vanderbilt “independent” studies supporting prison privatization on their website.<sup>58</sup> Additionally, Gilmore is deeply rooted in the prison abolition movement, even winning the Angela Y. Davis prize,<sup>59</sup> which signifies her less than objective approach on the topic of prisons. As stated earlier, several studies identified are clearly “ideology and special interests masquerading as economic science and good policy.”<sup>60</sup>

The U.S. Department of Justice was hesitant for many years to comment on the cost saving measures or quality of privately run facilities. The DOJ's Bureau of Justice Assistance

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<sup>54</sup> Segal, Geoffrey and Adrian T. Moore. “Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services.” Reason Public Policy Institute. *Policy Study* (2002): 289.

<sup>55</sup> Shleifer, Andrei. “State Versus Private Ownership.” The National Bureau of Economic Research, NBER Working Paper No. 6665. July 1998. accessed February 25, 2015. <http://www.nber.org/papers/w6665>.

<sup>56</sup> “Having privately and publicly managed prisons in the same state brings benefits.” *Vanderbilt News* November 2008. accessed April 22, 2015. <http://news.vanderbilt.edu/2008/11/having-privately-and-publicly-managed-prisons-in-the-same-state-brings-benefits-67787/>.

<sup>57</sup> Gottschalk, Marie. “The Long Reach of the Carceral State: The Politics of Crime, Mass Imprisonment, and Penal Reform in the United States and Abroad” *Law & Social Inquiry* Volume 34. Issue 2: 439–472. Spring 2009. accessed May 1, 2015. <http://onlinelibrary.wiley.com/doi/10.1111/j.1747-4469.2009.01152.x/full>.

<sup>58</sup> CCA Resource Center. <https://www.cca.com/cca-resource-center>.

<sup>59</sup> Angela Davis gave a famous speech in 1997 on the “Prison-Industrial Complex” and is a well-known prison and human rights activist.

<sup>60</sup> Stiglitz. 2001. viii.

established in its 2001 research that “to date, the limited experience with privately managed prisons does not allow a thorough evaluation of public and private prisons in terms of overall quality of inmate services.”<sup>61</sup> However, the U.S. Bureau of Justice Statistics did identify there were little cost-savings when it compared public and private prisons in their research in 2001.<sup>62</sup> This is perhaps because simple numbers do not give the entire picture, and the research does not generally involve more complicated quantitative criticisms of private prisons until around the turn of the century. For example, privately run prisons can refuse to take in certain expensive prisoners, and they regularly do this, which in turn artificially deflates the costs associated with running a private jail or prison.

*New York Times* journalist Paul Krugman is one of the many hard critics of private prisons and government contracting. In a recent 2015 op-ed, he evaluates the economics concerning prison privatization in New Jersey and elsewhere. It mentions Chris Christie’s lobbying background and his ties to private prison companies, and the opinion that Corrections Corporation of America and others are not competing in a free market. Krugman attributes their profits to “living off government contracts.”<sup>63</sup>

Gerald G. Gaes at Florida State University conducted the most current analysis of private prison research that surveys several studies in 2010, stating that despite the importance of the topic, “there are very few studies comparing privately and publically operated facilities.” In 2009 in fact, Lundahl et. al. “only identified 12 studies of cost and quality meeting their criteria for sound methodology.” Gaes reviewed 5 of these studies and found that three concluded no

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<sup>61</sup> “Emerging Issues on Privatized Prisons.” U.S. Department of Justice, Bureau of Justice Assistance, February 2001. assessed April 23, 2015, <https://www.ncjrs.gov/pdffiles1/bja/181249.pdf>.

<sup>62</sup> Cheung, Amy. “Prison Privatization and the Use of Incarceration.” The Sentencing Project, last modified September 2004. accessed April 10, 2015. [http://www.sentencingproject.org/doc/publications/inc\\_prisonprivatization.pdf](http://www.sentencingproject.org/doc/publications/inc_prisonprivatization.pdf).

<sup>63</sup> Krugman, Paul. “Prisons, Privatization, Patronage.” *The New York Times* June 21, 2012. accessed March 11, 2015. <http://www.nytimes.com/2012/06/22/opinion/krugman-prisons-privatization-patronage.html>.



difference between cost and quality between private and public, and two concluded that private prisons are cheaper to operate and produce a similar level of quality.<sup>64</sup>

It simply comes down to most studies found were supported by a biased agenda, whether that be a libertarian, conservative one or one associated with social liberalism. In efforts to weed through these findings, this research drew upon classical theory and literature, finding some of the biased think tanks also reflect on these theories, using them to make their arguments. In the next section, I will evaluate one of the think tanks releasing reports that support privatizing prisons and the legitimacy of their theoretical base as a prime example of the bias uncovered in this research.

#### *ASI, Adam Smith, and Prison Privatization*

In 1984, the free market libertarian think tank Adam Smith Institute argued that private prisons would use “manpower more effectively” than government-run facilities.<sup>65</sup> The institute openly supports privately built and managed prisons as treating prisoners “humanely (and at a lower cost)” and performing better “on every key measure” than public ones. According to a 2000 blog entry found on the institute’s website, CCA was “the first US prison service, public or private, to win a national accreditation sponsorship for its vocational trades courses,” which helps offenders with “a much wider choice of jobs once they are released.”<sup>66</sup>

How would Adam Smith view the ASI’s hardline support for privatization of corrections? It appears Smith would be in favor of the privatization of corrections if individuals would draw

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<sup>64</sup> Gaes, Gerald G. “The Current Status of Prison Privatization Research on American Prisons.” Florida State University. August 2010.

<sup>65</sup> Hough, Mike, Rob Allen, and Enver Solomon. *Tackling prison overcrowding: Build more prisons? Sentence fewer offenders? (Researching Criminal Justice)*. Bristol: Policy Press, October 22, 2008. 86

<sup>66</sup> No author listed. “Competing For Convicts?” Uncategorized blog post. *Adam Smith Institute*. ASI, January 1, 2000. Web. Accessed on June 3, 2016. <http://www.adamsmith.org/blog/uncategorized/competing-for-convicts/>.

revenue from this practice, which Smith theorizes will in turn assist society. However, in his later work *The Theory of Moral Sentiments*, he suggests private demand for punishment as being independent of conversations concerning social gain.<sup>67</sup> It is only through the lens of an organization dedicated to Adam Smith where one can possibly see what the theorist would state today on the privatization of prisons, or is it really?

According to Barak Orbach's research of Adam Smith scholarship, the intellectual basis of invisible hand theories is derived from a misreading of Adam Smith.<sup>68</sup> "Although critical of government regulation, Smith's invisible hand was the hand of God, not of market forces."<sup>69</sup> The ASI was formed in 1977 in the United Kingdom in an effort to assist the neoliberal agenda of privatizing state-owned businesses while Margaret Thatcher was leader of the opposition party in Parliament and soon to be Prime Minister of the United Kingdom. The policies of Margaret Thatcher and United States President Ronald Reagan greatly advanced the neoliberal agenda and assisted in the privatization of corrections in the United States and the United Kingdom. Could the ASI be possibly manipulating Adam Smith's original thesis for the benefit of the neoliberal agenda?

It can also be questioned how Adam Smith would view modern day forms of corporate control of security and justice, as in his times he feared the dynamics of joint-stock companies where directors are not the actual owners of the money, therefore lacking interest in how the funds are utilized. "Being the managers of other people's money than of their own, it cannot be

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<sup>67</sup> Avio, Kenneth L. "The Economics of Prisons." *European Journal of Law and Economics* 6.2 (September 1998): 143-175. accessed June 1, 2016. <http://link.springer.com/article/10.1023%2FA%3A1008093113870>.

<sup>68</sup> Orbach cites the following: Andy Denis, *The Invisible Hand of God in Adam Smith* (2005); Peter Harrison, *Adam Smith and the History of the Invisible Hand* (2011); Alec Macfie, *The Invisible Hand of Jupiter* (1971).

<sup>69</sup> Orbach, Barak. "Invisible Lawmaking." The University of Chicago, *The University of Chicago Law Review Dialogue* October 3, 2012. accessed June 3, 2016. <https://lawreview.uchicago.edu/sites/lawreview.uchicago.edu/files/uploads/Dialogue/Orbach%20Online.pdf>.

well expected, that they should watch over it with the same anxious vigilance.”<sup>70</sup> Smith argued that corporations would not be able to compete with copartnership and proprietorships and could never be efficient producers, therefore not assisting society with their wealth. According to his writings, Smith would not support corporate control; however, he was not alive to witness modern day externalities such as disease which a business often pays nothing for, and the future of corporate personhood and corporations becoming so financially successful.

When specifically considering the nature of CCA privately run and/or owned facilities, Smith would also possibly worry about security measures and human rights issues, such as the history of violence and prison breaks in CCA facilities.<sup>71</sup> Firstly, Smith believed security was the number one concern for the state, but more importantly Smith demonstrated that the economy could be civilized while being profitable. CCA should be able to make a profit, while also benefitting society. Although Smith promoted the idea of self-interest driving individuals, he also regarded the social factor as “an essential or fundamental character of the individual”<sup>72</sup> and did not agree with Thomas Hobbes’ self-preservation and “state of man” which would later build the basis for political realism. Aside from self-preservation, Smith also believed individuals wished to improve society and that the improvement of one’s own conditions is “secure only on the basis of natural human society” and “human selfishness will not prevail against the coherence of society.”<sup>73</sup> Smith would possibly state that CCA should be able to reconcile their profit motive with their duty to better society. The next two sections elaborating on the history and

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<sup>70</sup> Smith, Adam. 1776. 941.

<sup>71</sup> Mattera, Philip, Mafruz Khan, and Stephen Nathan. “Corrections Corporation of America: A Critical Look at its First Twenty Years.” *Corporate Research Project of Good Jobs First*. May 2003.

<http://www.prisonpolicy.org/scans/grassrootsleadership/cca.pdf>.

<sup>72</sup> Macfie, A. L. *The Economic History Review* ns 10.3 (1958): 482-84.

<sup>73</sup> Macfie, A. L. (1958).

accountability of CCA will assist in demonstrating whether or not CCA has typically reconciled the two.

### *CCA's Bright Idea: A History of CCA*

Whether more efficient and/or morally right or wrong, the private prison industry is now “a thriving sector (alongside private security services) in the U.S. economy”<sup>74</sup> and holds custody of Bureau of Prisons inmates and over half of the American states. Over 50% of Louisiana’s prison population was held in private custody in 2014, and 171,300 state and federal inmates were in private facilities that year (the last year reported by the Bureau of Justice Statistics in September 2015). The number of federal inmates held in private custody rose dramatically since the turn of the century (see figure below).<sup>75</sup> Two companies account for more than 75% of the whole worldwide market, CCA and Wackenhut Corrections Corporation.<sup>76</sup>

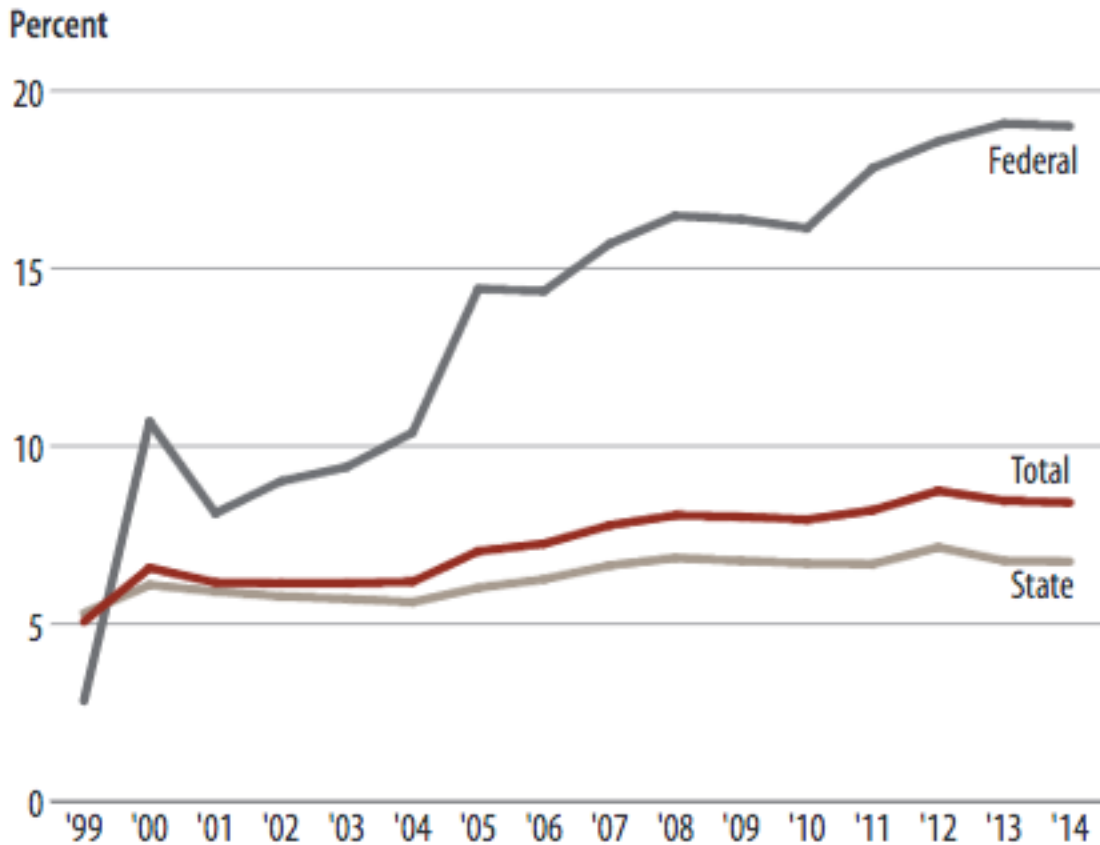
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<sup>74</sup> Harvey, David. 2005. 165.

<sup>75</sup> U.S. Department of Justice. *Prisoners in 2014*. Bureau of Justice Statistics. September 2015. accessed June 2, 2016. <http://www.bjs.gov/content/pub/pdf/p14.pdf>.

<sup>76</sup> Coupet, Sacha M. “The Subtlety of State Action in Privatized Child Welfare Services.” *Chapman Law Review*. 11.1. 2007. 89.

**Percent of total prisoners under state or federal jurisdiction in the custody of private prison facilities, December 31, 1999–2014**



Note: Counts of private prisoners in the federal prison system include inmates held in nonsecure privately operated facilities, and prisoners on home confinement.  
 Source: Bureau of Justice Statistics, National Prisoner Statistics, 1999–2014.

Bureau of Justice Statistics, U.S. Department of Justice

CCA claims they invented this “bright idea” of privatizing corrections in the early 1980s during a conversation between former Tennessee Republican Party Chairman Thomas Beasley and Nashville attorney Robert Crants.<sup>77</sup> Both were accomplished businessmen and attending a Republican Presidential fundraiser where they shared with the attendees their plan to solve the overcrowded prison problem in the United States and “make a lot of money at the same time.”

<sup>77</sup> “Our History.” Corrections Corporation of America. <https://www.cca.com/our-history>.

They decided CCA would design, build, and/or manage prisons, with revenue based on the number of “compensated man days” under the premise of full capacity yielding the highest profits. They later were recommended by a friend to contact the highest corrections director in Virginia, T. Don Hutto. Hutto was also the newly elected president of the American Correctional Association (ACA), which is widely considered to be a lobby for the private corrections industry. Despite this obvious conflict of interest, Hutto pushed for privatization at the ACA and benefited from its progress at the same time for the next several years.<sup>78</sup>

In 1983, the three “enterprise leaders” came together with a “game changer”<sup>79</sup> banner claiming they would change the way companies did business with the American government. Privatization was an easy sell in the United States in this time period, “just like you were selling cars, or real states, or hamburgers,” said Beasley. He claimed the times of big government were over, and venture capitalists like Jack Massey liked the sound of this. Massey was famous in the investment world for being the first to achieve three companies on the New York Stock Exchange. He owned Kentucky Fried Chicken, founded the Hospital Corporation of America and owned one of the largest Wendy’s franchisees. Beasley claimed he modeled CCA on the successful HCA, a controversial leader in the for-profit healthcare sector. This is important to note, as HCA cherry picking, where efficiency was created through choosing the most profitable parts of healthcare, or sick care according to an HCA executive, was similar to CCA’s methods of choosing contracts with facilities holding the most profitable types of prisoners.<sup>80</sup>

CCA landed their first federal contract in 1983 with the U.S. Department of Justice for an Immigration and Naturalization Services (INS) facility in Texas. The next year they assumed the

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<sup>78</sup> Selman, Donna and Paul Leighton. *Punishment For Sale: Private Prisons, Big Business, and the Incarceration Binge*. Rowman & Littlefield, 2010: 55-60.

<sup>79</sup> “Our History.” Corrections Corporation of America. <https://www.cca.com/our-history>.

<sup>80</sup> Selman.

management of their first prison in Shelby County, Tennessee, and opened the first private juvenile facility there in 1986. The company went public on the NASDAQ stock exchange that year, with one share of CCAX at \$9. They opened the first private women's prison in 1989 in Grants, New Mexico, and their first medium-security prison the next year in Winn, Louisiana. In the 1990s, they started acquiring competitor entities and prison service companies like TransCor, the U.S.'s largest long-distance transportation company, and opened their first maximum-security facility in 1992 in Leavenworth, Kansas. CCA listed on the New York Stock Exchange (CXC) at \$16 per share in December 1994, and changed to their current ticker, CXW, in October 2000. Despite being public since the 1980s, their shareholders did not see a dividend until May 2012.<sup>81</sup> However, since mid-2012 analysts commonly list CXW stock as a recommended hold and buy stock, with current market capitalization listed as \$3.84B.<sup>82</sup>

Prior to the founding of CCA, prisoner rights was forced on the agenda of T. Don Hutto while director of corrections in Arkansas in the 1970s. The CCA website states "Hutto implemented the compliance requirements of the Holt v. Sarver case...successfully bringing a system out of federal court supervision."<sup>83</sup> However, other research shows "Hutto acted in bad faith for years regarding inmate suits over prison conditions." Although Hutto issued a policy memo prohibiting physical abuse of inmates in 1971, the courts found his "progress" unsatisfactory for several years after his supposed reforms.<sup>84</sup>

One of the most controversial facilities in CCA history was named after Hutto with conditions for families and children unsuitable enough they spurred litigation and a nationwide immigrant detainee reform policy. The T. Don Hutto Residential Facility opened in a former

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<sup>81</sup> "Our History." Corrections Corporation of America.

<sup>82</sup> Google Finance.

<sup>83</sup> "Our History." Corrections Corporation of America.

<sup>84</sup> Selman.

prison under an Immigration & Customs Enforcement (ICE) contract in 2006 to detain families awaiting their immigration status. The American Civil Liberties Union filed suit against ICE in March 2007 alleging the standards at Hutto were not in compliance with the government's detention standards for immigrants, with claims of substandard health care and prison-like conditions for children. Two years later, federal officials moved the families to a much smaller ICE managed family residential center in Pennsylvania and made CCA's Hutto a female-only detainment center.<sup>85</sup> In 2009, U.S. Department of Homeland Security announced an ICE Detention Reform, which included initiatives "to enhance the security and efficiency of ICE's nationwide detention system while prioritizing the health and safety of detainees."<sup>86</sup> According to the National Immigrant Justice Center, 2014 saw the largest increase in the detention of families in America since the Japanese internment during World War II, and CCA and another private prison company, GEO Group, continue to manage most of these beds, despite the history of human rights abuses.<sup>87</sup>

### *CCA Stock & Company Health History*

#### I. From \$9 to \$140 Per Share...to Near Bankruptcy: October 1986-December 2000

The history of Corrections Corporation of America stock dates almost to its very beginnings, with the company going public on the NASDAQ stock exchange as CCAX at \$9 per share in October 1986, just three years after their founding and first federal contract in 1983. After acquiring competitors and opening their first maximum-security facility, they listed on the New

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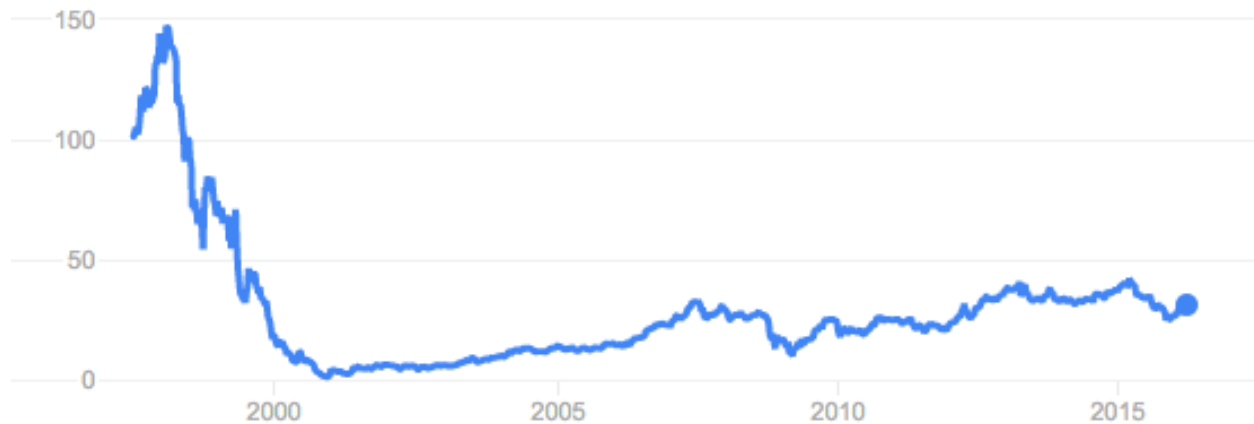
<sup>85</sup> "ACLU Urges Congress to End Policy of Detaining Immigrant Children." ACLU. August 27, 2007. [www.aclu.org/news/landmark-settlement-announced-federal-lawsuit-challenging-conditions-immigrant-detention-center](http://www.aclu.org/news/landmark-settlement-announced-federal-lawsuit-challenging-conditions-immigrant-detention-center).

<sup>86</sup> "ICE Detention Reform." U.S. Department of Homeland Security, October 6, 2009. [https://www.dhs.gov/xlibrary/assets/press\\_ice\\_detention\\_reform\\_fact\\_sheet.pdf](https://www.dhs.gov/xlibrary/assets/press_ice_detention_reform_fact_sheet.pdf).

<sup>87</sup> "Background on Family Detention." National Immigrant Justice Center, January 2015. <http://www.immigrantjustice.org/sites/immigrantjustice.org/files/Background%20on%20Family%20Detention.pdf>.



York Stock Exchange (CXC) at \$16 per share in December 1994. Imprisonment rates in the 1980s and 90s soared, and by February 13, 1998, CCA shares rose to a high of \$147.37.<sup>88</sup> CCA would never see this high again, with shares even falling below \$1 in late 2000.



CXW Stock Price History, Google Finance

According to Prison Legal News writer, Dan Pens, these troubles began in July 1997 when CCA created a real estate investment trust entity (REIT) called CCA Prison Realty Trust, with ticker PZN. PZN sold 18.5 million shares at \$21/share in its initial public offering, raising \$388M, which enabled Prison Realty Trust to purchase nine prisons from CCA and then lease them back to them. During this high, CCA announced it would merge with CCA Prison Realty Trust (PZN) in a \$4B transaction, also now operating as a REIT, effective January 1999.<sup>89</sup> This set off alarms on Wall Street with one Paine Webber analyst claiming the merger would make CCA a “shell of a corporation with very little capitalization behind it.” Others claimed conflicts of interest, as CCA founder Robert Crants was both CCA’s Chairman and PZN’s CEO. A

<sup>88</sup> Google Finance.

<sup>89</sup> “CCA and Prison Realty Trust Merge.” *PR Newswire* April 20, 1998. <http://www.prnewswire.com/news-releases/corrections-corporation-of-america-and-cca-prison-realty-trust-to-merge-in-4-billion-transaction-companies-acquire-us-corrections-corporation-77482852.html>.

number of shareholders filed suit against CCA and PZN, alleging the merger was in favor of financial gain for the CCA corporate officers and not in the interests of PZN shareholders. This “merger” actually restructured the relationship so CCA was a subsidiary of PZN and a privately held company, with ownership held partly by PZN senior management.

In May 1999, PZN announced it would increase payments to CCA for marketing and capacitating the new facilities owned by PZN. Analysts claimed this would be a \$90M shift to the CCA subsidiary, at the expense of shareholders. Wall Street analyst from Davenport & Co., Robert Norfleet, claimed this indicated PZN management was having “credibility problems.” This quote sent shares plunging 35%, from \$22 to \$14.50 per share, and more shareholders filing suit. PZN made several changes attempting to appease investors, such as ousting Robert Crants from CCA management and announcing plans for a \$100M bond issue at 12% interest; however, share prices continued to slip, as shareholders feared for a lack of operating capital.<sup>90</sup>

The company hired Merrill Lynch to “help it consider strategic alternatives including a restructuring or merger.” On December 27, 1999, Prison Realty revealed a leverage buyout group proposed to bring in \$350M to the company, with investors including The Blackstone Group, Fortress Investment Group, and Bank of America. In this plan, Prison Realty would re-merge with CCA forming a single corporation without the REIT status. If stockholders approved of this deal, Credit Suisse First Boston and Lehman Brothers would supposedly give CCA a new \$1.2B credit line. Shareholders continued to file suits, claiming this proposal would dilute their holdings and control of CCA.<sup>91</sup>

On February 25, 2000, Pacific Life Insurance Co., one of PZN’s largest shareholders, presented a competing \$200M equity investment proposal, which included debt-restructuring and

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<sup>90</sup> Pens, Dan. “Prison Realty/CCA Verges on Bankruptcy.” *Prison Legal News* July 2000.  
<https://www.prisonlegalnews.org/news/2000/jul/15/prison-realtycca-verges-on-bankruptcy/>.

<sup>91</sup> Prison Legal News July 2000.

reorganization of management. In April 2000, shareholders agreed to this proposal, (instead of the Blackstone plan) where they would get 1999 dividends in preferred stock and PZN would keep the REIT status (in the Blackstone plan where they would lose the REIT status, they would have paid \$140M more in taxes). The day the plan was adopted, April 7<sup>th</sup>, 2000, PZN shares rose \$0.94 to \$3.38 a share. Dr. R. Crants resigned from PZN management, receiving \$233,750 in severance pay and \$300,000 in exchange for the shares of CCA stock he held, which was 75% of ownership interest in CCA, when counted with the other resigning PZN executive Michael Devlin. This plan also gave each executive \$100,000 to buy the remaining 25% of CCA stock after the newly proposed PZN-CCA merger.<sup>92</sup>

Wall Street analysts began predicting PZN would finally show positive earnings again in the first quarter of 2000; however, on May 15<sup>th</sup>, 2000 the company declared a net loss of \$27.8M (or \$0.25 a diluted share). Revenue fell from \$72M (1999, first quarter) to \$17.3M, due to \$71.2M in “uncollectable lease payments” from CCA, according to PZN. PZN stock fell on this day to \$2.13 per share. CCA stock was also consistently tumbling during these dealings, from \$76.70 per share on January 4<sup>th</sup>, 1999 to \$7.71 on May 15<sup>th</sup>, 2000.<sup>93</sup>

State and federal corrections authorities became concerned whether operating expenses would be covered and guards would be paid. By 2000, PZN and CCA together held more than 73,000 beds under contract or development, between their operations in the United States, Puerto Rico, Australia, and the United Kingdom. (It is important to note here that crime rates fell dramatically in the 1990s, and by the 2000s these rates began flatling. Additionally, the rising imprisonment rates of the 1980s and 90s began to slow down by 2000. See the graph below,

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<sup>92</sup> Prison Legal News July 2000.

<sup>93</sup> Prison Legal News July 2000.

which compares violence and homicide rates with imprisonment rates in America, between 1992 and 2011.

In mid-2000, less than half of 850 beds were filled in the newly built Kit Carson prison in Colorado. Federal and state governments were getting shaky feet and threatening to move prisoners from CCA beds to state-run facilities. Colorado and Wisconsin created backup plans in the case that CCA's operations would fail.<sup>94</sup> North Carolina, Georgia, Utah, and Louisiana were among the states that either eliminated private prisons altogether by 2001 or began scaling back on the future of private prisons in their state due to the financial health of the private prison industry and pressure from special interest groups against prison privatization. North Carolina converted both of their state private facilities to public and banned importing prisoners from other states and *spec* (deriving from speculative) prisons, which are facilities constructed by a private prison company before the signing (or even creation at times) of a state contract.<sup>95</sup>

## II. From Near Bankruptcy to \$30 Per Share: Post-2000 and Post-9/11 America

Pacific Life cancelled the bailout plan for Prison Realty for failure to resolve pending law suits and lack of long-term credit. The company continued to ignore pending litigation and arranged with its bank lenders to extend their credit line, allowing Prison Realty to borrow \$55M without outside help. They also managed to win a \$760M 10-year contract with the Bureau of Prisons to operate two federal facilities. After reports of CCA defaulting on its debt and the cancelling of the Pacific Life plan, stock prices fell to under a \$1.00 per share in late 2000, putting it at risk of being delisted from the New York Stock Exchange. Wall Street analyst Robert Norfleet of Davenport & Co. stated investors wanted "to see them aligned with a strong

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<sup>94</sup> Prison Legal News July 2000.

<sup>95</sup> "Sodexho Bows to Pressure, Announces Sale of CCA Stock." *Prison Legal News* January 15, 2001. <https://www.prisonlegalnews.org/news/2001/jan/15/sodexho-bows-to-pressure-announces-sale-of-cca-stock/>.

financial partner” and this restructuring without Pacific Life created doubts on the future of CCA. Other analysts expressed outrage over the company’s treatment of its shareholders. Prison Realty also owed money at this time to the Blackstone Group deal makers for failing on that agreement as well.<sup>96</sup> CCA and Prison Realty Trust remerged into CCA, and changed their ticker to CXW in October 2000.<sup>97</sup>



CXW Stock Price, Google Finance

By 2001, it appeared privatized corrections would be, at best, only a small percentage of the American prison system going forward considering the downturn of CCA and state corrections moving away from privatized facilities. However, the events of 9/11 and the arrival of the George W. Bush administration changed many things for CCA.

<sup>96</sup> “Prison Realty CCA Bailout Deal Cancelled.” *Prison Legal News* September 15, 2000. <https://www.prisonlegalnews.org/news/2000/sep/15/prison-realtycca-bailout-deal-canceled/>.

<sup>97</sup> CCA website history.



CXW Stock Price, Google Finance

In the first day of trading in 2001, CCA stock (now listed as CXW) opened at \$1.25 per share; however, in the days leading up to George W. Bush taking office, CXW reached a high of \$5 a share by January 11<sup>th</sup>. On the last day of trading before 9/11, CCA stock reached \$5 per share. In President Bush’s speech on September 11<sup>th</sup>, he stated, “The search is underway for those who are behind these evil acts. I’ve directed the *full resources* for our intelligence and law enforcement communities to find those responsible and bring them to justice.”<sup>98</sup>

9/11 and the 2002 stock market downturn appeared to take no hit on CXW, as stock prices continued to rise. Between 2000 and 2009, the number of federal prisoners grew by two-thirds, and nearly 30% of CCA’s 67,000 inmates came from federal agencies by 2009.<sup>99</sup> U.S. Bureau of Justice statistics state that total private prison populations grew by 80% from 1999 to 2010, compared to an overall prison population growth of 18%. Although federal and state governments increasingly relied on privatization in this time period, the federal prison system numbers are more dramatic, as the number of federal prisoners held in private custody rose

<sup>98</sup> Text of Bush’s Address. *CNN* September 11, 2001. <http://edition.cnn.com/2001/US/09/11/bush.speech.text/>.

<sup>99</sup> *Prison Legal News* January 15, 2009.

784%.<sup>100</sup> According to the Bureau of Justice Statistics, “private correctional facilities (up 151) accounted for nearly all of the increase (total of 9% increase) in the number of adult correctional facilities between June 30, 2000 and December 30, 2005,” most under contract to the Federal Bureau of Prisons.<sup>101</sup>

In February 2006, President Bush proposed more spending on immigration detention and ICE detainees,<sup>102</sup> and CXW reached \$20 by August. By May 2007, CXW was above \$30 per share. CXW stock performed well until the 2008 financial crisis and when it appeared a Democrat would win the 2008 presidential election. By December 31<sup>st</sup>, 2008, CXW reached a low of \$15.38 per share; however, less than a year later it reached \$20 per share again in August 2009.

### III. Steady Times for CXW: Post-2008

President Obama’s flip-flop spending on immigration detention, decriminalization policies, and efforts to curb mandatory sentencing have taken small hits on CXW stock prices, at best kept them steady instead of rising in some months. Even the financial crisis aftermath and 2010 announcement of the first drop in the American prison population since 1972 made little difference to CXW prices in the long-run. In May 2010 Motley Fool Stock Advisors were listing the stock as one of their “Three Long-Term Winners.”<sup>103</sup>

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<sup>100</sup>Guerino, P., P.M. Harrison, and P.M. Sabol. “Prisoners in 2010.” Bureau of Justice Statistics. 2011. <http://bjs.ojp.usdoj.gov/content/pub/pdf/p10.pdf>.

<sup>101</sup> Bureau of Justice Statistics. “Census of State and Federal Correctional Facilities, 2005.” U.S. Department of Justice. October 2008.

<sup>102</sup> “An Inside Look: President Bush’s 2007 Budget .” *NPR* February 6, 2006. <http://www.npr.org/templates/story/story.php?storyId=5192631>.

<sup>103</sup> Greifner, Rich. “Day Traders: Dumber Than Ever.” *The Motley Fool* May 11, 2010. <http://www.fool.com/investing/general/2010/05/11/day-traders-dumber-than-ever.aspx>.



CXW Stock Price, Google Finance

CCA stated in their 2012 annual report they used cash flow to repurchase a total of \$508M of their common stock between 2010 and 2012, in order to improve leverage ratios. By April 2012, CXW stock price reached \$30 per share again, and CCA announced it would terminate its stock repurchase program and begin issuing cash dividends for the first time to investors in the second quarter of 2012.<sup>104</sup>

On January 1<sup>st</sup>, 2013, CCA restructured into a REIT again after enactment of the federal REIT Modernization Act, stating the “real estate” companies no longer need a completely separate company to manage their non-real estate operations. While REITs must distribute at least 90% of their income in the form of dividends, these dividends can also be paid in stock.<sup>105</sup> CCA told investors they believed this conversion could “lower cost of capital, draw a larger base of potential stockholders, provide flexibility to pursue growth opportunities, and create a more

<sup>104</sup> CCA Form 10-K. Securities and Exchange Commission. February 27, 2013.

<sup>105</sup> Stroud, Matt. “Why Would A Prison Corporation Restructure As A Real Estate Company.” *Forbes* January 31, 2013. <http://www.forbes.com/sites/mattstroud/2013/01/31/why-would-a-prison-corporation-restructure-as-a-real-estate-company/#1231cf952cca>.



efficient operating structure.”<sup>106</sup> Since 2013, CXW stock price has ranged from mid-\$20s to low \$40s per share (\$40.90 on April 10<sup>th</sup>, 2013 and \$40.32 on February 17<sup>th</sup>, 2015).



CXW Stock Price, Google Finance

Although CXW has not reached its heydays of the late 1990s, at time of writing (spring 2016) CXW stock prices were steadily closing each day between the mid \$20s and low \$30s per share, and Wall Street analysts were rating CXW as a recommended buy and hold stock.<sup>107</sup> According to the CCA 2015 annual report, they currently own or control 66 correctional and detention facilities and manage 11 facilities owned by states or the federal government, “with a total design capacity of approximately 88,500 beds in 20 states and the District of Columbia.” They also listed construction of three new facilities in California and Tennessee and a new 1,000-bed contract with Arizona, with revenue reaching \$1.79B in 2015. The report stated CCA is “the nation’s largest owner of privatized correctional and detention facilities and one of the largest prison operators in the United States.”<sup>108</sup>

<sup>106</sup> CCA Form 10-K. Securities and Exchange Commission. February 27, 2013.

<sup>107</sup> Zack’s Stock Ratings, <http://www.zacks.com/stock/quote/CXW>.

<sup>108</sup> CCA Form 10-K. Securities and Exchange Commission, February 10, 2016.



CXW Stock Price, Google Finance

*CCA and Private Prison Irresponsibility and Accountability Measures*

This research also briefly addressed issues concerning human rights in private prison facilities and government and social intervention. In 2001, the Department of Justice found that 49% more staff assaults and 65% more prisoner assaults were identified in private than public facilities.<sup>109</sup> The last 15-20 years the private prison industry has been under scrutiny by governments and organizations worldwide, with Israel even ruling them unconstitutional in

<sup>109</sup> “Emerging Issues on Privatized Prisons.” U.S. Department of Justice, Bureau of Justice Assistance.

2009,<sup>110</sup> calling into question the sustainability of the current American private prison paradigm with its allegations of human rights abuses and bad business practices. Overcharging, guard brutality, inmate on inmate violence, inferior medical care, inadequate training, understaffing, and “chronic security lapses” are some of the most published scandals involving facilities under the watch of private prisons.<sup>111</sup>

In 2003, the Corporate Research Project of Good Jobs First reported on the past 20 year history of CCA with a review of court records, government reports, and media, stating that CCA has been “buffeted by numerous lawsuits and scandals” alleging the following:

- failure to provide adequate medical care to prisoners;
- failure to control violence in its prisons;
- substandard conditions that have resulted in prisoner protests and uprisings;
- criminal activity on the part of some CCA employees, including the sale of illegal drugs to prisoners; and
- escapes, which in the case of at least two facilities include inadvertent releases of prisoners who were supposed to remain in custody.<sup>112</sup>

This study uncovered very similar media reports to those mentioned above. The reports identified for this research were filed under the following categories:

- Labor conditions (includes alleged sexual harassment and sexual assault)

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<sup>110</sup> Feeley, Malcolm M. “The Unconvincing Case Against Private Prisons.” *Indiana Law Journal* Vol. 89. Issue 4. Article 3. Fall 2014. accessed May 3, 2015. <http://www.repository.law.indiana.edu/ilj/vol89/iss4/3/>. It should be noted that Israel did hold contracts with private security firm G4S for security equipment in their prisons; however, in 2016, G4S announced they would revoke the contract after prison divestment movements and human rights activists protested the entities involvement with Palestinian prisons in Israel: <http://www.morningstaronline.co.uk/a-638f-G4S-exits-toxic-Israeli-contracts#.Vv1a-B1rJE5>.

<sup>111</sup> Deutsch, Michael E. and Jan Susler. “Prisoners’ Rights: A Review of 35 Years of Fighting For Justice.” *Prison Legal News* January 15, 2009. accessed March 24, 2016. <https://www.prisonlegalnews.org/news/2009/jan/15/prisoners-rights-a-review-of-35-years-of-fighting-for-justice/>.

<sup>112</sup> Mattera, Philip, Mafruz Khan, and Stephen Nathan. “Corrections Corporation of America: A Critical Look at its First Twenty Years.” *Corporate Research Project of Good Jobs First*. May 2003. <http://www.prisonpolicy.org/scans/grassrootsleadership/cca.pdf>.

- Inmate conditions (includes alleged violence, insufficient medical care, substandard conditions, accessibility to drugs in facility)
- Morality questions
- Corruption
- Security (includes escapes and kidnapping committed by inmates)

How did these reports arise to the public, and how did these prisoner advocacy groups attempting to hold CCA accountable form? Margaret E. Keck and Kathryn Sikkink's "boomerang" effect<sup>113</sup> provides possible answers. Advocacy networks emerge where channels are "blocked or hampered" between the inmates and the government, "setting into motion a boomerang pattern of influence." The government is the "primary guarantor of human rights" and can choose to take action after the reporting of abuse in CCA facilities, but the government could also be a primary violator if giving contracts to a company that violates the inmates' civil rights. It is the responsibility of the media and non-governmental organizations to not only report on the violations to the public and the government, but also to hold the government accountable for awarding contracts to irresponsible companies. The boomerang effect demonstrates that the prisoners might not report the violations to the prison, due to mismanagement and corruption, but will in fact often report these to an advocacy group or media outlet outside of the prison that will then report this to civil society and the government. This has been affective in certain ways. For instance, private prisons often must report deaths and human rights violation reports to a state or federal corrections agency when applying for a contract.<sup>114</sup> It is assumed they will be obliged to report on those that are already part of the public sphere; therefore demonstrating the importance

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<sup>113</sup> Keck, Margaret E. and Kathryn Sikkink. *Activists Beyond Borders*. Cornell University Press 1998. 12-13.

<sup>114</sup> See [http://privateci.org/private\\_pics/cca\\_disturb2008.pdf](http://privateci.org/private_pics/cca_disturb2008.pdf) and Appendix.

of advocacy groups and media outlets in investigating and reporting on these matters. NGOs and media outlets provide leverage to the less powerful actors, prison inmates.

Keck and Sikkink's theory of accountability politics, or "the effort to hold powerful actors to their previously stated policies or principles," also provides a powerful tool to advocacy networks and the media. Private actors like CCA, "can be held accountable to their pronouncements, to the law, or to contracts."<sup>115</sup> As mentioned in the introduction of this thesis, CCA makes many claims of good business practices on their website, utilizing the very orchestrated language and methods of Corporate Social Responsibility (CSR). This accountability for these claims can be conducted by civil society or the government. As Mary Kaldor writes in *Global Civil Society*, the fall of the Berlin Wall in 1989 changed the meaning of the term civil society, no longer confining it the borders of the territorial state.<sup>116</sup> Although the United States utilizes private services and management for corrections more than any other state in the West, CCA has held facilities abroad and has been held accountable for actions taken in the States, even by investors and NGOs abroad.

Notable is the very effective tool, divestment, where unsatisfied investors of private prison companies, even abroad, encourage private prison entities with human rights abuses such as GEO Group and CCA to comply in order to stay in the game. Netherlands-based chemical company DSM divested from its 73,000 pension fund shares with CCA and GEO Group in 2014, stating the following:

With respect to the protection of internationally proclaimed human rights, the pension fund has divested from the for-profit prison industry. Investment in private prisons and support for the industry is financially unsound, and

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<sup>115</sup> Keck, Margaret E. and Kathryn Sikkink. 1998. 16, 24.

<sup>116</sup> Kaldor, Mary. *Global Civil Society: An Answer to War*. Cambridge: Polity 2003. 1.

divestment was the right thing to do for our clients, shareholders, and the country as a whole.<sup>117</sup>

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Andrei Shleifer argued in 1998 that “many of the concerns that private firms fail to address social goals can be addressed through government contracting and regulation without resort to government ownership.” Shleifer optimistically states that the case for privatization only becomes stronger “when competition between suppliers, reputational mechanisms, and the possibility of provision by private not-for-profit firms, as well as political patronage and corruption, are brought into play.”<sup>118</sup> Thus, Shleifer would argue perhaps that if investors, civil society, and government hold private entities responsible for human rights standards through competition and reputational mechanisms, this will motivate in securing the United States with a more humane corrections system.

Aside from rule of law, what mechanisms are utilized by the government to hold private prisons accountable for human rights violations and corruption? In Book V of *The Wealth of Nations*, Smith demonstrates how the state may serve the invisible hand in order to improve society. Government contracting agencies hold contractors accountable through Request for Proposal process mechanisms, oversight and monitoring (conducted by contracted private firm or the contracting government agency), and the granting or not granting or renewing of contracts. This research uncovered many incidents where CCA lost federal and state contracts due to irresponsible practices. For example, CCA lost four contracts in 2014 in Idaho, Mississippi, and

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<sup>117</sup> Quandt, Katie Rose. “Corporations Divest Nearly \$60 Million From Private Prison Industry.” *Mother Jones* April 28, 2014. accessed May 2, 2015. <http://www.motherjones.com/mojo/2014/04/investment-corporations-divest-60-million-private-prison-cca-geo-group>.

<sup>118</sup> Shleifer, Andrei. “State Versus Private Ownership.” The National Bureau of Economic Research, NBER Working Paper No. 6665. July 1998. accessed February 25, 2015. <http://www.nber.org/papers/w6665>.

Texas due to falsified employee records, and violence and unsuitable conditions in facilities run by CCA. The Idaho Department of Corrections conducted a study in 2008 finding four times more prisoner-on-prisoner assaults at the Idaho Correctional Center (managed by CCA) than at all of the other seven Idaho prisons combined.<sup>119</sup> In 2010, the ACLU sued the Idaho Correctional Center on behalf of inmates, stating the facility was considered a "Gladiator School" due to understaffing contributing to high levels of violence in the prison, and the FBI launched a criminal investigation into the matter in 2014.<sup>120</sup>

This research found accountability dramatically lacking where associated with alleged CCA "spec" prison building,<sup>121</sup> corruption, avoiding taxes by operating as a REIT, and lobbying methods (through the American Legislative Exchange Council ALEC) to change sentencing, laws, and regulations, as it appears government and civil society have not managed to find affective accountability methods concerning these matters. This brings us back to the original thesis of this research, can the markets assist in regulating society, or is a self-regulating economy impossible? The next two sections will demonstrate the theories of three main writers concerning this topic and whether or not investors can play a role in regulation.

### *Self-Sustaining Markets, Consequences of Neoliberalism, & The Disembedded Economy*

The writings of Karl Polanyi can assist in explaining how privatization and private correction companies flourished during neoliberalism and are able to survive despite reports of

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<sup>119</sup> Takei, Carl. "Corrections Corporation of America Loses Four Prison Contracts This Month." *ACLU* June 20, 2013. accessed June 10, 2016. <https://www.aclu.org/blog/corrections-corporation-america-loses-four-prison-contracts-month>.

<sup>120</sup> Boone, Rebecca. "FBI Takes Over Idaho Investigation Into Private Prison Company." *Associated Press* March 7, 2014. accessed June 10, 2016. <http://www.usnews.com/news/business/articles/2014/03/07/apnewsbreak-fbi-investigates-prison-company>.

<sup>121</sup> "Spec" prison building entails a private firm finding usually a rural community in need of employment and building a facility prior to receiving a contract for the prison. These contracts can contain occupancy requirements mandating the government agency keep the beds 80-100% full.

irresponsibility, and Adam Smith and Milton Friedman's theories of free markets will assist in explaining why this research is testing whether investors can assist in re-embedding the economy. Neoliberalism generally means "broad support for a capitalistic, free-market economy, and for a reduction in the regulatory power of the state."<sup>122</sup> It usually promotes free competition and privatization and the elimination of controlling the market with taxes and restrictions on investment and the flow of capital. This ideology calls on a reduction in spending on government spending and social services and a shift in emphasizing interdependence to individual responsibility (e.g. investor responsibility to regulate CCA's behavior). This theory assumes that a balance will arise because of supply and demand leading to a stable equilibrium on its own, without the assistance of the government. Neoliberals would state this stability invokes the "invisible hand" of the market.<sup>123</sup>

In 1944, Karl Polanyi linked the development of the modern state (industrialized state) with the creation of modern market economies in his book *The Great Transformation*. He wrote about the dialectical tension between marketization and the push for social protections fighting against marketization, calling this the *double movement*. According to his theories, initially laissez-faire reformers attempt to disembed the economy establishing a "market society," (or self-regulating market) where all things are can become a commodity. Marketization can also include a restructuring of the legal environment in which the market actor exists, such as CCA lobbying for different justice reforms that benefit their business. Polanyi argued a reactionary "countermovement" (government regulations) rises up with hopes to re-embed the economy with social protections, through protective regulation on land, labor, and capital. Polanyi would most likely state CCA is able to act irresponsibly due to the disembedded economy and the

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<sup>122</sup> Aviram, Hadar. "Are Private Prisons to Blame for Mass Incarceration, and Its Evils? Prison Conditions, Neoliberalism, and Public Choice." *Fordham Urban Law Journal*. 39. 2015. 15.

<sup>123</sup> Aviram, Hadar. 2015. 15.



consequences of the impossible neoliberal utopian notion of free markets. The liberal reformers find the market to be self-regulating without the needs for society's intervention; however, Polanyi wrote this was not possible, as economies are always embedded in societies.<sup>124</sup>

As mentioned earlier, Adam Smith built the basis for what would later become arguments for free markets. In several of his writings, he speaks of the “invisible hand”<sup>125</sup> where society benefits from the works of individual actions of self-interest more than the actions of those interested in helping society. Polanyi often mentions Adam Smith in *The Great Transformation*, stating that “Smith suggested the division of labor in society was dependent upon the existence of markets; or as he puts it ‘upon man’s propensity to barter, truck and exchange one thing for another.’”<sup>126</sup> Polanyi states that Smith built the concept of the Economic Man, and “that no misreading of the past ever proved more prophetic of the future.”<sup>127</sup> With the birth of industrialism comes theorist after theorist equating the principle of the division of labor with barter and exchange. He lists Herbert Spencer, Ludwig von Mises, and Walter Lippman as a few of these economists.<sup>128</sup> Smith believed man to have a propensity to barter and depend on the markets and at the same time to be moral, and those managing the market to be of moral character, therefore giving the impression the powers of the market will make decisions that will better mankind. This gives way for arguments concerning whether or not these markets can exist without government regulation.

Following in the footsteps of Smith is Milton Friedman who believed government's job was to “foster competitive markets.”<sup>129</sup> In 1962, he wrote in his seminal work, *Capitalism and*

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<sup>124</sup> Polanyi. 1944.

<sup>125</sup> Referenced in three of Smith's works: *The History of Astronomy* (time of writing unknown), *The Theory of Moral Sentiments* (1759), and *The Wealth of Nations* (1776).

<sup>126</sup> Polanyi. 1944. 45.

<sup>127</sup> Polanyi. 1944. 45.

<sup>128</sup> Polanyi. 1944. 46.

<sup>129</sup> Friedman, Milton. 1962. 10.

*Freedom*, that “government can never duplicate the variety and diversity of an individual action.”<sup>130</sup> Therefore, Friedman might state private prison investor actions can replace government intervention. A large supporter of free markets, he would often note in his writings and talks that he did not know of a society that experienced a large amount of freedom and did not utilize something comparable to a free market to organize their economic activity. He believed arguments against free markets were due to “a lack of believe in freedom itself.”<sup>131</sup> He was not advocating for the elimination of government, but rather government choosing to invest intelligently instead of overinvesting and subsidization.<sup>132</sup> It should be noted that Friedman though was also an advocate for government enforcing private contracts.<sup>133</sup> Most importantly though, this research emphasizes Friedman’s beliefs concerning the degree of social responsibility of business:

The view has been gaining widespread acceptance that corporate officials and labor leaders have a "social responsibility" that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.<sup>134</sup>

This research calls into question whether free market mechanisms encourage investors to assist in holding companies socially responsible or whether Polanyi’s double movement must exist where government steps in to regulate, and/or re-embed the economy with social protections. Do investors assist civil society and government on re-embedding and holding CCA accountable, or do they assist CCA in deregulating by providing capital for CCA operations and

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<sup>130</sup> Friedman, Milton. 1962. 12.

<sup>131</sup> Freidman, Milton. 1962. 21.

<sup>132</sup> Friedman, Milton. 1962. 88.

<sup>133</sup> Friedman, Milton. 1962. 10

<sup>134</sup> Friedman, Milton. 1962. 112.

not responding to reports of CCA irresponsibility. In the introduction of this study, I mentioned that many stockholders brought litigation against CCA at the turn of the century when they felt they were not treated well as a shareholder, a blatant example of the stockholder re-embedding social protections after CCA practices that encourage deregulation (investors trying to organize the market with regulations as opposed to a self-regulating market). Can they also be Smith and Friedman's innovative individual actors that assist in sustaining free markets?

*Could Investors Assist in Holding CCA Accountable for Irresponsibility?*

After discovering the lack of scholarship examining the behavior of investors of the private prison industry, this study attempts to shed light on whether these investors respond to reports of social irresponsibility of CCA. This research found it important to consider different factors that play into investor decisions and stock prices, for example, investor concerns over the lack of future growth and/or superficial growth. Also, investors can buy or sell when they think a company's bad behavior is hurting profits, and/or when they morally believe a company is misbehaving. Perhaps they even see morals and profits as being related.

As stated earlier, investors can be an effective tool for holding CCA accountable, e.g. divestment campaigns. Investor intentions aside, risks to revenue and reputation arising from human rights violations and ensuing lawsuits "pose a significant risk to investors." Several private prison operators "appear to have placed short-term gain ahead of longer-term sustainability by staffing fewer employees, offering lower pay and providing fewer hours of training," according to Zachary Paris's 2012 article in *Sustainalytics Reporter*.<sup>135</sup> If investors

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<sup>135</sup> Paris, Zachary. "Private Prison: A Responsible Investment Approach." *Sustainalytics Reporter* Issue #8. April 2012. accessed May 4, 2015. <http://www.sustainalytics.com/private-prison>.

witness a pattern of CCA losing government contracts after reports of irresponsibility, then they will possibly base their decisions on these patterns.

According to the already recognized 2001 BOJ study, large fluctuations in stock prices can be equated to “dissolution” involving “concern over the lack of future growth” and times when few announcements are made concerning major new contracts. This study found that most of the “added capacity” mentioned by private companies like CCA “occurred when larger firms merged with smaller firms.” For example, CCA purchased U.S. Corrections Corporation and facilities and contracts managed by the Bobby Ross Group prior to this study. “These transactions suggest a consolidation of private-sector firms and, more significantly, little growth in overall bed capacity as the public sector becomes more wary about the benefits of privatization.”<sup>136</sup> As mentioned in the *History of CCA* section, CCA has a history of investors filing suit due to superficial growth or non-transparent practices between board members and the company.

Although this research did not particularly consider investor intentions, it is impossible to ignore here Adam Smith’s argument concerning self-interest. As mentioned earlier, Smith believed that good works from individual actions of self-interest were more effective than the actions of those interested in helping society:

...he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he

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<sup>136</sup> “Emerging Issues on Privatized Prisons.” U.S. Department of Justice, Bureau of Justice Assistance, February 2001. assessed April 23, 2015. <https://www.ncjrs.gov/pdffiles1/bja/181249.pdf>.

frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.<sup>137</sup>

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Smith would possibly state that investor actions concerned with losing money who sell shares after the reporting of social irresponsibility are possibly more effective than those divesting over moral concerns. Perhaps Smith would state investor actions of buying and selling shares are more effective than the work of NGOs and government.

What would Polanyi suspect investor behavior to be? In *The Great Transformation*, Polanyi names investors as the “haute finance” that assisted Europe in maintaining 100 years of peace, but also states “business and finance were responsible for many colonial wars.”<sup>138</sup> With respect to the double movement, he would state government actors desire regulation and the capitalists or free market actors push for deregulation. Polanyi considers investors part of the ones preserving the liberal, free market institutions, or the capitalists. Polanyi would state the investors are motivated by actions that assist in deregulating the market and disembedding the economy. Therefore, he would predict that the private prison investors will act in a way that encourages a free market without regulations, in order to maintain profits. The European investors of the 1800s were perhaps not motivated in keeping peace for moral reasons, but rather with the goal of maintaining power and profits. The private prison investors will react to reports of CCA irresponsibility if this affects profit or the free flow of the market. Polanyi suggests that investors are commoditizing land, labor, and capital in order to maintain the free markets and will respond only when the market and/or profit is threatened.

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<sup>137</sup> Smith, Adam. 1776. 572.

<sup>138</sup> Polanyi. 1944. 16.

One might question whether CCA investors are part of the real market, as the company thrives partially off of government contracts and taxpayer money. Former CEO of Sotero Defense Solutions, John Hillen, explored whether the “GovCon market” is part of the “real market” in a speech he gave at George Mason University in 2014. He argued that like the real market, the GovCon market today has a diverse assortment of buyers and sellers and “multiple planes and dimensions of competition and choice.” Some of this was driven by recent wars, he states, but nonetheless, the GovCon market is constantly growing and offering value with more and more transparency each year. Since 9/11, the number of GovCon companies that go public is quickly increasing, according to Hillen.<sup>139</sup> Aside from Hillen’s argument, CCA has been publically traded and funded partially by investors since 1986 and is currently a publically traded real estate company, owning or controlling 74 properties.<sup>140</sup> Aside from being a major player in the ever-growing GovCon market, is it not already a large player in the real estate and stock market?

After this review of how investors are able to make a difference in the degree of socially embeddedness of the economy, would not this imply private prison investors would react to reports of CCA irresponsibility, perhaps in order to maintain profits?

This research will consider the following hypothesis:

H1: This thesis predicts that as the number of reports of CCA irresponsibility in a particular month in the 2000-2010 interval increases, CXW stock prices in the same month decrease.

Therefore, this research predicts that the dependent variable, *CXW Stock Price Per Share Monthly* (DV broken down into three DVs: high, low, and average), has a significant and

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<sup>139</sup> Hillen, John. “Is the GovCon market a ‘real market?’”. *Washington Technology*. June 4, 2014. <https://washingtontechnology.com/Articles/2014/06/04/Insights-Hillen-mature-market-part-3.aspx>.

<sup>140</sup> CCA Website Investor Information Section. <http://www.cca.com/investors/investor-information>.

negative relationship with independent variables *Media Report CCA Count Monthly* (IVs made from the following report categories of irresponsibility: labor, inmate, corruption, morality, and security). This research predicts that each independent variable can be used to predict the same month's *CXW Stock Price Per Share Monthly*. Comparison is made in the same month, as buyers and sellers of stock will take action immediately upon reading or hearing of the report that will affect the value of the CCA shares. I experimented using a lag month (see below); however, results were very similar nonetheless, and it is much less likely the media reports would affect investor decisions a month or more later.

### Correlations

		CXW Stock Average Per Share Monthly	Media Report CCA Total Count Monthly	Lag Media Report Total Count Monthly
CXW Stock Average Per Share Monthly	Pearson Correlation	1	.460**	.471**
	Sig. (2-tailed)		.000	.000
	N	132	132	132
Media Report CCA Total Count Monthly	Pearson Correlation	.460**	1	.454**
	Sig. (2-tailed)	.000		.000
	N	132	132	132
Lag Media Report Total Count Monthly	Pearson Correlation	.471**	.454**	1
	Sig. (2-tailed)	.000	.000	
	N	132	132	132

\*\* . Correlation is significant at the 0.01 level (2-tailed).

This research predicts that reports of CCA irresponsibility are correlated with changes in the price of CXW stock shares, and investors view CCA irresponsibility as ‘bad for business’ and will sell or choose to not invest after the reportings. As Polanyi suggests, are investors commoditizing land, labor, and capital, or are they utilizing their self-interests by responding to these reports and assisting in re-embedding the economy with social protections, making the need for state protection unnecessary?

## **Methodology**

As stated earlier, this research concerns media reports regarding alleged CCA irresponsibility in comparison to the stock price of CCA the month of reporting and after. This chapter will discuss the research methods used in the study, research design, data collection, instruments used, validation and reliability of the data, and initial analysis of the raw data. Final analysis of the organized and tested data will be conducted in Chapter Six.

### *Data Collection and Methods*

This quantitative study involved statistical analysis and open source research using only credible and reliable publicly available data provided by Google Finance, and media hits from Google News, ACLU, and *Prison Legal News* search engines. Initial searches identified a variety and diverse group of reports when utilizing these three sources. Specifically, CCA stock (CXW) price monthly highs and lows were taken from Google Finance; an average of these highs and lows were calculated to find an average monthly stock price; and media reports of CCA irresponsibility were identified through an advanced Google News search, ACLU report search, and a Prison Legal News search. This research considers data from 2000 to 2010, due to the dramatic changes in CXW stock prices and the significant increase in the federal prison population under the watch of private facilities in this time period. This research questioned whether reports of CCA irresponsibility were related to these dramatic changes in price. Future research would ideally include older and newer data as well, in order to view the entire spectrum of CCA's over-30 year history.



Initial searches identified several major categories arising from reported CCA irresponsibility. Through methods of grounded theory<sup>141</sup>, where inductive coding constructed the structure of the analysis, the following categories emerged: labor, inmate, corruption, morality, and security. This initial process involved Google and Google News searches with keywords such as “CCA” and/or “CCA” AND “abuse” for several weeks using different browsers and different IP addresses, logged in and out of Google accounts, in an effort to explore all possible Google hits and all major categories of abuse.

#### *DV and IVs – Definitions and Measure*

This research employed the U.S. Bureau of Justice Statistics definition for *private prisons*: “prison facilities run by private prison corporations whose services and beds are contracted out by state governments or the Federal Bureau of Prisons.”<sup>142</sup> These contractual agreements typically involve governments committing prisoners and then paying a per diem or monthly rate for each inmate in that particular facility.

*Privatization* in this research is considered as the transfer of ownership of business, services, or property from the public sector to the private sector, or the government contracting out, or outsourcing services to a private entity.

The *privatization of prisons* is defined as “the takeover of existing public facilities by private prison operators and the building and operation of new facilities created by prison-for-profit companies,” as defined by Amy Cheung of Washington, D.C. based The Sentencing

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<sup>141</sup> Glaser, Barney G., and Anselm L. Strauss. *Awareness of Dying*. Aldine Transaction, 2005.

<sup>142</sup> Definitions. Bureau of Justice Statistics, assessed May 5, 2015. <http://www.bjs.gov/index.cfm?ty=tda>.

Project.<sup>143</sup> I considered the operations of the largest of these prison-for-profit companies, Corrections Corporation of America (CCA). CCA headed the first takeover of an entire facility in the United States in 1984, and by December 2000, 153 private correctional facilities (prisons, jails, and detention centers) were operating with capacities over 119,000.<sup>144</sup> As noted earlier, U.S. Bureau of Justice Statistics state that total private prison populations grew by 80% from 1999 to 2010, compared to an overall prison population growth of 18%.<sup>145</sup> Although federal and state governments increasingly relied on privatization in this time period, the federal prison system numbers are more dramatic, as the number of federal prisoners held in private custody rose 784%, according to the Sentencing Project.<sup>146</sup>

For usage of the dependent variable *CXW Stock Price Per Share Monthly*, this study considered the Nasdaq Stock Market Terms Glossary, as the New York Stock Exchange does not appear to have an online glossary. Stock is defined as the “ownership of a corporation indicated by shares, which represent a piece of the corporation’s assets and earnings.”<sup>147</sup> The stock price high in a month is assumed to be the highest amount an investor was willing to pay for a share that month, and the stock price low is perceived as the lowest amount an investor was willing to pay for a share that month. Variables also included an average of the two, in order to test all possible variations of the price in a month. These stock prices are measured in the same fashion as stock prices on the NYSE, U.S. dollars.

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<sup>143</sup> Cheung, Amy. “Prison Privatization and the Use of Incarceration.” The Sentencing Project, last modified September 2004. accessed April 10, 2015.

[http://www.sentencingproject.org/doc/publications/inc\\_prisonprivatization.pdf](http://www.sentencingproject.org/doc/publications/inc_prisonprivatization.pdf).

<sup>144</sup> Cheung.

<sup>145</sup> Guerino, P., P.M. Harrison, and P.M. Sabol. “Prisoners in 2010.” Bureau of Justice Statistics. 2011.

<http://bjs.ojp.usdoj.gov/content/pub/pdf/p10.pdf>.

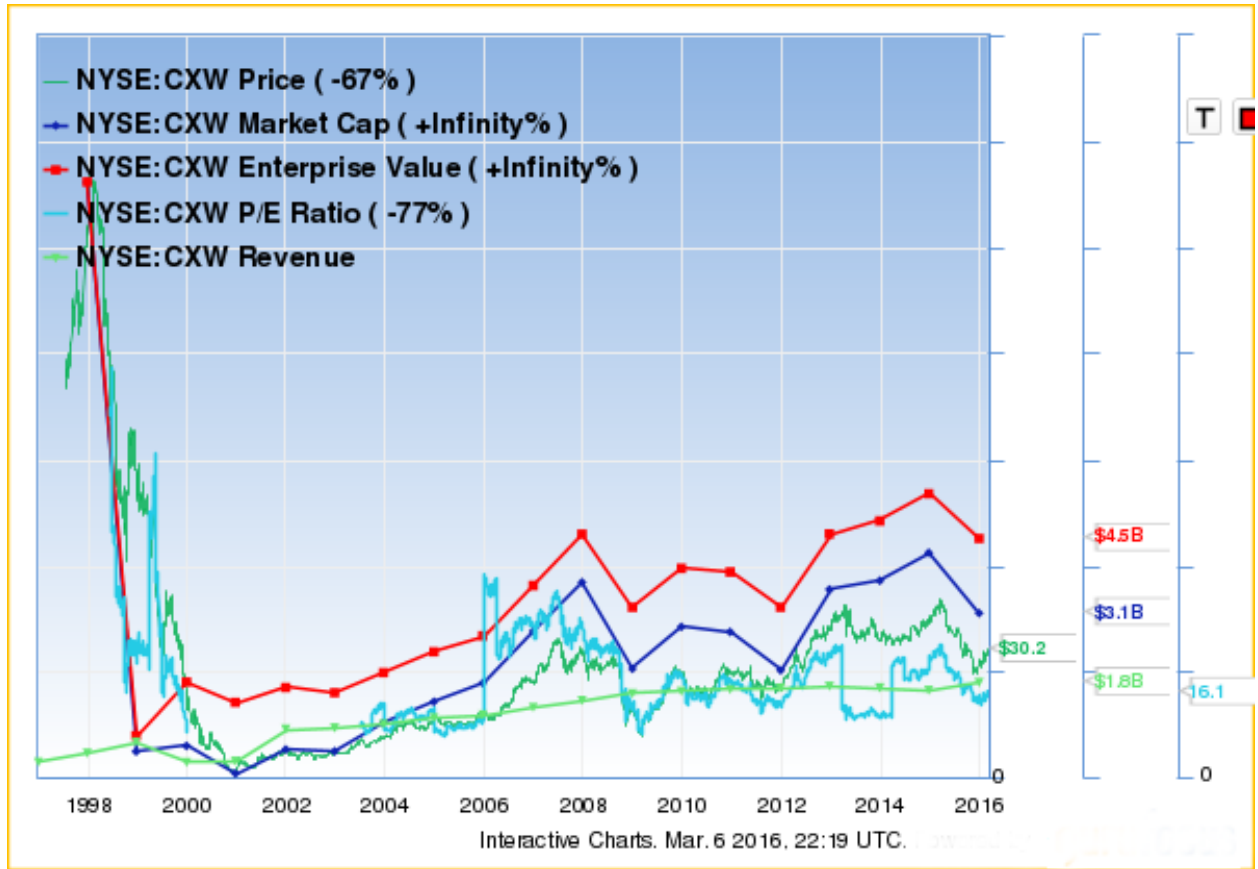
<sup>146</sup> Mason, Cody. “Too Good To Be True.” The Sentencing Project, January 2012.

[http://sentencingproject.org/doc/publications/inc\\_Too\\_Good\\_to\\_be\\_True.pdf](http://sentencingproject.org/doc/publications/inc_Too_Good_to_be_True.pdf).

<sup>147</sup> Nasdaq Glossary of Stock Market Terms. <http://www.nasdaq.com/investing/glossary/>.

The independent variable *Media Report CCA Count Monthly* is defined as the number of reports identified involving CCA irresponsibility in a given month. This variable was created with the following categories of irresponsibility: labor, inmate, corruption, morality, and security. I counted by report and not event and attempted to consistently exclude repetitive events; however, there were cases where one media finding, for instance, might mention a past event but with a new alleged notion of irresponsibility not included in the previously counted article of the same event. I decided it most appropriate to count by report and not event, as the variable to most likely affect the investor would be a *report* of CCA irresponsibility, not the particular events. It was noted that prison events are most likely not always reported in the media, as many of them are high security facilities and some with limited amounts of public access. Therefore, it is assumed that if an event in CCA facility goes unreported, it would likely not affect investor behavior. In order to legitimate this research, the design of the study was influenced by a review of prior academic research on the effects of media-provided information on investor behavior.

In order to completely evaluate stock prices, I chose to utilize control variables and took into account *CXW Price to Earnings Ratio* and the *Trade Weighted Dollar U.S. Index Broad Monthly Average* at the time of each particular stock price measure, as stock price is only a part of the evaluation of the health of a company and other national and global elements influence whether or not shares will be bought or sold. As you can see below, stock price is often erratic; however, indicators such as market capitalization, enterprise value, price to earnings ratio, and revenue are more concrete examples of an evaluation of the health of a company and influence whether a stock would be purchased.



Courtesy of Gurufocus

Most identified academic research used complex formulas or different measurements regarding stock dividends (such as dividend to price ratio) to predict stock prices and returns<sup>148</sup>; however, CXW did not begin issuing dividends to their investors until May 2012. This research only considered data for 2000 to 2010. It should also be noted the many studies identified demonstrating the presence of irrational or uninformed investors in the stock market, making decisions based on their own sentiments and expectations and not rational computation.<sup>149</sup>

*Price to Earnings Ratio* is defined by the Nasdaq Glossary as displaying “the multiple earnings at a which a stock sells.” It is “a widely used stock evaluation measure” that is

<sup>148</sup> Hodrick, Robert J. “Dividend Yields and Expected Stock Returns.” *The Review of Financial Studies* Volume 5. Issue 3. 357-386. 1992.

<sup>149</sup> Schleifer, Andrei and Lawrence H. Summers. “The Noise Trader Approach to Finance.” *Journal of Economic Perspectives* Volume 4. Number 2. 19-33. Spring 1990.

”determined by dividing current stock price by current earnings per share (adjusted for stock splits).” Earnings per share for the price to earnings ratio are computed by “dividing earnings for the past 12 months by the number of common shares outstanding.” Higher multiple demonstrates that investors have bid up the stock’s price due to higher expectations.<sup>150</sup> It is measured as a ratio in TTM figures, or Trailing Twelve Months figures, meaning a representation of its financial performance for the past 12 months.

The *Trade Weighted Dollar U.S. Index Broad Monthly Average* is defined by the Federal Reserve as “a weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners.” It is measured in units of 100 U.S. dollars and is an average that is aggregated monthly.<sup>151</sup>

#### *Methods and Descriptions of Raw Data*

The data for dependent variable *CXW Stock Price Per Share Monthly* was collected through Google Finance, *CXW Price to Earnings Ratio* from Guru Focus, and the *Trade Weighted Dollar U.S. Index Broad Monthly Average* data from The Federal Reserve Bank of St. Louis. All sources allowed downloading of data into Excel spreadsheets. The average monthly stock price variable was calculated by averaging the high and the low variables. The price to earnings ratios were converted from quarterly to monthly by assigning each month in that quarter the data point listed for the specific quarter. Quarterly P/E ratios were reported in the months of March, June, September, and December. Note that CXW showed 0 for all quarterly P/E ratios in 2000-2002. In June 2003, the CXW P/E ratio listed above zero for the first time in the decade at 9.69.

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<sup>150</sup> Nasdaq Glossary of Stock Market Terms. <http://www.nasdaq.com/investing/glossary/>.

<sup>151</sup> Definition taken from downloaded U.S. Federal Reserve spreadsheet.

When collecting data for the independent variable *Media Report CCA Count Monthly*, Google News settings were adjusted to include all hits and not just the hits Google found appropriate for the personal browser history. This search was conducted with the phrase “Corrections Corporation of America” and was filtered by date, January 1<sup>st</sup>, 2000 to December 31<sup>st</sup>, 2010. Each hit was analyzed for an alleged act of CCA irresponsibility. When a report was found, each was counted and filed under one of the five categories: labor, inmate, corruption, morality, or security. The Google News search identified 125 total reports of CCA irresponsibility.

ACLU and *Prison Legal News* searches were included in this study, as both were found to highly influence the largest media outlet reports. Additionally, Google News did not identify many hits with “Corrections Corporation of America,” despite a Google search with the same phrase yielding many hits that included several media outlets quoting or using *Prison Legal News* and ACLU reports. Lastly, it is important to note the notoriety of *Prison Legal News* in the prison investing world, as Forbes called it “the most comprehensive publication worldwide devoted to prison trends.”<sup>152</sup> In the month that *Prison Legal News* managing editor Alex Friedmann gave a speech on CCA irresponsibility at a CXW shareholder meeting (May 2008), this study counted the third highest number of media reports for this research, demonstrating the influence Friedmann and *Prison Legal News* have on media reporting.

When searches were conducted of ACLU and *Prison Legal News* website search engines with the same search phrase and date perimeters, 118 reports of CCA irresponsibility were counted in this part of the study, totaling 243 reports for all search engines, including Google

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<sup>152</sup> Stroud, Matt. “Why Would A Prison Corporation Restructure As A Real Estate Company.” *Forbes* January 31, 2013. <http://www.forbes.com/sites/mattstroud/2013/01/31/why-would-a-prison-corporation-restructure-as-a-real-estate-company/#1231cf952cca>.

News. As noted earlier, attempts were made to not count reports that considered repetitive events.

This research found the following count:

<b>Labor Condition Reports</b>	<b>13</b>
<b>Inmate Condition Reports</b>	<b>176</b>
<b>Morality Reports</b>	<b>11</b>
<b>Corruption Reports</b>	<b>32</b>
<b>Security Reports</b>	<b>11</b>
<b>Total Reports</b>	<b>243</b>

As demonstrated above, inmate conditions were a great majority of the reports.

The following months yielded the highest amount of reports (5 or more), with May 2007 and November 2010 with the highest count of 9:

<b>February 2007</b>	<b>5</b>
<b>May 2007</b>	<b>9</b>
<b>April 2008</b>	<b>5</b>
<b>May 2008</b>	<b>7</b>
<b>November 2008</b>	<b>5</b>
<b>March 2009</b>	<b>5</b>
<b>April 2009</b>	<b>5</b>
<b>July 2009</b>	<b>5</b>
<b>August 2009</b>	<b>6</b>

<b>January 2010</b>	<b>6</b>
<b>May 2010</b>	<b>5</b>
<b>August 2010</b>	<b>6</b>
<b>November 2010</b>	<b>9</b>
<b>December 2010</b>	<b>5</b>

As demonstrated above, the highest count of reports falls in the second half of the researched time period. It is important to recognize here when investors began Googling and paying attention to daily news events on the Internet versus physical newspapers and magazines. According to WHOIS data, the domain name for Google was registered on September 15, 1997, and Google became a public company in 2004. I continued to find 2000-2006 relevant as well considering the sample populated, just not as many as the end of the 2000s. Additionally, this time period was found important considering the dramatic changes at CCA and in CXW stock prices in that time period. It was also considered that investors were still reading newspapers and magazines even if they were not Googling. Most importantly this research would like to emphasize the importance of using Google News as a tool for analysis. Google News hits include major and local news sources, such as *The New York Times* and local newspapers, and the tool was identified as a reliable tool for analysis of media data in many bodies of recent empirical research and scholarship.<sup>153</sup>

The statistical analysis then utilized multivariate time series analysis, using OLS regression, to empirically test the hypothesis. This involved a Pearson's Correlation Matrix to show the relationship between the independent variables and the dependent variable (DV CXW

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<sup>153</sup> See Carneiro (2009), Krstajic (2010), Flaounas (2011), Berendt (2009), Skadina (2012).



*Stock Price Per Share Monthly* broken down into three DVs: high, low, and average), and whether they are significant. By displaying how well these correlate with each other, this analysis can evaluate the level of statistical significance attained by a possible multivariate relationship.

Concerning the sample size in this time series analysis study, all variables are monthly for the time period 2000-2010, making the  $N=132$  (11 years x 12 months = 132).

## Findings

The following statistical analysis was conducted of the independent variables and dependent variable with respect to the hypothesis mentioned above.

Before utilizing a multivariate time series analysis by using OLS regression to empirically test the hypothesis, I began by describing the relationship of the independent variable to the different variations of the dependent variable with bivariate scatter plots and a Pearson's Correlation Matrix (see below) in order to identify the most appropriate variation of the dependent variable for testing. It appears that when the dependent variable, *CXW Stock Price Per Share Monthly*, is analyzed with respect to its variation in a month, all three variations (low, average, and high) have a similar relationship and were all found to be highly significant to the independent variable, *Media Report CCA Total Count Monthly* (the total of all identified reports in a month). They also all three yielded similar (moderate) correlations to the independent variable. Therefore going forward in this research, *CXW Stock Price Average Per Share Monthly* was utilized as the only dependent variable, as it also is an average of the prices that month making it even more relevant.

### Correlations

	CXW Stock Low Per Share Monthly	CXW Stock Average Per Share Monthly	CXW Stock High Per Share Monthly	Media Report CCA Total Count Monthly
CXW Stock Low Per Share Monthly	1	.994**	.979**	.444**
Pearson Correlation Sig. (2-tailed)		.000	.000	.000
Sum of Squares and Cross-products	8090.810	8385.180	8679.551	843.357
Covariance	61.762	64.009	66.256	6.438
N	132	132	132	132
CXW Stock Average Per Share Monthly	.994**	1	.995**	.460**
Pearson Correlation Sig. (2-tailed)	.000		.000	.000
Sum of Squares and Cross-products	8385.180	8790.787	9196.394	909.563
Covariance	64.009	67.105	70.201	6.943
N	132	132	132	132
CXW Stock High Per Share Monthly	.979**	.995**	1	.469**
Pearson Correlation Sig. (2-tailed)	.000	.000		.000
Sum of Squares and Cross-products	8679.551	9196.394	9713.238	975.770
Covariance	66.256	70.201	74.147	7.449
N	132	132	132	132
Media Report CCA Total Count Monthly	.444**	.460**	.469**	1
Pearson Correlation Sig. (2-tailed)	.000	.000	.000	
Sum of Squares and Cross-products	843.357	909.563	975.770	445.659
Covariance	6.438	6.943	7.449	3.402
N	132	132	132	132

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Before empirically testing the hypothesis with OLS regression, I conducted testing with a Pearson's Correlation Matrix to describe the relationship of all of the independent variables to the dependent variable, *CXW Stock Price Average Per Share Monthly*.

**Correlations**

	CXW Stock Average Per Share Monthly	CXW P/E Ratio Monthly	Trade Weighted US Dollar Index Broad Monthly Average	Media Report CCA Morality Count Monthly	Media Report CCA Corruption Count Monthly	Media Report CCA Security Issue Count Monthly	Media Report CCA Labor Count Monthly	Media Report CCA Inmate Count Monthly
CXW Stock Average Per Share Monthly	1	.846**	-.926**	.012	.297**	.270**	.096	.382**
CXW P/E Ratio Monthly		1	-.806**	-.018	.163	.157	.055	.275**
Trade Weighted US Dollar Index Broad Monthly Average			1	.841	.062	.072	.528	.001
Media Report CCA Morality Count Monthly				1	.148	-.076	-.084	.074
Media Report CCA Corruption Count Monthly					1	.387	.337	.399
Media Report CCA Security Issue Count Monthly						1	.132	.132
Media Report CCA Labor Count Monthly							1	-.089
Media Report CCA Inmate Count Monthly								1

Count Monthly	Sig. (2-tailed)	.001	.062	.000	.091		.028	.308	.025
	N	132	132	132	132	132	132	132	132
Media Report CCA Security	Pearson Correlation	.270**	.157	-.222*	-.076	.192*	1	.149	.023
Issue Count Monthly	Sig. (2-tailed)	.002	.072	.011	.387	.028		.088	.795
	N	132	132	132	132	132	132	132	132
Media Report CCA Labor	Pearson Correlation	.096	.055	-.036	-.084	-.089	.149	1	.139
Count Monthly	Sig. (2-tailed)	.272	.528	.686	.337	.308	.088		.112
	N	132	132	132	132	132	132	132	132
Media Report CCA Inmate	Pearson Correlation	.382**	.275**	-.395**	.074	.195*	.023	.139	1
Count Monthly	Sig. (2-tailed)	.000	.001	.000	.399	.025	.795	.112	
	N	132	132	132	132	132	132	132	132

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).



The Pearson's Correlation Matrix and the Pearson Correlation coefficients, seen above, indicate the following. *Media Report* variables concerning *Labor* and *Morality* were not found to be significant to the dependent variable; however, *Media Report* variables concerning *Corruption*, *Security*, and *Inmate* were found to be significant to the dependent variable, *CXW Stock Price Average Per Share Monthly*. Although the direction of these relationships are the opposite of this study's prediction, I continued testing, due to the high significance between several of these relationships. In order to identify if they are in fact significant, this study then tested whether multivariate regression would yield corresponding results. There is low correlation between all of the variables in the model, aside from the control variables and independent variable *Media Report CCA Inmate County Monthly*, where a moderate correlation was identified to the dependent variable. A very high correlation was identified between the control variables and the dependent variable, demonstrating the similarities in these financial indicators. Therefore, the control variables will be dropped from the model, only dependent variable, *CXW Stock Price Average Per Share Monthly* will be used going forward, and I will run the Pearson's Correlation Matrix again.

**Correlations**

	CXW Stock Average Per Share Monthly	Media Report CCA Morality Count Monthly	Media Report CCA Inmate Count Monthly	Media Report CCA Security Issue Count Monthly	Media Report CCA Labor Count Monthly	Media Report CCA Corruption Count Monthly
CXW Stock Average Per Share Monthly	1	.012	.382**	.270**	.096	.297**
		.891	.000	.002	.272	.001
	132	132	132	132	132	132
Media Report CCA Morality Count Monthly	.012	1	.074	-.076	-.084	.148
	.891	132	.399	.387	.337	.091
	132	132	132	132	132	132
Media Report CCA Inmate Count Monthly	.382**	.074	1	.023	.139	.195*
	.000	.399	132	.795	.112	.025
	132	132	132	132	132	132
Media Report CCA Security Issue Count Monthly	.270**	-.076	.023	1	.149	.192*
	.002	.387	.795		.088	.028
	132	132	132	132	132	132
Media Report CCA Labor Count Monthly	.096	-.084	.139	.149	1	-.089
	.272	.337	.112	.088		.308
	132	132	132	132	132	132
Media Report CCA Corruption Count Monthly	.297**	.148	.195*	.192*	-.089	1
	.001	.091	.025	.028	.308	
	132	132	132	132	132	132

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

This study then conducted an F Test to indicate the significance of the model as a whole, when considering all assumed significant variables at the same time.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2183.386	5	436.677	8.327	.000 <sup>b</sup>
	Residual	6607.401	126	52.440		
	Total	8790.787	131			

a. Dependent Variable: CXW Stock Average Per Share Monthly

b. Predictors: (Constant), Media Report CCA Inmate Count Monthly, Media Report CCA Security Issue Count Monthly, Media Report CCA Morality Count Monthly, Media Report CCA Labor Count Monthly, Media Report CCA Corruption Count Monthly

The F Test above indicates that the model as a whole, is significant, at the  $p < .01$  level, indicating 99.9% certainty that this relationship is significant.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.498 <sup>a</sup>	.248	.219	7.24153

a. Predictors: (Constant), Media Report CCA Inmate Count Monthly, Media Report CCA Security Issue Count Monthly, Media Report CCA Morality Count Monthly, Media Report CCA Labor Count Monthly, Media Report CCA Corruption Count Monthly

The Adjusted R Square above explains 21.9% of the variation in the model, when the predictors are held constant. The independent variables can be used to predict 21.9% of variance in the dependent variable, *CXW Stock Average Per Share Monthly*. Since I have already identified statistical significance between variables, I can still find this model valuable and later



draw conclusions concerning how changes in the predictor values are related to the changes in the response value if needed. In order to test the relationships of the significant independent variables to the dependent variable further, this study then examined the following Coefficients table.

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.928	.895		12.216	.000
	Media Report CCA Morality Count Monthly	-.604	2.125	-.022	-.284	.777
	Media Report CCA Corruption Count Monthly	2.821	1.183	.196	2.384	.019
	Media Report CCA Security Issue Count Monthly	5.884	2.166	.218	2.717	.008
	Media Report CCA Labor Count Monthly	.828	2.024	.033	.409	.683
	Media Report CCA Inmate Count Monthly	1.873	.445	.336	4.205	.000

a. Dependent Variable: CXW Stock Average Per Share Monthly

The model above indicates that the positive relationship between the independent variables, *Media Report Corruption Count Monthly*, and the dependent variable, *CXW Stock Average Per Share Monthly*, is significant. For every one unit increase in *Media Report Corruption Count Monthly*, the *CXW Stock Average Per Share Monthly* will increase by 2.821.

The model above indicates that the positive relationship between the independent variables, *Media Report Security Issue Count Monthly*, and the dependent variable, *CXW Stock Average Per Share Monthly*, is significant. For every one unit increase in *Media Report Security Issue Count Monthly*, the *CXW Stock Average Per Share Monthly* will increase by 5.884. The model above indicates that the positive relationship between the independent variables, *Media Report Inmate Count Monthly*, and the dependent variable, *CXW Stock Average Per Share Monthly*, is significant. For every one unit increase in *Media Report Inmate Count Monthly*, the *CXW Stock Average Per Share Monthly* will increase by 1.873.

This study's hypothesis concerning the negative and significant relationships between the independent variables and the dependent variable, *CXW Stock Price Per Share Monthly*, is not empirically supported with this research. However, the findings stating that a rise in the number of reports of CCA irresponsibility concerning security issues, corruption, and inmate having a significant relationship to a rise in CCA stock price is of great interest and should be tested further in future research. Why would the stock price rise after a report of abuse? Additionally, this study found most interesting the lack of influence these reports of CCA irresponsibility had on investors selling or refusing to buy shares after a report of abuse, thus demonstrating the need for government regulation of corporate behavior with respect to social irresponsibility.

## **Discussion and Future Research**

### *I. Discussion of Quantitative Findings*

This exploratory quantitative research demonstrates support for disproving the notion of free markets and the ability of markets to self-correct. If CXW investors appear to disregard reports of CCA irresponsibility (whether or not they find them relevant with respect to morality or past actions by government and other investors), then the findings exhibit a need for government regulation in order to regulate CCA behavior. If CXW investors are not influenced by reports of CCA irresponsibility with respect to selling or refusing to purchase CXW shares, then possibly as Polanyi's notion of the double movement indicates, government will step in to provide social protections through the enforcement of regulations.

The study considered that CXW investors are not exposed often to reports of CCA irresponsibility; however, many of the media reports were published by major media outlets such as *The New York Times* and the *Washington Post*, making this conclusion less believable. Therefore, this consideration was not included as a possible finding for this research. It is assumed that the investors did not find the reports to be relevant to their personal belief system or their self-interest in sustaining or improving the health of CXW stock.

These findings suggest the validation of the theories of Adam Smith and Milton Friedman concerning markets and self-interest, and the possible lack of investor accountability of CCA for their reported irresponsible behavior, which insinuates the importance of Polanyi's double movement. These findings suggest investors commoditize land, labor, and capital, supporting the theories of Polanyi's double movement, which also state that markets disembed society of social protections. This research indicates the need for government intervention with market regulations, if the desire is to protect land, labor, and capital. Most importantly this

research identified the great importance of the presence of Polanyi's double movement, with respect to the need for government regulations to hold CCA accountable for acts of abuse, corruption, and irresponsibility. This gives space to Polanyi's argument concerning the need for government regulations, and the notion that free markets and neoliberalism are utopian ideals.

This study found these findings to be supportive of Polanyi's notion of the double movement; regardless of investor and corporate intentions, the relationship between the markets and society is dialectical and significant. For instance, if CCA pays out a large settlement to the IRS over "questionable" tax deductions taken by the trust,<sup>1</sup> this settlement could anger investors when they read the annual report, provoking them to protest such irresponsibility at the next shareholder meeting. The actions of the market assist in deregulating society when a corporation does not pay due taxes for example, and government can step in to hold the company accountable for their actions and/or civil society (including investors) can hold the company accountable with respect to their own self-interests or those of the polis.

## *II. Limitations*

Various elements fell outside the scope of this research when considering triangulating the research and demonstrating causality; however, future research is willing to exchange variables and methods in order to make further attempts to demonstrate causality. The most concern lies in the evaluation of CCA company value. I should possibly replace the variable *Price to Earnings Ratio* in future research with other financial indicators giving full value of the company CCA. Additionally, attempts should be made to identify more complex ways of analyzing media data. Further research is also necessary considering the fine details involved

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<sup>1</sup> Meador, Jonathan. "CCA Announces Possible Restructuring Strategy." *Nashville Scene* May 3, 2012. <http://www.nashvillescene.com/pitw/archives/2012/05/03/cca-announces-possible-restructuring-strategy>.

with possible double movement variables affecting CCA behavior. Lastly, older and more current data is desired for this dataset for testing, as interesting would be a quantitative evaluation of the full life of CCA, from 1984 to present, and what actors and practices hold them accountable for social responsibility.

### *III. Future Research*

As stated earlier, future research concerning media reports of CCA irresponsibility and effects on investor behavior should attempt to analyze the full life of CCA. However, most importantly, testing should be conducted of 2005 to present, and with only media findings from media outlets used daily by investors of private prison stock. By beginning in 2005, I can be further ensured that time period issues concerning amount of Internet usage of those times and instrument changes of how investors receive their news will not be as relevant, as the study would be contained in more modern times. Also, with respect to media outlets thought to be used often by investors in the private prison industry, one should consider conservative media outlets such as *Fox News*, which caters to Republican voters, and supporters of harsh drug sentencing, and tough on crime legislation, which all financially benefit the private prison industry. A search in Google News for “Corrections Corporation of America” and “Fox News” brings up 252 hits; however, even initial research of these hits identified many reports of CCA irresponsibility.

Due to the results of the control variables as being highly correlated to the dependent variable, a future study should include comparisons of the effects of other global or national financial indicators (e.g. the Dow Jones Industrial Average, Nasdaq Composite, and the S&P 500 Index) on stock price. Interesting would be a comparative study of the difference in the social and financial indicators’ influences on CXW stock price. However, even these elements are

affected by societal events. Although several of the events below involve economic actors, all also involve defining non-economic factors.

Future research should consider the percentage of shares owned by individuals versus companies. According to research conducted in 2007 by Michael Welch and Fatiniyah Turner at Rutgers University, CCA was mostly owned by corporate entities. CCA had “114 institutional stockholders that together amounted to 28,736,071 shares of stock.”<sup>2</sup>

It is possible that litigation costs could also be a variable with a strong relationship to stock prices and others. Perhaps investors are aware of high litigation costs in some years, as they are presented in each annual report and can be quantified. Further research of company reports and company documents would also be interesting with respect to Keck & Sikkink’s notion of accountability politics, where “powerful actors are held to their previously stated policies or principles.”<sup>3</sup> Which of the many claims listed on the CCA website does the entity actually hold to?

With consideration to accountability and future research involving CCA’s role in the double movement, my past studies concerning CCA lobbying and CCA government contract effects on CXW stock prices should be included, as lobbying is the most concrete example of CCA disembedding of the markets. As mentioned earlier, CCA spent significant more money on lobbying in 2007 and 2009 (see below), and government contracts post 2009 greatly increased as well. Exploration of why and how these actors affect each other and its relationship to CXW stock prices/company value of the years after would be of most interest, with hopes of finding causal relationships within the double movement between CCA and society.

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<sup>2</sup> Welch, Michael and Fatiniyah Turner. “Private Corrections, Financial Infrastructure, and Transportation: The New Geo-Economy of Shipping Prisoners.” *Social Justice* Vol. 34. No. ¾: 56-77. 2007-2008.

<sup>3</sup> Keck, Margaret and Kathryn Sikkink. *Activists Beyond Borders*. Cornell University Press, 1998.

## Conclusion

This research does not support Adam Smith and Milton Friedman's notions of the importance of individual actions and the ability of the markets to self-correct. According to Polanyi, the economy is disembedded, allowing CCA to: win government contracts despite a history of irresponsibility; avoid taxes through the methods of a REIT entity; and lobby and set contract standards which do not assist in reducing recidivism but rather fill prison beds. The findings of this research support the existence of Polanyi's double movement and demonstrate the need for harsher regulations concerning contracting of private prisons, lobbying, and usage of the REIT label, as it appears investors are not selling or refusing to buy shares after allegations of irresponsibility. Therefore, this analysis and future ones will contend the importance of government and civil society in holding CCA responsible for acts of abuse.

CXW stock is currently performing well, according to stock market analysts, and CCA has issued dividends to investors since 2012. According to the rules of Polanyi's substantivism, stating economy and exchange are linked to human behavior, in order for a private penal entity to continue flourishing in the markets, they must ensure the trust of their investors and civil society. Therefore, CCA will continue to re-embed (or appear to re-embed) protections with educational and rehabilitation programs,<sup>4</sup> while continuing to disembed the economy with human rights abuses and corruption. With respect to this lackadaisical behavior and the findings of this research, it appears to be the role of government and civil society to hold CCA accountable for such actions. As this research found, investors do not appear to respond to reports of irresponsibility, and civil society and government are constantly stepping in to subordinate the markets to societal needs, validating Polanyi's theory of the presence of the double movement.

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<sup>4</sup> According to Foucauldian discourse, any reform or action CCA takes should be considered taken for more organizational reasons than humanitarian ones.

Disregarding the intentions and self-interest of investors, civil society, and CCA, society is deeply embedded in the markets, and actions taken by all actors affect each other in the double movement.

However, by further exploring the relationship of the double movement to self-interest, one can perhaps find additional answers to the questions asked in this research. Does self-interest and the markets work towards what's best for society as Smith suggests or has man been conditioned to believe so and government regulations are necessary to sustain the markets, as Polanyi would suggest? This thesis and its findings strongly support the notions of Karl Polanyi and the double movement. Since the birth of industrialization, man has been conditioned to believe he relies on the market, yet in actuality the markets rely on humankind for survival.

Above all, this research has demonstrated that the private prison market is not self-regulating (as Smith and Friedman suggest). As Polanyi states, man has never seen a market that is in fact self-regulating, and the notion itself is fictional. Each man's actions, if motivated by self-interest or not, will not always be what's best for all. It appears the double movement is ever-present and regulation is crucial in holding the private prison industry accountable and subordinate to society. This research supports Polanyi's ideas concerning the inabilities of self-interest and the markets to direct humanity:

To allow the market mechanism to be the sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity "labor power" cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity.<sup>5</sup>

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<sup>5</sup> Polanyi, Karl. 1944. 76.



## Afterword

I wrote this thesis before a pertinent Department of Justice announcement on August 18, 2016. In this announcement the DOJ stated they would begin to phase out of giving government contracts to private prison companies, “a first step in the process of reducing-and ultimately ending” the federal government’s “use of privately operated prisons.” The DOJ “sent a memo to the Acting Director of the Bureau of Prisons directing that, as each private prison contract reaches an end of its term, the bureau should either decline to renew that contract or substantially reduce its scope in a manner consistent with law and the overall decline of the bureau’s inmate population.” According to the DOJ memo, privately run prison conditions compare poorly to the federally run facilities.<sup>6</sup>

After news from the DOJ, CXW stock immediately plummeted to less than \$18 per share. As of this writing on August 24, 2016, shares are less than \$18 per share,<sup>7</sup> and CXW is now considered a “junk stock.” As CCA hides behind their corporate/real estate company status while partaking in public and private benefits and acting irresponsibly, the entity (and private prisons) will eventually be considered unsustainable, as predicted in my 2015 research.<sup>8</sup> And it appears that, as Polanyi predicted, the double movement will always exist to hold the market accountable, and a free flowing market without regulations is unsustainable.

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<sup>6</sup> DOJ Memo. August 18, 2016. <https://www.justice.gov/opa/blog/phasing-out-our-use-private-prisons>.

<sup>7</sup> Google Finance.

<sup>8</sup> Majure, Britney Anne. “Modern Day Western Prison Privatization Sustainability.” [https://www.academia.edu/20120105/MODERN\\_DAY\\_WESTERN\\_PRISON\\_PRIVATIZATION\\_SUSTAINABILITY\\_An\\_Economic\\_and\\_Political\\_Analysis\\_of\\_the\\_American\\_Paradigm](https://www.academia.edu/20120105/MODERN_DAY_WESTERN_PRISON_PRIVATIZATION_SUSTAINABILITY_An_Economic_and_Political_Analysis_of_the_American_Paradigm).

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## Vita

Britney Anne Majure is a master's degree candidate at the University of New Hampshire studying security and the privatization of prisons. This study is presented in partial fulfillment of the requirements for the Master of Arts degree in Political Science.

From 2009 to 2012, Majure conducted research in Norwegian prisons that included an analysis of the evolution of Norway's penal model, which changed dramatically since its inception to a rehabilitative aimed imprisonment model exhibiting lower recidivism rates. Majure has over a decade of white collar investigative experience in strategic research and investigative reporting methodologies. Her investigative work for a broad range of private and government clients in New York City included corporate due diligence, asset recovery, online drug sale corruption, litigation support, securities fraud investigations, monitoring and compliance, surveillance case studies, and criminal investigations.

After leaving the private sector in 2015, Majure began working in Consular Affairs for the Department of State while studying at UNH. She was a member of the UNH Model United Nations and received a graduate assistantship scholarship in the Political Science department in 2015. Majure has worked and lived in Asia, Europe, the Caribbean, New York City and the Northeast, and throughout the American South, and has a basic knowledge of German, Norwegian, Spanish, and Thai.

“Of course, I am small before the great, weak for the powerful, cowardly before the violent, wavering before the aggressive, expendable before It, which is so vast and durable that I sometimes think it is immortal. I don’t turn the other cheek to it. I don’t shoot with a slingshot; I look, and then I collect my words.”

-George Konrad, *Anti-Politics*

To those who have taught me and often helped me collect my words...

Mom, Dad, Erin, Brad, Tatum, and Camille

Tom and Faye Majure

Jim and Audie Ware

Don and Clara Wimberly

Daniel Bromberg

Alynn Lyon

Elizabeth Carter

Alex Friedmann

Mary Malone

David Andersson

Joyce Bukuru

Magnus Bjerk

Lill-Anita Øvergård

Synnøve Sørland

Ryan Tuttle

Nova Mullineaux

Björn Nilsson

Lora Wallace McGuire

Stephen Cedars

Daniela Möbius

Anne Bjerk

Harald Bjerk

Anne-Grete Borch

Dagfinn Johannessen

Frank Renaud

Robert McMahan

Ann Power

Gerald Leitner

Mary Catherine Gallahue

Katherine Willis Swetman



## Appendix

### Alex Friedmann

This study also recognizes the investor exception, when considering civil society activists like Alex Friedmann, who is a CCA shareholder and whose work with *Prison Legal News* was used often in this research. He is a former CCA prisoner turned activist since he left the system after 10 years of imprisonment. Six of those years were spent in a CCA facility. Friedmann is a national expert on prison privatization, the associate director of the Human Rights Defense Center, and president of the non-profit Private Corrections Institute. In addition to testifying before Congress and the Legislature on criminal justice-related issues,<sup>9</sup> Friedmann purchased enough shares of CCA stock to be able to vote and create resolutions at shareholder meetings. In 2011, Friedmann filed a resolution asking CCA to report on its efforts to reduce prisoner rape and sexual assaults in its facilities.<sup>10</sup> Although the resolution received almost 20% of voting shares, it failed to pass (however, the Justice Department finally finalized the 2003 Prison Rape Elimination Act only months after Friedmann's resolution, which was covered by several major media outlets leading up to the finalization of the PREA in August 2012<sup>11</sup>). Friedmann also has filed resolutions that would benefit the investors and society at the same time. For instance, on November 20, 2012, Friedmann filed a shareholder resolution asking CCA to disclose information regarding its REIT conversion, including how CCA planned to comply with the IRS rules which govern REITs, such as the limitation on REIT assets that can be held in taxable REIT subsidiaries (TRSs).<sup>12</sup>

The work of Alex Friedmann, Managing Editor of *Prison Legal News*, in 1998 identified a concrete example where a report of CCA irresponsibility appeared to take a direct hit on CCA stock, motivating further execution of this particular thesis. On July 28, 1998, six prisoners, including four convicted murderers, escaped from the CCA-operated Northeast Ohio Correctional Center in Youngstown, Ohio by cutting through two fences. The Warden Jimmy Turner blamed prison employee errors for the break-out, which he claimed were guards leaving or not paying attention to their designated areas and not responding fast enough to the motion sensor alarms. Within ten days of the incident, CCA stock fell 20% to a year low of \$69 per share (\$90 per share on day of incident). According to Alex Friedmann, financial analysts called it a "public relations problem."<sup>13</sup> CCA later caught all of the escapees, and prices began slowly rising but only to drop again and not recover until later in the year, as you can see in the graph below. This study conducted a Google search concerning the incident, and it appears several major media outlets covered the prison breakout as well.

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<sup>9</sup> Human Rights Defense Center, Staff Biographies. <https://www.humanrightsdefensecenter.org/about/staff/>.

<sup>10</sup> SEC filings. <https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2012/alexfriedmann021012-14a8.pdf>.

<sup>11</sup> Friedmann, Alex. "Prison Rape Elimination Act Standards Finally In Effect, but Will They Be Effective?" *Prison Legal News* September 15, 2013. <https://www.prisonlegalnews.org/news/2013/sep/15/prison-rape-elimination-act-standards-finally-in-effect-but-will-they-be-effective/>.

<sup>12</sup> Stroud, Matt. "Why Would A Prison Corporation Restructure As A Real Estate Company." *Forbes* January 31, 2013. <http://www.forbes.com/sites/mattstroud/2013/01/31/why-would-a-prison-corporation-restructure-as-a-real-estate-company/#1231cf952cca>.

<sup>13</sup> Friedmann, Alex. "Youngstown Break Out Leads to Political and Financial Fall Out." *Prison Legal News* November 15, 1998. <https://www.prisonlegalnews.org/news/1998/nov/15/youngstown-break-out-leads-to-political-financial-fall-out/>.



CXW Stock Price, Google Finance

Northeast Ohio Correctional Center also experienced one of the most famous prison break-outs in CCA history on April 2, 2007, when an escapee escaped two guards by cutting plastic flex cuffs with toe nail clippers<sup>14</sup> and took a hostage for three hours until the guards convinced him to surrender by offering him pizza. The hostage sued CCA and two guards, and the case was settled on November 16<sup>th</sup>, 2010.<sup>15</sup> CXW prices actually rose slightly in the months of April and May in 2007, showing no implications of this incident on CXW share prices or assistance from this incidence on CXW share prices. The *Washington Post* published news of the arrest of the escapee on the day of the incident, possibly benefiting CCA by stating it was a quickly solved matter.<sup>16</sup> Here we see where an act of CCA irresponsibility concerning security was solved quickly convoluting conclusions of whether CCA would be viewed as responsible or irresponsible in this scenario.<sup>17</sup>

<sup>14</sup> "Ohio Prisoner Escape and Hostage-Taking Results in Lawsuit Against CCA, Settlement." *Prison Legal News* November 15, 2011. <https://www.prisonlegalnews.org/news/2011/nov/15/ohio-prisoner-escape-and-hostage-taking-results-in-lawsuit-against-cca-settlement/>.

<sup>15</sup> Fuddy, John. "Woman Seized by Escape Ends Suit." *The Columbus Dispatch* November 17, 2010. <http://www.dispatch.com/content/stories/local/2010/11/17/woman-seized-by-escapee-ends-suit.html>.

<sup>16</sup> McCarthy, John. "Police: Escaped Ohio Prisoner Arrested." *The Washington Post*. April 2, 2007. [http://www.washingtonpost.com/wp-dyn/content/article/2007/04/02/AR2007040200698\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2007/04/02/AR2007040200698_pf.html).

<sup>17</sup> It should be noted here that the quantitative findings for this research identified the CCA security issue count of reports as having a significant relationship to average stock price per share that month, where as reports of security issues rose stock price followed. Note that reports of security issues were counted (e.g. break outs), and not reports where the prisoners were caught; however, these events, as seen above, can often happen in the same month.

**The Research of Friedmann and the Private Corrections Institute Concerning CCA  
Irresponsibility**

In addition to the media reportings of CCA irresponsibility identified in this research, NGOs often identify deaths and incidents in CCA facilities not reported on by the media. The following spreadsheet of inmate deaths under the watch of CCA from 1987 to present and documents of incidents in CCA facilities were compiled by Alex Friedmann of the Private Corrections Institute (PCI) after submitting FOIL (Freedom of Information Law) requests for Request for Proposal (RFP) documents submitted by CCA in the government contract application process. According to Friedmann, CCA stopped submitting these lists in 2008 after finding they were being released through public record requests.

<b>Prisoner Name</b>	<b>Date of death</b>	<b>State</b>	<b>Facility</b>	<b>Type</b>
Bryan K. Blackburn	2015	OK	Davis Corr. Facility	homicide
Jose de Jesus Deniz-Sahagun	2015	AZ	Eloy Detention Center	unknown
James Nicholson	2015	KY	Lee Adjustment Center	after an assault
Tyrone Madden	2015	MS	Tallahatchie Co. Corr. Facility	medical
Lawrence Dobbins	2014	TX	Bartlett State Jail	natural
Eric Grimm	2014	OK	Davis Corr. Facility	homicide
Tory Czernicki	2014	OK	Davis Corr. Facility	homicide
Jose Javier Hernandez-Valencia	2014	TX	Houston Processing Center	medical
Peter George Carllyse Rockwell	2014	TX	Houston Processing Center	medical
Roland Fears	2014	AZ	La Palma Corr. Center	
Myron Dibenedetto	2014	OH	Lake Erie Corr. Institution	medical
Carl Howell	2014	OH	Lake Erie Corr. Institution	medical
Michael J. Craney	2014	KS	Leavenworth	medical
Todd Bush	2014	OK	North Fork	homicide
Melvin Wright	2014	AZ	Saguaro	medical
Jeffrey T. Sills	2014	TN	SCCF	homicide
Gregory Morris Booten	2014	TN	SCCF	suicide
Steve Le	2014	MS	Tallahatchie Co. Corr. Facility	accident
Brian Huff	2014	TN	WCFA	natural
Marcus D. Berthiaume	2013	FL	Bay Correctional Facility	natural
Jorge Garcia-Maldonado	2013	AZ	Eloy Detention Center	suicide
Elsa Guadalupe-Gonzales	2013	AZ	Eloy Detention Center	suicide
Michael P. McNaughton	2013	AZ	Florence Corr. Center	homicide
Julius A. Dean	2013	FL	Graceville Correctional Facility	natural
Dustin Henning	2013	TN	HCCF	unknown
Clyde Chambers	2013	TN	HCCF	unknown
Clemente N. Mponda	2013	TX	Houston Processing Center	unknown
Samuel Mendoza	2013	AZ	La Palma Corr. Center	
Ernest Gooden	2013	OH	Lake Erie Corr. Institution	medical
I.V. Ivory	2013	TN	MDF	natural
Melvin Bell	2013	TX	Mineral Wells	natural
Jonathan Bush	2013	OK	North Fork	
Gerald Ewing	2013	TN	SCCF	homicide
Bobby D. Parker	2013	TN	SCCF	suicide
Raequayah Shropshire	2013	TN	Silverdale Detention Facility	medical
Orlando Selinas	2013	MS	Tallahatchie Co. Corr. Facility	

Demond Flowers	2013	MS	Wilkinson County Correctional Facility	homicide
Shebaa Green	2012	TX	Dawson State Jail	medical
Manuel Cota-Domingo	2012	AZ	Eloy Detention Center	natural
Alvin Martin	2012	TN	HCCF	natural
Floyd Perrow	2012	TN	HCCF	unknown
Dustin Bland	2012	AZ	La Palma Corr. Center	
Michael A. Nelson	2012	OH	Lake Erie Corr. Institution	medical
Willie Anderson	2012	OH	Lake Erie Corr. Institution	medical / liver
Duke Wagner	2012	OH	Lake Erie Corr. Institution	medical / liver
Nicholas McNerney	2012	OK	North Fork	
Daniel Garrett	2012	OK	North Fork	
Ronald Harries	2012	TN	SCCF	unknown
Sergio Ramirez	2012	MS	Tallahatchie Co. Corr. Facility	
Santana Nunez	2012	MS	Tallahatchie Co. Corr. Facility	
Charles Carter	2012	TN	WCFA	unknown
Derek Criddle	2011	MS	Delta Corr. Facility	homicide
Victor Ramirez-Reyes	2011	NJ	Elizabeth Detention Center	natural
Pablo Gracida-Conte	2011	AZ	Eloy Detention Center	medical
Jeffery H. Tutton	2011	FL	Graceville Correctional Facility	natural
Fredrick Corlew	2011	TN	HCCF	natural
Matthew Henderson	2011	TN	HCCF	natural
Rocky Hunter	2011	TN	HCCF	natural
Ricardo Rojas-Martinez	2011	TX	Houston Processing Center	natural
Juan Palomo-Rodriquez	2011	TX	Houston Processing Center	natural
Andres Valdez	2011	CO	Kit Carson	other
Leslie Wilson	2011	CO	Kit Carson	medical
Miguel Angel Hernandez	2011	GA	North Georgia Detention Center	medical
Gary Brown	2011	AZ	Red Rock	
Juan Gonzalez	2011	AZ	Red Rock	
Joseph L. Mixon	2010	FL	Bay Correctional Facility	suicide
Terrell Griswold	2010	CO	Bent County Correctional Facility	medical
Pamela D. Weatherby	2010	TX	Dawson State Jail	medical
Ricky E. Gardner	2010	TN	HCCF	homicide
Clifford Thompson	2010	TN	HCCF	natural
Jimmy New	2010	TN	HCCF	natural
Eddie Moore	2010	MS	Leflore County Jail	medical
Leroy Woundedknee	2010	OK	North Fork	
Frederick Johnson	2010	OK	North Fork	
Bronson Nunuha	2010	AZ	Saguaro	homicide
Clifford Medina	2010	AZ	Saguaro	homicide
James Harris	2010	TN	WCFA	natural
Eric Henry	2010	TN	WCFA	natural
Geoffrey A. Scheid	2009	CO	Bent County Correctional Facility	suicide
			During transport by TransCor from KS to	
Joseph Curtis	2009	IN	IN	other
Charles Finch	2009	TN	HCCF	natural
Alan Parrigin	2009	TN	HCCF	natural
Carl Swaney	2009	TN	HCCF	natural
Leonardo Acosta	2009	AZ	La Palma Corr. Center	
William Williams	2009	TN	MDF	suicide
Wakus Benford	2009	TN	MDF	natural

John Jennings	2009	TN	MDF	natural
Jimmy Silvey	2009	OK	North Fork	
Julio Martinez	2009	CA	San Diego Corr. Facility	natural
Paul Williams	2009	TN	SCCF	natural
Deandre Kimbrough	2009	TN	SCCF	suicide
Roberto Medina-Martinez	2009	GA	Stewart Detention Center	medical
Richard Fry	2009	MS	Tallahatchie Co. Corr. Facility	
Alan Young	2009	TN	West Tennessee Detention Facility	suicide
Leonard Odom	2009	GA	Wheeler County Corr. Facility	unknown
Thomas Detric Adderson	2009	TX	Willacy Unit	medical
Gregory Cole	2008	TX	Bradshaw State Jail	suicide
Ashleigh Shae Parks	2008	TX	Dawson State Jail	medical
Emmanuel Owusu	2008	AZ	Eloy Detention Center	suicide
Nail Yoursef Dawood	2008	AZ	Eloy Detention Center	natural
Stefanie Rhaney	2008	FL	Gadsden Correctional Facility	natural
Brenda S. Carroll	2008	FL	Gadsden Correctional Facility	natural
Steve Grant	2008	TN	HCCF	natural
Terry Wayne Battle	2008	TN	MDF	medical
Gerald Townsend	2008	TN	MDF	homicide
David Drashner	2008	OK	North Fork	homicide
Beverly Ford Murphy	2008	KY	Otter Creek	medical
Joseph Alexie	2008	AZ	Red Rock	medical
John Alllen	2008	TN	SCCF	natural
Pedro Gumayagay	2008	GA	Stewart Detention Center	natural
Robert Washington	2008	MS	Tallahatchie Co. Corr. Facility	medical
Jimmy Walker	2008	TN	WCFA	unknown
Jason Martin	2008	TN	WCFA	suicide
Calvin Lee McGee	2007	TX	Bartlett State Jail	natural
Ruben White	2007	TX	Bartlett State Jail	natural
Boubacar Bah	2007	NJ	Elizabeth Detention Center	medical
Felix Franklin Rodriguez-Torres	2007	AZ	Eloy Detention Center	medical
Alton Gulley	2007	TN	HCCF	unknown
Carlos Somerville	2007	TN	HCCF	natural
Roger Todd	2007	TN	HCCF	natural
Bobby McDonald	2007	TN	HCCF	natural
Joseph Patterson	2007	TN	HCCF	natural
Larry Adams	2007	TN	HCCF	medical
Edward Duritsky	2007	FL	Hernando County Jail	medical
Earl Covington	2007	TN	MDF	natural
Latasha Dorean Glover	2007	KY	Otter Creek	medical
Rusty Hightower	2007	AZ	Red Rock	unknown
Anthony David Bowman	2007	TN	SCCF	medical
James Perry	2007	TN	SCCF	natural
John Welch	2007	TN	SCCF	natural
Jimmy Bolden	2007	TN	WCFA	natural
Ricky Ware	2007	TN	WCFA	suicide
Jack Sherrill	2007	TN	WCFA	natural
Larry Culpepper	2007	TN	WCFA	natural
Anthony Kelly	2007	TN	West Tennessee Detention Facility	medical
Jose Lopez-Gregorio	2006	AZ	Eloy Detention Center	suicide

Mario Francisco Chavez-Torres	2006	AZ	Eloy Detention Center	medical
Lacey Crowe	2006	TN	HCCF	natural
Daniel Adams	2006	TN	HCCF	natural
Melvin Hicks	2006	TN	HCCF	natural
Geoffrey M. Conley	2006	FL	Hernando County Jail	suicide
John T. Wells	2006	FL	Hernando County Jail	medical
Truoc Tran	2006	FL	Hernando County Jail	suicide
Antonio Martinez-Rivas	2006	TX	Houston Processing Center	suicide
Brian Keith Allen	2006	IN	Marion County Jail II	medical
Charles Repass	2006	IN	Marion County Jail II	medical
Paul Davis	2006	TN	MDF	natural
Lorenzo Easley	2006	TX	Mineral Wells	natural
Yusif Osman	2006	CA	San Diego Corr. Facility	natural
James Miller	2006	TN	SCCF	natural
Willard Rednowar	2006	TN	SCCF	suicide
Lawrence Ware, Jr.	2006	TN	WCFA	suicide
James Cox	2006	TN	WCFA	natural
Barry Morris	2006	TN	WCFA	natural
James T. Sly	2005	FL	Bay County Jail	suicide
Adam Gene Lippert	2005	OK	Cimarron Corr. Facility	homicide
Maya Nand	2005	AZ	Eloy Detention Center	medical
Elias Lopez Ruelas	2005	AZ	Eloy Detention Center	medical
Juan Salazar-Gomez	2005	AZ	Eloy Detention Center	suicide
Emma J. Nobles	2005	FL	Gadsden Correctional Facility	natural
Roy King	2005	TN	HCCF	natural
Terry Vestal	2005	TN	HCCF	unknown
David Smith	2005	TN	HCCF	unknown
William Collins	2005	TN	HCCF	natural
Daniel Ray Warren	2005	FL	Hernando County Jail	suicide
Reinaldo Prado-Arencilia	2005	TX	Houston Processing Center	medical
Walter Alvarez-Esquivel	2005	TX	Laredo Processing Center	medical
Gerald Smith	2005	TN	MDF	natural
Carlton Sloss	2005	TN	MDF	natural
Teon Bowens	2005	TX	Mineral Wells	natural
Sarah Ah Mau	2005	KY	Otter Creek	medical
Roberto Ledesman-Guerrero	2005	CA	San Diego Corr. Facility	natural
Ignacio Sarabia-Vallasenor	2005	CA	San Diego Corr. Facility	natural
William Long	2005	TN	SCCF	natural
Sonny Porter	2005	TN	SCCF	natural
Felipe Gonzalez	2005	OK	Tulsa Jail	suicide
Terry Miller	2005	TN	WCFA	natural
William Henry Cantor	2004	FL	Bay County Jail	suicide
Stacy Allan Tolbert	2004	FL	Bay County Jail	medical
Jonathan Magbie	2004	DC	Correctional Treatment Facility (DC)	medical
Jose Lopez-Lara	2004	AZ	Eloy Detention Center	medical
Mary L. Perry	2004	FL	Gadsden Correctional Facility	natural
Glen Miller	2004	TN	HCCF	natural
Maria Solis-Perez	2004	TX	Houston Processing Center	medical
Bobby James	2004	TN	MDF	natural
Ellen Walker	2004	TN	MDF	natural

Billy Barrett	2004	TN	MDF	natural
Estelle Richardson	2004	TN	MDF	homicide
Floyd Campbell	2004	TN	SCCF	natural
Kevin Scott	2004	TN	Shelby Training Center	suicide
Sondria Allen	2004	OK	Tulsa Jail	accident
Michael Andrew Jones	2004	OK	Tulsa Jail	suicide
James L. Kirk, Jr.	2004	TN	WCFA	suicide
Lemoyn Sherron	2004	TN	WCFA	natural
Anthony Jones	2004	TN	WCFA	natural
Ronald Brock	2004	TN	WCFA	natural
Byron Lester	2003	FL	Bay Correctional Facility	natural
Francis M. Hendrickson	2003	FL	Gadsden Correctional Facility	natural
Terrence Morton	2003	TN	HCCF	natural
Joseph Brooks	2003	TN	HCCF	natural
Ark Collier	2003	TN	HCCF	natural
William Hudson	2003	TN	MDF	natural
Joseph Gant	2003	TN	SCCF	natural
James R. Boyd	2003	TN	SCCF	natural
Alex Bass	2003	TN	Shelby Training Center	suicide
Chad Littles	2002	FL	Bay County Jail	homicide
Justin Sturgis	2002	FL	Bay County Jail	medical
Antonio Lewis Franklin	2002	FL	Citrus County Jail	medical
Benjamin David Brown	2002	DC	Correctional Treatment Facility (DC)	medical
Gail M. Mikell	2002	FL	Gadsden Correctional Facility	natural
Mark Jelsema	2002	TN	HCCF	natural
David Greene	2002	TN	HCCF	natural
Bennie Welch	2002	TN	HCCF	natural
Pedro Rodriquez	2002	TN	HCCF	natural
Laren Sims Jordan	2002	FL	Hernando County Jail	suicide
Daniel Williams	2002	TN	MDF	natural
Tammy Wynn	2002	TN	MDF	natural
Brenda Wiggins	2002	TN	MDF	accident
George Burke	2002	TN	MDF	natural
Lewis Collier	2002	TN	SCCF	natural
Lindsey Lightner, Jr.	2002	TN	Silverdale Detention Facility	natural
Scott Ray Dickens	2002	OK	Tulsa Jail	suicide
Etheridge Hughes	2001	FL	Bay Correctional Facility	natural
Conrado Mestas Ochoa	2001	TX	Eden Detention Center	unknown
Iulai Amani	2001	AZ	Florence Corr. Center	medical
Mary A. Jimerson	2001	FL	Gadsden Correctional Facility	natural
Jenny L. Singleton	2001	FL	Gadsden Correctional Facility	natural
Mary L. Bayer	2001	FL	Gadsden Correctional Facility	natural
Jeffrey Buller	2001	CO	Kit Carson	medical
Timothy Johnston	2001	TN	MDF	accident
Reginald Rose	2001	TN	MDF	natural
Thomas Harris	2001	TN	SCCF	homicide
Dowell Shannon	2001	TN	SCCF	natural
Calvin Lamy	2001	NM	Torrance County Detention Facility	suicide
Shane M. Spencer	2001	OK	Tulsa Jail	medical
Marvin Borjas Diaz-Perez	2001	TN	West Tennessee Detention Facility	medical
Ruby DeVaughn	2000	FL	Gadsden Correctional Facility	natural

Lorraine Days	2000	FL	Gadsden Correctional Facility	natural
Wanda E. Dennis	2000	FL	Gadsden Correctional Facility	natural
Connie Y. Miller	2000	FL	Gadsden Correctional Facility	natural
Jacquelyn D. Murray	2000	FL	Gadsden Correctional Facility	natural
Isaac Lyons III	2000	TN	HCCF	unknown
Michael Schrecongost	2000	CO	Kit Carson	overdose
Edmond Corley	2000	TN	MDF	natural
Joan Gary	2000	TN	MDF	natural
Merlin Lee Foster	2000	OK	Tulsa Jail	medical
Cory Adam Morris	2000	OK	Tulsa Jail	suicide
Leonia Sanchez Arriaga	2000	OK	Tulsa Jail	medical
Donnell Reed	1999	DC	Correctional Treatment Facility (DC)	other
Steven W. Lawson	1999	TN	HCCF	natural
James Barner	1999	TN	HCCF	natural
Candy Jones	1999	TN	MDF	unknown
Paul Reed	1999	TN	MDF	unknown
James Lebron Hurt	1999	TN	Silverdale Detention Facility	suicide
Reginald Edmonds	1998	TN	HCCF	suicide
Paula Richardson	1998		MWCC (Australia)	suicide
Ralph Carpenter	1998	TN	SCCF	natural
Douglas Mattes	1998	TN	SCCF	suicide
Geronimo Gonzales- Quintanilla	1998	NM	Torrance County Detention Facility	medical
Bill Hambly	1998	NM	Torrance County Detention Facility	homicide
Gregory Allen Pope Sr.	1998	OK	Tulsa Jail	medical
Corey Smith	1998	TN	West Tennessee Detention Facility	homicide
Stanley R. Rice	1998	OH	Youngstown	medical
Perry Clay	1998	OH	Youngstown	medical
Bryson Chisley	1998	OH	Youngstown	homicide
Derrick David	1998	OH	Youngstown	homicide
William V. Christian	1997	TN	HCCF	homicide
Tony Sams	1997	TN	MDF	unknown
Charles Edward Guffey	1997	OK	Tulsa Jail	medical
Michael Cephus	1997	OH	Youngstown	medical
John Cowley	1996		HM Prison Blakenhurst (UK)	suicide
Bryant Donnie	1996	TN	MDF	unknown
Kenneth Brakefield	1996	TN	MDF	unknown
Ronald Coleman	1996	TN	MDF	natural
Alton Manning	1995		HM Prison Blakenhurst (UK)	other
Hugh Wayne Martin	1995	TX	Venus Pre-release Detention Center	overdose
Rosalind Bradford	1987	TN	Silverdale Detention Facility	medical
Marjorie Annmarie Bell	2014	CA	San Diego Corr. Facility	medical
Charles Emesibe	2015	TN	HCCF	unknown
Christopher Robinson	2015	TN	HCCF	natural
Jackie Coffman	2015	TN	WCFA	natural
Lewis Hamilton	2015	OK	Davis Corr. Facility	homicide
Jonathan Namauleg	2015	AZ	Saguaro Corr. Center	homicide
Anthony Fulwilder	2015	OK	Cimarron Corr. Facility	homicide
Micheal Mayden	2015	OK	Cimarron Corr. Facility	homicide
Kyle Tifee	2015	OK	Cimarron Corr. Facility	homicide



Christopher Tignor	2015	OK	Cimarron Corr. Facility	homicide
Michael Flor	2012	MT	Crossroads Corr. Facility	medical
Joseph Barela	2013	NM	Torrance County Detention Facility	suicide

**PENDING INMATE DEATHS**

Carlos Aguirre-Venegas  
 Jason Owens  
 Daniel Simmons  
 Arnold Everett  
 Bill Audie Hamby  
 John Judson Patterson  
 Robert Triplett  
 Tommy Lee Poe  
 Reginald Garrett  
 Bernard Pete  
 Walter Thurman  
 Harvey  
 Sims