

ECONOMIC SCENE

Warning: Military service can be a drain on later earning power in civilian life.

By ALAN B. KRUEGER

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THE risk of serious injury or death to members of the armed forces is clear enough, but their economic risks are less apparent. Veterans Day is a fitting occasion to recognize the economic sacrifices of veterans.

For a long time, it was believed that veterans of popular wars benefited from their service when they rejoined the civilian labor market, while veterans of unpopular wars lost out. A growing body of research, however, shows that most veterans -- whether inductees during a draft or enlistees in the voluntary forces -- suffer an earnings penalty in the civilian economy. Military experience appears to be worth little to most private-sector employers.

Figuring out how military service affects veterans' civilian earnings is not straightforward. On the one hand, the military rejects individuals who are physically unfit, uneducated or have a low aptitude. On the other hand, during the Vietnam War, many men with good connections, occupational deferments or a college education were able to avoid service. As a result, veterans are not a representative sample of the population, and a simple comparison of veterans to nonveterans can be misleading.

In a celebrated 1990 study, Joshua Angrist of M.I.T. solved this problem by ingeniously exploiting the Vietnam-era draft lottery. Priority for the draft was determined by random selection on birthdays. Professor Angrist compared the earnings of those whose birthdays made them eligible for the draft with those whose birthdays made them ineligible. Because birthdays were randomly selected, there is no reason to suspect that the two groups would have had different earnings absent the draft. With this setup, he found that veterans who joined the military because of their unlucky draft number earned about 10 percent less than otherwise similar nonveterans in the first decade after leaving the service.

The nature of selection into the military was different during World War II, but the impact of service was similar. Three-quarters of men born from 1919 to 1926 served in World War II. Those who did not were often disqualified because of a physical or mental handicap. These handicaps limited job opportunities for nonveterans. While World War II veterans earned about 10 percent more than nonveterans over the course of their civilian careers, that advantage was a result of the low earning power of nonveterans.

The draft lottery again offers a way to estimate how much veterans would have earned if they had not served. By comparing birth cohorts with greatly different call-up rates as the draft built up and then wound down, Professor Angrist and I found that World War II veterans earned 5 to 10 percent less than comparable nonveterans, similar to the penalty that Vietnam-era veterans suffered.

In recent work, Professor Angrist tackles the effect of serving in the post-Vietnam all-volunteer force. He uses two methods to determine how much veterans would have earned in the absence of their service. First, he matches applicants to the military who served to other applicants who did not serve but had the same education and aptitude score.

Second, he takes advantage of a mistake in the way the armed forces qualifying test was graded.

From 1976 to 1980, more than 250,000 applicants were accidentally let into the military because of this mistake. The

military fixed the mistake in October 1980. Applicants who were rejected after the fix-up but who would have been accepted previously provide a natural comparison group for those mistakenly accepted.

Both techniques yield similar results. When they entered the civilian labor market, white veterans earned around 5 percent less than their nonveteran counterparts. It took about 10 years for this earnings disadvantage to dissipate.

Nonwhite veterans, by contrast, earned almost 10 percent more than otherwise comparable nonveterans upon leaving the military, and this advantage persisted for at least a decade.

A possible explanation for this racial disparity is that a record of military service may be a positive signal that helps minority workers to (at least partially) overcome the discrimination they face in the labor market. For white veterans, however, military service mainly amounts to a loss of civilian work experience.

Several studies find that while in the armed forces, military personnel earn higher salaries than their civilian counterparts. The pay of military personnel also increased sharply relative to that of civilians since 2000, according to a new study by John T. Warner and Curtis Simon of Clemson University.

But all is not so rosy. Wives of men in the armed forces earn 30 percent less than other married women their age with the same education, according to a study by Col. Casey Wardynski of the United States Military Academy.

In part, the spouses fare poorly because military bases are overwhelmingly in low-wage, rural areas. In addition, because military wives are often forced to relocate, they have little opportunity to advance within the same company, and little bargaining power because they cannot easily move to another location in search of better pay.

The limited labor market opportunities for wives of military personnel was of little consequence in the 1960's, when fewer than a third of them worked. But now, with two-thirds of wives of soldiers in the labor force, the earnings gap significantly lowers family incomes.

To reduce the economic burden on military families, Colonel Wardynski recommends considering giving preferences to spouses of military personnel for civilian jobs on military bases.

Despite the economic sacrifices -- and the increased risk to life and limb from the war in Iraq -- enlistments rose noticeably in all branches of the armed forces except the Navy from 1999 to 2003. The weak job market, intensified military recruitment efforts and patriotic zeal have undoubtedly increased recruitment, Mr. Warner said.

"Without regarding the danger," Adam Smith once remarked, "young volunteers never enlist so readily as at the beginning of a new war."

As the war in Iraq persists and the job market continues to strengthen, the costs of reaching the Pentagon's growing target for enlistments are expected to rise as well -- for the Treasury and for veterans.