

Center for Equitable Growth Continuing Student Fellowship  
Labor Market Scars of U.S. Veterans

Mark Borgschulte\* and Paco Martorell†

May 2, 2012

**Abstract:** Using linked military payroll and SSA records, we identify the effect of economic fluctuations on the reenlistment, schooling, and earnings of individuals who enlisted in the U.S. military between 1989-2010. Preliminary findings suggest the option of reenlistment insures service members against poor civilian labor market opportunities, at the cost of fewer years of completed schooling and lower future civilian earnings. We estimate an option-value model of the reenlistment decision to value the insurance provided by reenlistment. Our model allows us to make an out-of-sample prediction of the effects of the current recession and military drawdown.

**Discussion:** Inequalities in the costs of economic fluctuations depend on the options of those workers unlucky enough to be job-seekers during poor labor markets. During severe recessions, the options that typically insure workers in good times decrease in value, due to congestion or the direct effects of the downturn. As well, workers may make costly decisions that delay losses. For U.S. military service members, the current recession coincides with a significant reduction in the size of the military, and prospective cuts to many benefit programs. Where enlistment and reenlistment have typically shielded service members from poor civilian labor markets, the value of these options has declined.

This project examines the costs of the current recession for service members and recently-released veterans, and explores the random assignment of economic conditions at reenlistment eligibility as a laboratory for the effects of economic conditions on later-life outcomes. As our dataset contains the universe of military service members linked with military and SSA earnings records, we have the unique opportunity to observe the individual decisions of service contract, the realized earnings and schooling outcomes, and the aggregate context that explains the time-variation in the available options. After documenting the reduced-form changes in earnings profiles, we will use shocks to occupation-level military labor demand to estimate selection in the reenlistment/exit decision. Our model will incorporate the interaction of bonuses and working conditions that drive the decisions to reenlist or exit the service; the potential for general equilibrium effects in the insurance value of reenlistment motivates our modeling exercise.

---

\* **Applicant**, PhD Candidate, Department of Economics, University of California, Berkeley

† Economist, RAND; Professor, Pardee RAND Graduate School

The goal of this project is to contribute to a better understanding of equitable growth by documenting the importance of initial job market conditions in a more diverse and less educated population than considered by the college-entry literature, by explicitly modeling the choices of job-seekers faced with (costly) options to delay entry, and by assessing the optimal policy responses to this observable shock. As veterans will represent a significant fraction of job seekers over the coming years, our context has direct relevance to for policy makers. Empirically-grounded policy recommendations in this area have the potential to lead to innovations in the design of unemployment insurance programs, as well as prospective wage and earnings insurance programs.