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Long-Term Effects of Leaving Military Service in a Weak Economy

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Previous research finds negative effects in the short and medium term for those who initially entered the labor force during weak labor markets. However, past research also finds that young workers try to time their entry into the labor market by, for example, obtaining additional education or training. Here, we take advantage of a novel form of exogenous variation that affected a large group of older workers to study longer-term effects of entering labor markets during bad economic times. Using the Health and Retirement Study, we focus on veterans from the draft era and examine the effects of leaving military service during periods of high unemployment on earnings, wealth, and retirement. These men had little choice about the timing of entry into the labor force; they generally were drafted or volunteered based on world events and they left the military at the end of fixed contracts after short terms of service.

Despite selecting on veterans who served on short contracts during the draft era, different levels of selectivity into the military could still influence our results. We use a sample selection model to control for this potential issue.

Our primary focus is on the long-term effects of entry unemployment rate on earnings, wealth, and retirement. But we also model educational attainment and marital status. We find that the unemployment rate at the point a veteran exits the military affects both of these outcomes: Veterans who exit the military during periods characterized by high unemployment are more likely to obtain additional education, but are more likely to be divorced or separated.

Our results indicate that entering the labor market during a period of high unemployment posed a

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disadvantage to the veterans in our sample, regardless of their military experience and additional education/training. These veterans experienced lower earnings compared to veterans who entered the labor market during periods of low unemployment, and the effects appear to last more than a decade. We also measure negative effects on prospective Social Security wealth, and negative (but not statistically significant) effects on housing wealth and financial wealth (e.g., savings).

We also find that veterans who entered the labor market during periods of high unemployment appear to make up for initially lower earnings and lower accumulated wealth by delaying retirement: They are more likely than others to work past their normal retirement age.

In short, we find that the influence of the civilian unemployment rate at the point of entry to the job market may stretch until retirement. Veterans who enter the civilian labor market under unfavorable conditions experience negative effects over the long run. Our results would suggest that veterans who transitioned into the civilian world during the recent Great Recession will experience lower earnings for a number of years and probably work longer. The same may be true of other young workers who entered the labor market during the Great Recession.

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