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The Challenges Facing Veteran Workers

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Military veterans are a small but important part of the U.S. labor market. Relative to other labor force participants, they face unique challenges to their employment prospects. Transitioning from the military to the civilian labor market is, almost by definition, a significant disruption in one's career path. The skills they acquire in the military may not be directly transferable to civilian work, and even if they are, there may be barriers in the job search process, such as licensing and certification requirements, that hinder them from finding work that suits their skill sets. The transition from military to civilian life also presents several additional challenges to veterans, such as issues with their mental or physical health, particularly for those who experience long periods of deployment.

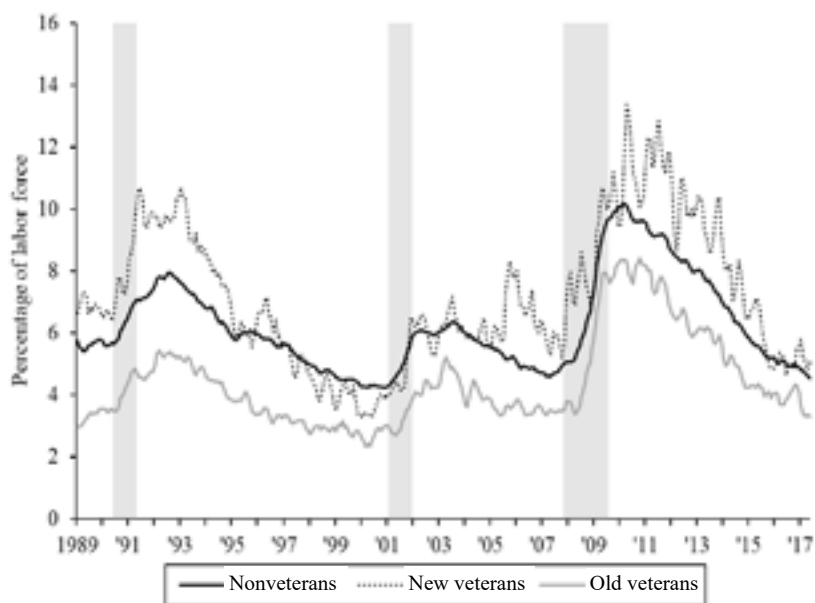
In short, veterans must overcome a wide variety of unique challenges when they transition from military service to the civilian labor market. While an array of programs are designed to aid veterans with their employment prospects, there is relatively little research on the effectiveness of these programs or on veterans' employment in general. In this chapter, we highlight some of the key findings on trends in veterans' labor market outcomes, including the factors that affect these trends. We also provide a review of existing programs and suggest areas for policymakers to focus on in the future that could improve the labor market experiences of veterans.

TRENDS AND FACTORS IN VETERAN LABOR MARKET EXPERIENCES

In December 2016, veterans made up 4.8 percent of the U.S. labor force.¹ Veterans of the recent wars in Iraq and Afghanistan made up 1.7 percent. In general, the veteran unemployment rate differs from the nonveteran unemployment rate. As Figure 10.1 shows, there also is a considerable difference between veterans who recently entered the civilian labor force and older veterans, as newer veterans experience much higher unemployment rates than veterans as a whole and at least as high of unemployment rates as nonveterans. Conversely, older veterans consistently have a *lower* unemployment rate than either veterans as a whole or nonveterans. The unemployment rate of newer veterans is also more responsive to the business cycle: their unemployment rate rises more sharply than the unemployment rate of the other two groups during each recession, and it remains elevated for relatively longer as well.

One of the main drivers of the observed differences in unemployment rates between recent veterans, older veterans, and nonveterans is demographics (see, for example, Faberman and Foster [2013]; Heaton and Krull [2012]; and Loughran [2014]). Veterans tend to be less educated and a higher fraction of them are nonwhite—both of these demographics tend to have higher unemployment rates in the general population. Recent veterans are also younger, on average, and younger people tend to have higher unemployment rates than the general population as well.

Nevertheless, research has found that higher unemployment rates for certain groups of veterans persist even after one takes demographic differences between veterans and nonveterans into account. Heaton and Krull (2012) and Loughran (2014) find that young veterans face disproportionately high unemployment rates relative to young nonveterans, even after one controls for differences in other demographics. Faberman and Foster (2013) find that, even after controlling for differences in demographics, veterans of the recent wars in Iraq and Afghanistan have fared worse, in terms of their unemployment rates, than both veterans of earlier wars and nonveterans.

Figure 10.1 Unemployment Rate by Veteran Status

SOURCE: Authors' calculations using the Current Population Survey (CPS), following the methodology of Faberman and Foster (2013). Sample is made up of all individuals aged 18 to 64. Gray bars indicate recessions.

On average, veterans earn more compared to nonveterans. In December 2016, Iraq and Afghanistan war veterans earned an average hourly wage that was 16.2 percent more than nonveterans, and older veterans earned an average hourly wage that was 22.0 percent more than nonveterans.² Again, differences in demographics across the groups can account for a large portion of these gaps. Once we account for differences in demographics, recent veterans earn only 4.9 percent more and older veterans earn only 2.1 percent more than nonveterans. Accounting for differences in the industries and occupations that they work in eliminates these wage gaps entirely.³ It is also worth noting that military salaries are usually considerably higher than salaries for comparable civilian occupations. Veterans often face significant declines in their earnings when transitioning to civilian life because of this fact alone. Consequently, most studies of veterans' earnings focus on their longer-run prospects.

These studies find mixed results on the earnings outcomes of veterans, which depend heavily on the veterans' demographic characteristics and their positions held while in the military. A salient finding in several studies is that minorities tend to benefit significantly, in terms of their long-run earnings outcomes, from military service (Angrist 1998; Hirsch and Mehay 2003; Loughran et al. 2011; Routon 2013), while white veterans show no long-run benefit (or penalty). Loughran et al. find that lower-skilled veterans also benefit from military service. One reason minorities may benefit from military service is that their service acts as a signal of employability that counteracts potential discriminatory hiring practices.⁴ Loughran et al. argue that military service, regardless of race, provides several benefits that can potentially affect one's long-run earnings long after one's service has ended. These include the considerations that military enlistment incentivizes service members to undertake more training and formal education and that military service helps develop other skills valued in the labor market. In contrast, Rounton argues that there have been opposing forces in both the military and the civilian labor markets recently that could explain why, with the exceptions noted above, most veterans receive no significant earnings benefit from military service. On the one hand, advances in military technology have potentially increased the returns to military experience with respect to civilian job requirements. On the other, the civilian population has become more educated while the military population has not, and technological innovation has increased the returns to education more broadly within the civilian labor market. (The labor economics literature often refers to this as "skill-biased technological change.")

A major concern for both the employment and earnings outcomes of veterans is the applicability of the skills they gain during military service to the skills required within the civilian labor market. Curry Hall et al. (2014) examined the hiring experiences of employers that targeted veterans in their recruiting efforts. Employers consistently reported that matching veterans' skills to civilian job requirements was a major issue in hiring veterans. In a similar study, Kintzle et al. (2015) found that veterans have difficulty learning how their military experience may be used in the civilian job market.

Another concern is the timing of when veterans return to the civilian job market. At any point in time, there are two forces at play. First, military recruitment depends on the needs of the armed forces—wars

are times when the armed forces require more service members. Consequently, when the military needs to sharply increase its recruiting efforts, it more often than not relaxes its recruiting standards. Second, the success of new veterans in finding work as they transition to civilian life depends heavily on the strength of the labor market that they enter. Veterans that enter the labor market during an economic downturn will have a harder time finding work, all else being equal. The interaction between several factors—economic conditions, the demands and recruiting standards of the military, and the timing of when service members transition to civilian life—can present additional challenges to veterans entering the civilian labor market.

For example, Faberman and Foster (2013) find that new veterans have relatively higher unemployment rates when there are large drawdowns in the size of the military. This occurred following the first Gulf War and the more recent wars in Iraq and Afghanistan. Both military drawdowns occurred during economic downturns (1991–1992 and 2009–2011), exacerbating the poor job-finding prospects of these veterans. Moreover, the increase in demand for soldiers because of these wars generally caused the military to reduce its recruiting standards. This meant that the military was more likely to employ service members that would have had relatively more difficulty finding work regardless of their military service.

For instance, as the wars in Iraq and Afghanistan dragged on, the military was more likely to accept recruits with a criminal record. As these wars wound down, the military drew down its forces, and those who would not normally have been accepted for service were the first to be mustered out. This created a situation where the recent veterans entering the labor market, all other things being equal, would have a harder time finding work than veterans whose recruitment was not the result of more lax recruiting standards. Changes in the composition of veterans entering the workforce because of these factors may be one reason Collins et al. (2014) and Faberman and Foster (2013) find that veterans of the recent wars have fared relatively worse than veterans in other periods.

Borgschulte and Martorell (2016) show that economic conditions can also affect when veterans choose to leave the military. Service members will be less likely to leave when economic conditions are poor. At the same time, military drawdowns, like the one that accompa-

nied the reduction in American forces committed to the wars in Iraq and Afghanistan, may give them little choice. Veterans who are mustered out despite a desire to reenlist may be forced to look for work with relatively poor job prospects. In this sense, their labor market outcomes may not be that much different from the outcomes of civilians who have been laid off.

Finally, there are concerns that physical and mental health issues resulting from military service can negatively impact the job prospects of new veterans. Issues with physical mobility, hearing or eyesight, post-traumatic stress disorder (PTSD), depression, and substance abuse are just some of the hurdles facing returning veterans. A combination of medical advances, which have helped save the lives of veterans who would otherwise have died in combat, and better diagnoses of mental health issues, has led recent veterans to use Veterans Health Administration services at higher rates than veterans of previous conflicts. Seal et al. (2009) find that over 40 percent of recent veterans received a diagnosis of at least one mental-health, psychological, or behavioral problem. Ramsey et al. (2017) find that PTSD is the most frequently reported mental health diagnosis across age and gender groups. Prolonged deployments may increase the risk of a physical or mental health issue for veterans, but it is unclear whether prolonged deployments alone have adverse effects on employment outcomes. For example, Horton et al. (2013) could not find a significant relationship between deployment experience and postmilitary employment outcomes, while Loughran (2014) finds that, while veterans are more likely to report a work disability than nonveterans, the increased incidence of work disabilities did not account for a notable amount of the difference in their unemployment rates relative to nonveterans.

EXISTING EMPLOYMENT AND TRAINING PROGRAMS FOR VETERANS

A variety of government and nonprofit programs are available to veterans, several of which are familiar to the general public.⁵ One of the largest is the GI Bill, which provides education assistance to veterans. Education benefits have had a considerable influence on the recruitment

and retention of military service members. These benefits also incentivize many veterans to enter postsecondary schooling upon return, and this schooling provides substantial benefits to veterans. These include added training and the opening up of opportunities for a range of potential careers.

Most studies find significant returns to veterans' employment outcomes from education benefit programs. Simon, Negrusa, and Warner (2010) find that increases in the dollar amount of GI Bill benefits lead to an increased uptake of the program but also a decrease in military retention rates as service members leave to pursue formal education. Barr (2015) finds that the post-9/11 GI Bill increased the college enrollment of both active-duty service members and new veterans, but only modestly so. When evaluating education benefit programs for veterans, it is important to keep in mind that, in general, veterans enrolled in schooling are typically nontraditional students. They tend to be older, are more likely to have families, and may be more financially independent than other students.

Veterans also tend to have relatively generous unemployment insurance benefits through the Unemployment Compensation for Ex-Servicemembers (UCX) program. Loughran and Klerman (2008) find that the take-up rate of these benefits by recent veterans has been relatively high. For both veterans and civilian job seekers, generous unemployment benefits can aid the jobless financially while they look for work, but these benefits also have the potential to reduce their search efforts.⁶

There are also several programs focused on increasing the hiring of veterans through subsidies or tax credits. One such program is the Work Opportunity Tax Credit (WOTC), which focuses on the hiring of hard-to-employ populations, including both veterans and nonveterans. Heaton (2012) examines the effectiveness of the WOTC and finds that it has a positive impact on the hiring of disabled veterans, particularly older veterans. The private sector and several nonprofit organizations have also created programs focused on hiring veterans. Curry Hall et al. (2014) examine the 100,000 Jobs Mission, conducted by a coalition of private-sector companies, and find that, while the program has generally been successful, employers nevertheless have reported difficulties in matching veterans' skills to the requirements of available jobs.

Finally, there are several programs, such as workshops and job fairs, that focus on aiding veterans in their job search. Examples of these programs include the Transition Assistance Program and Transition Goals, Plans, Success (TAP and Transition GPS, respectively). These programs provide recently separated veterans with assistance in their job search and general support for transitioning to civilian life. Transition GPS, which is implemented within TAP, is a mandatory five-day workshop for almost all separating service members. Service Member Transition Summits are job fairs held at local military installations where employers also obtain resources for recruiting and retaining veteran employees. All of these programs are administered by the Department of Defense.

AREAS FOR FURTHER WORK

The labor market experiences of veterans, particularly recent veterans, and the wide variety of existing programs available to them, afford several avenues for both policymakers and researchers to better understand and improve veterans' labor market outcomes.

As we have seen, one of the biggest challenges facing veterans is the matching of the skills they acquire in the military with the skill requirements of available civilian jobs. There is already a wide assortment of programs meant to ensure that recent veterans can best apply their skills to civilian work, but hurdles remain. Some issues relate to the nontransferability of certain military skills (for example, those focused primarily on combat), while others relate to the language and terminology used in the military for particular skills and occupations. These differences in language can obfuscate the match between military skills and civilian job requirements. Programs and online tools exist that focus on military skills translations and job search assistance. These help veterans retool their résumés in a way that best highlights their skill set for civilian work. A continued commitment to these efforts is likely crucial for new veterans entering the civilian labor market.

Related to the issue of skills matching is the rise of occupational licensing. According to a report published by the Brookings Institution, approximately 25 percent of employed individuals held a currently

active certification or license in 2015, up from roughly 5 percent in the 1950s (Nunn 2016). Much of the rise in licensing has occurred in jobs that do not require a college degree, and consequently in occupations that veterans are most likely to apply for. Oftentimes, veterans have acquired the skills required for these civilian jobs during their military service, but they do not have the necessary occupational licenses. This can have an adverse effect on the transition to the civilian labor market. For instance, veterans may have to repeat education or training that overlaps with their military experience in order to obtain an occupational license. Consequently, some veterans may choose alternative career paths that are not as good a fit for their skill set because of the barriers that occupational licensing creates. The government has only recently begun taking steps to improve the situation. The Department of Defense created its Credentialing and Licensing Task Force in 2012 to address the issue, but roadblocks remain. There is certainly more that policymakers can do to ensure that veterans have the licensing commensurate with their skill sets, as well as the information necessary for them to pursue the potential occupational licenses required, well before they transition to civilian life.

Finally, policymakers need to be cognizant of the composition of new veterans and the economic conditions at the times when veterans transition to the civilian labor market. Wars are times when the military generally relaxes its recruiting standards to attract and retain more service members. When wars end, the military reduces its ranks, and those who were recruited under the more lax standards are often the first ones mustered out. Many of these individuals would have difficulty finding new work independent of their military service. Furthermore, their separations are essentially equivalent to a layoff in the civilian labor market. A vast amount of research in labor economics shows that individuals often face relatively long periods of unemployment and long-term earnings losses following a layoff (e.g., Jacobson, Lalonde, and Sullivan 1993; Couch and Placzek 2010; Davis and von Wachter 2011). There is also a long line of research that finds that individuals who enter the labor market during an economic downturn have difficulty finding work and experience adverse effects on their long-term earnings (e.g., Beaudry and DiNardo 1990; Bowlus 1995; Kahn 2010). Consequently, policymakers need to realize that times of military drawdowns and periods of poor economic conditions will be times when veterans'

labor market prospects will be most vulnerable. Devoting additional resources and time to veterans transitioning to civilian life during these periods can mitigate some of the difficulties veterans will likely face in finding work.

Notes

The views expressed here are the authors' own and do not necessarily reflect those of the Federal Reserve Bank of Chicago or of the Federal Reserve System. The authors can be reached at jfaberman@frbchi.org and thaasl@frbchi.org.

1. These and all subsequent statistics reported in this chapter are estimated from the Current Population Survey of the Bureau of Labor Statistics. Guo, Pollak, and Bauman (2016) also provide a more extensive review of the labor market experiences of veterans.
2. The estimates are from authors' calculations using Current Population Survey data.
3. We calculate estimates in this paragraph using the CPS outgoing rotation group for December 2016. Our demographic controls include age, gender, race, education, marital status, an interaction between gender and marital status, the number of household children under 18, and the state of residence.
4. Discrimination in hiring practices has been studied extensively for many groups of workers. Such discrimination can be explicit or implicit, with the latter being what the labor economics literature refers to as "statistical discrimination."
5. For a more thorough review of the types of programs available to veterans, see Schaefer et al. (2015) and Collins et al. (2014). Buryk et al. (2015) have an overview that focuses on major federal educational benefits programs.
6. For research on the relationship between job search and unemployment benefits, see Krueger and Meyer (2002), Chetty (2008), and Krueger and Mueller (2010), among others.

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