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Gender, race & the veteran wage gap

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ABSTRACT

This paper analyzes earnings outcomes of Iraq/Afghanistan-era veterans. We utilize the 2009–2013 American Community Survey and a worker-matching methodology to decompose wage differences between veteran and non-veteran workers. Among fully-employed, 25–40 year-olds, veteran workers make 3% less than non-veteran workers. While male veterans make 9% less than non-veterans, female and black veterans experience a wage premium (2% and 7% respectively).

Decomposition of the earnings gap identifies some of its sources. Relatively higher rates of disability and lower rates of educational attainment serve to increase the overall wage penalty against veterans. However, veterans work less in low-paying occupations than non-veterans, serving to reduce the wage penalty. Finally, among male and white sub-groups, non-veterans earn more in the top quintile due largely to having higher educational attainment and greater representation in higher-paying occupations, such as management.

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1. Introduction

Veterans face many difficult challenges and much uncertainty when they join the civilian workforce. Depending on the nature of one's military experience, various barriers exist to finding work, transferring skills from the military, and receiving compensation for those skills. Different veterans return from very different military experiences, which may impact labor force outcomes in different ways. Some veterans have skills and experiences that have a strong demand from civilian employers. Operations-support positions that hone technical, mechanical, and healthcare knowledge should serve as a springboard into high-paying jobs in the civilian workforce. Veterans who served in combat positions may have developed skills sets that are less broadly sought out by civilian employers. The additional mental and physical stress of combat service may prolong recovery and create other barriers to finding work.

This paper analyzes wage outcomes for post-2001, Iraq/Afghanistan-era veterans in the recent job market. The question of interest relates to reintegration into the civilian workforce — are post-2001 veterans paid in the same way that other workers are? Using the 2009–2013 American Community Survey (ACS), we analyze the veteran vs. non-veteran wage difference in a number of ways. First, we segment the analysis by gender and race to focus on wage outcomes for veterans with different experiences. Until recently, combat-arms roles have been reserved for men. Additionally, 53% of enlisted white Army Soldiers served in combat-arms positions, compared to 24% of black soldiers ([Office of Army Demographics \(2010\)](#), p. 16). Thus, a

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gender/race difference in military experiences may relate to a difference in earnings outcomes. Second, we present the wage distributions of post-2001 veterans and other workers together, to identify gaps between the two. Among males, the top of the wage distribution shows an increasing penalty against veterans. For instance, the median male veteran makes only \$0.60 per hour less than the median non-veteran; however, the veteran at the 90th percentile makes \$6 per hour less than the non-veteran at the same percentile. On the other hand, wage distribution comparisons favor female and black veterans (compared to their non-veteran counterparts), with large premiums along the bottom four quintiles, supporting previous findings of favorable effects for veterans from groups with lower earnings generally (Angrist, 1990; Sampson and Laub, 1996; Xie, 1992; Browning et al., 1973). Third, we compare median occupational wages for veterans and non-veterans, finding that veterans in the bottom four quintiles of earnings tend to employ in higher-paying occupations than non-veterans, an effect of occupational segregation that has been seen in studies of gender and racial pay gaps (Petersen and Morgan, 1995; Lockette and Spriggs, 2015). We explore what occupations veterans tend to work in.

Finally, we utilize the matching methodology of Nopo (2008) to decompose the wage gap against veterans. Rather than compare all veterans to all non-veterans, this methodology uses direct matching to segment the workforce into four groups: 1) veterans who “match” a non-veteran across a combination of labor-market related characteristics (same age range, race, gender, education level, disability status, and civilian occupation code); 2) veterans who do not have a combination match with a non-veteran; as well as 3) non-veterans who “match” a veteran; and, 4) non-veterans who go unmatched. We find that veterans earn 3% less overall but opposing effects play a role in the veteran wage gap. On the one hand, both matched and unmatched veterans tend to segregate away from lower paying occupations compared to most of the civilian workforce, reducing the overall wage penalty. In addition, many veterans work in jobs that pay below- or near-median wages work in the public sector, which tend to pay more than similar jobs in the private sector, also reducing the overall wage penalty. On the other hand, comparisons of matched veterans and non-veterans — those most likely to be in similar situations — show that this group of veterans has a lower rate of educational attainment, a lower rate of work in the highest-paying occupations, and lower returns to job-related characteristics (i.e. for unobserved reasons), increasing the wage penalty against veterans.

2. Background

The potential link between veteran status and earnings is not straightforward, thus *a priori* propositions on the direction of the veteran wage difference are not clear. Various factors may pull in opposing directions. First, working in a given military occupational speciality (MOS) leads to valuable technical skills and experience that may help those veterans land in higher-paying civilian industries and occupations. Studying veterans who separated from military service in 1971, Goldberg and Warner (1987) found that differences in “general” military training and experience — namely medical, equipment repair, technical, and electronic skills — had considerable, positive effects on later earnings. However, one should not assume that all veterans will seek to continue into a civilian job related to their MOS; many likely seek education or training to switch occupations. Second, the educational and health support that veterans receive through the U.S. Department of Veterans Affairs can help veterans in the accumulation of human capital and lessen the potential health barriers to the workforce. Third, veterans may face barriers to work that stem from institutional differences between the Armed Forces and the civilian workforce and perceptions that civilian employers may have of veterans. For example, veterans must adapt to different procedures, communication norms, cultures, and command structures in the civilian workforce (Freifeld, 2010). Stigma facing veterans, either real or perceived, may affect a veteran's choices toward treatment (Ben-Zeev et al., 2012; Vogt, 2011) and potentially result in negative effects on job and earnings outcomes. Fourth, selection bias creates an additional complexity in tracking the effects of veteran status on earnings. Characteristics such as ability and drive, which are generally unobservable in data, could push people into the military and would have an effect on earnings regardless of military experience.

Studies comparing veteran and non-veteran earnings date back many years. Many early studies found a substantial income penalty against veterans, interpreting service — largely due to the draft — as a career interruption that restrained veterans from catching up to their non-veteran peers (Bailey and Cargill, 1969; Miller and Tollison, 1971). Recent studies, however, have not found earnings gaps against Iraq/Afghanistan-era veterans. In fact, Kleykamp (2013) found an earnings premium for veterans aged 18–40, using the Current Population Survey (CPS) from 2005 to 2011 (approximately 2000 veterans). Estimating a generalized linear model that controlled for demographic, family, and industry variables, the author found that veterans earned a 6% premium over non-veterans. The author estimated that this premium was larger for racial/ethnic minorities than white veterans. Additionally, much of this premium was due to the inclusion of workers without a high-school degree (1% of veterans compared to 11% of non-veterans). Tennant (2012) used propensity score matching to compare post-2001 veterans to the rest of the population with the 2009–2010 CPS (a matched sample of 1793). The author found no significant differences in mean income from salary and wages. Humensky et al. (2013b) estimated veteran vs. non-veteran outcomes for earnings, enrollment and employment by various age groups, using the 2006–2011 CPS (approximately 3000 veterans). They found that Iraq/Afghanistan-era veterans had a higher probability of being employed for pay but no difference in earnings, except for the small group of veterans aged 18–25. Additionally, an exploratory analysis by Dávila and Mora (2012) suggested that state or region may be correlated with veteran pay.

Employment in the public sector can affect veteran earnings due to the “veteran preference” given for federal government jobs. Using the CPS data from 2009, Walker (2010) found a larger veteran pay penalty for those employed in government (approximately 7% lower pay) compared to those in the private sector (1%) (p. 6). The occupation in which one works within the public sector has also been shown to affect the veteran gap. Mani (2013) found that differences in veteran/non-veteran

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