

THE EFFECT OF RETIREMENT INCOME ON THE LABOR FORCE BEHAVIOR OF RETIREES

The military pension given to retirees at a relatively early age should act to reduce their labor force participation. Economic theorists have discussed two possible effects, the "income" and the "substitution" effects, of changes in market wage rates relative to the returns to nonmarket activity which would operate in opposing directions on labor supply. Where the "income" effect operates, the portion of nonmarket activity known as leisure is considered a superior good which is then demanded in greater quantities as incomes rise. Since market wage rates are an element of income, an increase in these will give rise to an increase in the amount of leisure demanded. This demand is usually considered to be satisfied at the expense of time spent in market activity. The "substitution" effect describes the tendency to sub-

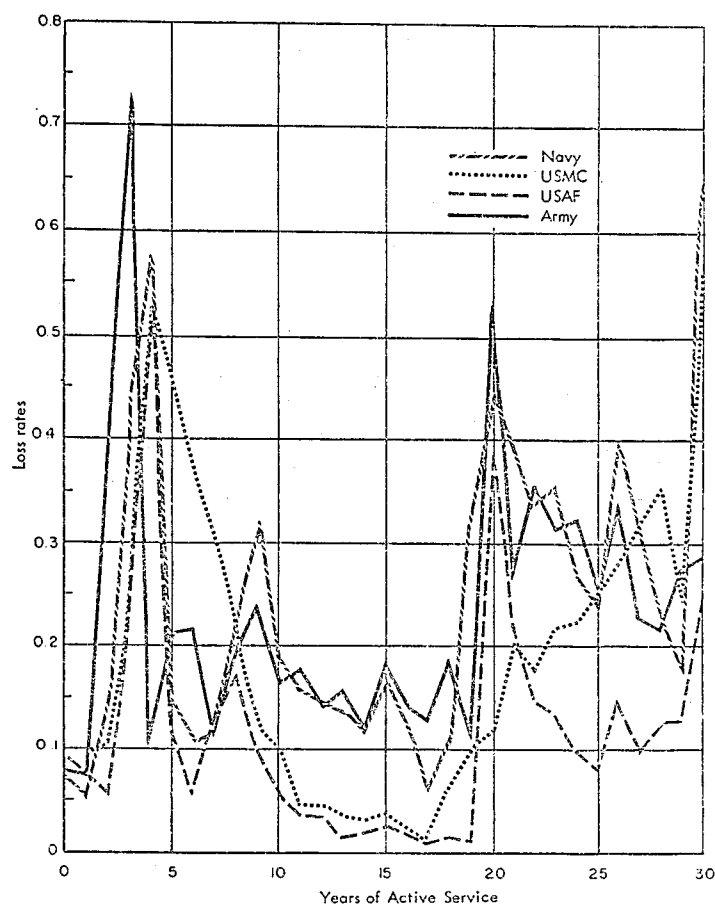


FIGURE 1 Enlisted Loss Rates by Years of Active Service and Branch of Service, 1965