

stitute market for nonmarket activity as the return to market activity (wage rates) rises relative to the return on nonmarket activity.<sup>5</sup>

The "income effect" has implications for the labor force behavior of military retirees. They stem from the effect of the relatively large pension received by military retirees after they retire from active service. Other things equal, this pension should decrease their labor force participation below what it would have been had they not had this "independent" source of income.

It is also expected that the labor force participation rates of groups of military retirees will vary with their unemployment rates. Whether the relationship for a particular group is positive or negative will depend upon whether the "added worker" or the "discouraged worker" effect is dominant. The "added worker" effect implies an increase in labor force participation as a result of an increase in unemployment rates as additional family members seek to supplement reduced family income occasioned by unemployment of the primary earner. The "discouraged worker" effect implies a decrease in labor force participation as labor force participants leave the labor force because they do not expect to be able to find jobs. In the case of male retirees, who are generally primary family workers, it is expected that the "discouraged worker" effect will be dominant.

These implications will be explored by examining differences in labor force behavior among military retirees and between retirees and comparable civilians. The differences will then be compared to differences in income patterns to determine whether the effect of the retirement income is consistent with that postulated by the theory. Finally, a statistical examination of the effects of the magnitude and composition of family income and unemployment upon labor force behavior will be made.

Information on labor force, income and unemployment characteristics of officer and enlisted retirees was obtained from a survey of a 25-percent random sample which was undertaken by the Department of Defense in June 1966. A followup survey of nonrespondents was made in September 1966. The overall response rate to the original and the followup surveys was 74.5 percent. The analysis was confined to male retirees who were retired for reasons other than disability. In addition, retirees were also excluded who did not report either their labor force status or some element of income and retirees who had retired after January 1, 1965. The sample size was between 60,000 and 70,000, depending on the tabulation.<sup>6</sup> We stratified the retirees by age and level of school completed for two reasons: (1) age and level of schooling have been found to be important determinants of labor force behavior and income; and (2) comparable labor force and income data are available for civilians classified by these characteristics.

Two measures of labor force behavior were used: one, the ratio of retirees who worked any amount of time in 1965 to total retirees ( $Z_1$ );

<sup>5</sup> An excellent development of this theory may be found in J. Mincer, "Labor Force Participation of Married Women," in *Aspects of Labor Economics* (National Bureau of Economic Research, Special Conference Series, vol. 14, Princeton, New Jersey: Princeton University Press, 1962), pp. 63-97. See especially, pp. 63-68.

<sup>6</sup> There were 95,520 usable returns in the Department of Defense sample of all retirees.