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TECHNICAL
R E P O R T



The Effect of
Reserve Activations and
Active-Duty Deployments
on Local Employment
During the Global
War on Terrorism

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SUMMARY

The ongoing Global War on Terrorism has resulted in the largest deployment of American service personnel since the Vietnam War. Large numbers of active-duty forces have been deployed overseas; large numbers of reservists have been activated and deployed overseas as well. These activations and deployments have stimulated concerns about their effect on the local economies in which active-duty forces are stationed and in which reservists live in peacetime.

This report presents an econometric analysis of the impact of activations and deployments on local economic conditions as measured by changes in local employment. We begin by noting that the overall effect of activations and deployments on total U.S. employment cannot be large. The U.S. economy employs about 126 million workers. The number of reservists activated or deployed from U.S. counties for Global War on Terrorism contingencies in a given month peaked in 2003 at about 160,000, which represents roughly 0.13 percent of the U.S. workforce. If we add in deployed active-duty personnel at their monthly peak in 2003 (about 140,000), activated and deployed personnel represented, at most, 0.20 percent of the U.S. workforce during our study period (2001-2004).

However, active-duty forces are concentrated on a relatively small number of military bases, and reserve units, by nature, are geographically concentrated. Thus, even though the national effect of deployment and activation is likely to be small, it is possible that the effect on some firms and communities is much larger. Some employers might have trouble replacing activated reserve personnel in the short run, leading to declines in output and profitability. And, in some communities, the absence of activated reserve and deployed active-duty personnel could depress local demand for goods and services.

Despite these concerns, there has been little systematic analysis of the impact of reserve activations and active-duty deployments on local economic conditions. To address this gap in our understanding of the issue, we estimate econometric models to measure the impact of activations and deployments on local employment. We measure employment

at the county level as recorded by the Bureau of Labor Statistics and generate counts of activated and deployed reserve and active-duty personnel from the Defense Manpower Data Center Global War on Terrorism Contingency File.

FINDINGS

For reserve activations, our estimates imply a nearly one-for-one decline in employment with activation in the short run. However, four months after activation, employment has returned to its pre-activation level. From these results, we infer that employers can and do hire replacement workers for activated reserve personnel and that this process requires several months to complete.

For active-duty deployments, our estimates imply an increase of about one civilian employee for every ten deploying active-duty service members. We suggest two possible explanations for this finding. One possibility is that base commanders hire civilians to backfill for some tasks previously performed by deploying active-duty service members (e.g., security, grounds maintenance). A second possibility is that the spouses of active-duty personnel enter the civilian labor market when their husbands or wives are deployed. In either case, active-duty deployments could generate a small increase in local employment while those active-duty personnel are deployed.

We acknowledge that other interpretations of these empirical findings are possible. Our econometric model estimates the correlation between equilibrium employment and activations and deployments, and so it cannot distinguish between supply- and demand-side explanations of why employment might respond to activations and deployments. For reasons discussed in the main body of the report, we prefer the supply-side interpretation of the results given above, but it is possible that activations and deployments affect local demand, which in turn affects the demand for labor. In the case of reserve activations, for example, it is possible that employment declines in the short run because local demand for goods and services falls when reservists depart for active-duty service.

We infer from our empirical findings that reserve activations and active-duty deployments of the magnitude experienced during the Global War on Terrorism are not likely to have significant long-term impacts on local economic conditions, at least as measured by aggregate employment. However, we do acknowledge that some specific communities and some specific employers could suffer when their reserve employees are activated. For example, we provide suggestive evidence that police departments might find it particularly difficult to replace activated reservists in the short run and that this could be particularly true in smaller communities. The Department of Defense's policy of exempting reservists from active-duty service whose absence could adversely affect national security (broadly construed) is sensitive to this concern. Further research is needed to understand how other economic indicators (e.g., revenues, profits) respond to the loss of activated reserve personnel.

FUTURE RESEARCH

Future research might pay special attention to the impact of activations on smaller firms and the self-employed, neither of which could be examined specifically with these data. The self-employed might be examined most fruitfully at the individual level, since individual earnings are most likely to be the best barometer of their financial well-being. Although the following claim needs to be empirically validated, we note that standard economic principles would argue against finding substantial negative impacts of activations on the income of self-employed reservists. These self-employed reservists presumably chose reserve service because they thought it would, on net, benefit them. Consequently, we would not expect individuals who stand to lose their businesses if called to active duty to put themselves at risk of activation, unless these individuals uniformly have unusually strong preferences for military service and unusually weak preferences for their civilian work. In ongoing work, we find that the self-employed, on average, experience large earnings gains when activated; what happens to their earnings when they return from active duty is unknown at this time.

Similar reasoning might also apply to very small firms. While overt discrimination against reservists in hiring decisions is illegal, it seems entirely possible that employers could know whether a given applicant is a member of the Reserves and find legitimate reasons not to hire that individual if it seems too risky to do so. That is, we would not expect small employers to take large risks in hiring reservists who might one day be activated if those employers are not compelled or do not find it optimal to do so.