

Factors Affecting Entrepreneurship among Veterans

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2011. 35 pages. Under contract SBAHQ-09-R-0020.

Are veterans more likely to become entrepreneurs than otherwise demographically similar individuals? Using one measure of entrepreneurship, self-employment, both past research sponsored by SBA's Office of Advocacy and current data from the Bureau of Labor Statistics indicate that veterans have had and do have a higher rate of self-employment than do non-veterans. What could account for this finding? The authors investigate whether military service has a statistically significant impact on veteran entrepreneurship using three complementary data sources. The analysis tests the hypothesis that military service imparts some unique training or acculturation that makes veterans more likely to become self-employed than otherwise similar individuals.

Overall Findings

The authors found that military service is highly correlated with self-employment probability. This confirms the findings of earlier studies that show significant positive effects for military service on the probability of self-employment, and the new study is able to quantify those marginal effects in the range of 45 percent to as high as 88 percent, depending on the data source used in the analysis. However, the study did not find any evidence that it is military training, education, or culture that predisposes individuals toward entrepreneurship.

Highlights

- In the private sector workforce, veterans are at least 45 percent more likely than those with no active-duty military experience to be self-employed.
- Although veterans are more likely to be self-employed than the general population, analysis of veterans-only data shows that self-employment is negatively correlated with the length of military

service. Veterans with four or fewer years of service were most likely to be self-employed.

- Among all veterans, those who chose the military as a career path (five or more years of service) were about 33 percent less likely to be self-employed than those who left after one enlistment. This result suggests that higher rates of self-employment among veterans may be due to individual characteristics, rather than training, education or other qualities imparted by military service.

- An exception to the negative correlation of self-employment with length of service among veterans occurs with the subgroup of veterans who are career military retirees with service of twenty years or more. In this group, additional years of service are correlated with a higher probability of self-employment. The authors suggest that this relationship may result from a wealth effect—military retirees with longer careers receive larger military pensions and may be financially better able to pursue self-employment opportunities.

- Career military retirees have higher rates of self-employment than the general population, but they are also predominantly older, male, married, and have at least a high school education. In addition, self-employed military retirees have a higher average income from pensions than those not self-employed.

- Older military retirees are more likely to be self-employed: an additional year in age increases the probability of self-employment by about 7.5 percent.

- Among military retirees, officers are 55.6 percent more likely to be self-employed than enlisted personnel. The study suggests that this is attributable to differences in education, as most officers hold a bachelor's degree or higher and most enlisted veterans are high school graduates. The measured dif-

ferential between officers and the enlisted is similar to the differential between high school graduates and college graduates in the broader general population.

- The cohort of veterans who served in World War II, the Korean War, and the Vietnam War era were more likely to be self-employed relative to veterans serving since 2001, or Gulf War veterans (10.9 percent vs. 3.6 percent).
- Age and home ownership show consistent positive and significant effects on self-employment and are highly correlated to stability and maturity as well as providing a potential supply of risk capital.
- In the general population, age, marital status, gender, occupation, home ownership, military service, and some regional and race variables have a significant effect on self-employment, while education and children do not.
- Among veterans, career military service, age, male gender, and children are positive indicators of self-employment, while employment in service occupations and manufacturing occupations are negative indicators.

Scope and Methodology

This study tests the hypothesis that military service imparts some unique training or acculturation that makes veterans more likely to become self-employed than otherwise similar individuals. The hypothesis was tested by estimating models of the probability of self-employment using samples derived from the March Supplement and Veteran Supplement of the 2007 Bureau of Labor Statistics' Current Population Survey (CPS) and the Defense Manpower Data Center's (DMDC) 2003 Survey of Retired Military.

The CPS is a monthly survey of about 60,000 households with an interview rate of 92–93 percent. The March Supplement includes detailed data on individuals and their labor-market experience, including data pertaining to employment, earnings, demographic characteristics, education, and occupation. The CPS is used to construct the control dataset on which the model is based and to provide baseline statistics for basic sample characteristics such as age, gender, educational attainment, income, and other pertinent variables.

The CPS Veteran Supplement is an extension of the standard CPS dataset to include specific information regarding veterans. The Veteran Supplement was used to construct the veterans analysis dataset which the model used to test the hypothesis that military service produces higher rates of self-employment

among veterans. For the purposes of this study, the authors excluded government workers and included self-employed individuals from the agricultural sector in the CPS veteran sample. Therefore, self-employment statistics in the study will not necessarily match corresponding statistics reported by the BLS in its larger CPS Veteran Supplement.

The DMDC survey includes detailed information on the personal characteristics and employment history of military retirees. It was distributed to 53,100 military retirees, of which 32,275 were returned. In addition to pertinent demographic information, the survey included questions relevant to veteran entrepreneurship, including whether or not the respondent was self-employed and for how long.

An initial PROBIT regression from the control CPS dataset was used to establish the baseline and to determine the significant variables. Additional regression iterations were used to examine the marginal effects for significant variables in the veteran and military retiree samples.

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