

The All-Volunteer Force: LSCO, Cost, and a New Implicit Tax on Reserve Forces

A Monograph

by

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Abstract

The All-Volunteer Force: LSCO, Cost, and a New Implicit Tax on Reserve Forces, by LTC Joshua J. Daily, 53 Pages.

This monograph examines the creation of the All Volunteer Force (AVF) and the neoliberal economic ideas used by the 1970 Gates Commission which recommended it. It examines the neoliberal concept of cost and illustrates the difference of budgetary cost and actual economic costs employed in analyses of the draft and volunteer force models, with emphasis on the concepts of opportunity cost and implicit tax. The paper then explores the impact of budgetary cost increases on the AVF throughout the 1980s and 1990s, leading to decreasing force structure and the increased utilization of the Total Force—and particularly how reduced active-duty force structure led to increased utilization of the reserves in the prosecution of security operations. Finally, the paper shows that the increasing use of reserve forces has led to a new implicit tax born disproportionately on reserve soldiers for national defense requirements. These examples show how the salience of budgetary costs have undermined the neoliberal argument of actual economic costs, and through the reduction of the active force, imposed a new implicit tax disproportionately born by the reserve force and their employers. Thus, in any future great power conflict, the increasing costs of the AVF and the social inequality of the new implicit taxes on the reserves forces a greater possibility of a return to the draft.

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Acronyms

AFQT	Armed Forces Qualification Test
AVF	All-Volunteer Force
CPI	Consumer Price Index
DoD	Department of Defense
GWOT	Global War on Terror
LSCO	Large Scale Combat Operations
OC_{MAX}	Opportunity Cost Maximum
OC_{MIN}	Opportunity Cost Minimum
OOTW	Operations Other Than War
SSS	Selective Service System
W_{MD}	Wage Manning Draft
W_{MV}	Wage Manning Volunteer
USERRA	Uniformed Service Employment and Reemployment Rights Act

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Introduction

When the threat to national security is clearly serious, as it was after Pearl Harbor, volunteers will be plentiful. For a limited conflict in a distant and alien land, there will be less enthusiasm. Willingness to volunteer also depends on the character and terms of military service, on casualty rates, and on the public esteem such service enjoys. Most importantly, the flow of volunteers depends upon the level of military compensation.

— United States President's Commission on an All-Volunteer Armed Forces, 1970.

It has been forty-five years since the United States transitioned from a conscription force to a volunteer force. However, the idea of a volunteer force is not new. Historically, the United States maintained a small standing Army and, when the nation was at war, issued calls for volunteers. For more massive crises such as the Civil War and World War II, conscription was used to reach required enlistment numbers. Once the war ended, volunteers and draftees went home, leaving a small standing Army as the nucleus for the next crisis. After the Korean War, given the ongoing threat from the Soviet Union as part of the Cold war, the United States instituted a peacetime draft.¹ However, the Vietnam War politically and socially broke the draft model. The large standing Army made entirely of volunteers seemed to be the solution. At the heart of the debate was a significant issue, one of cost.² Was the United States capable of generating and sustaining a large peacetime All-Volunteer Force (AVF) using a free market labor model? How would this affect the force and its ability to fight the next major global conflict with a great power such as the Soviet Union? Could it afford to make this transition and still meet its recruiting requirements?

¹ The first peacetime draft occurred just prior to World War II on September 16, 1940 in anticipation of upcoming United States involvement in the war.

² This paper uses the Gates Commission definition of Costs: (1) Budget Cost, the line item cost paid by the government for a product or service, (2) Actual Cost, the neoliberal idea of cost: the cost of the item plus any additional costs not accounted for in the budget. See pages 2 and 9 further explanation.

Despite many criticisms and fears, the AVF has been successful.³ It is the current model that many thought and some hoped, would fail. It is the most effective professional force in history and the standard by which other nations judge their land combat capabilities. However, this success has depended upon a greater reliance upon reserve components than ever anticipated, driven primarily by the costs associated with maintaining the regular Army. This problem is particularly salient given the Army's focus on preparing for Large Scale Combat Operations (LSCO) in a potential war with a peer or near-peer nation, which would require a massive influx of recruits. Historical trends show that budgetary cost is a threat to the sustainability of the AVF during major wars, one significant enough to require a reinstatement of the draft.

The draft and the AVF have been much studied. US President's Commission on an All-Volunteer Armed Forces, *The Report of the Presidents Commission on the All-Volunteer Armed Force* (or the Gates Commission Report) forms the starting point for such research. Established by President Richard Nixon, chaired by then-former Defense Secretary Thomas Gates, and including such notable economists as Milton Friedman and Alan Greenspan, the report provided the recommendation to transition to a volunteer-based force. Central to their argument was the idea from twentieth-century neoliberal economic thought of an "implicit tax" or the hidden cost of government actions.⁴ In this instance, the hidden tax imposed by the draft prevented citizens from earning higher pay in the civilian market by conscripting them at a rate lower than their earning potential. However, in attempting to remove the implicit tax of the draft, increasing personnel costs have created a new implicit tax—this time the Selected Reserve as part of the Total Force.

³ Beth Bailey, *America's Army: Making the All-Volunteer Force* (Cambridge, MA: Harvard University Press, 2009), 259; Bernard D. Rostker, *I Want You!: The Evolution of the All-Volunteer Force* (Santa Monica, CA: RAND Corporation, 2006), 9.

⁴ United States President's Commission on an All-Volunteer Armed Forces, *The Report of the President's Commission on an All-Volunteer Armed Force* (Washington, DC: Government Printing Office, February 1970), 24.

The idea for this paper started with the work of Dr. Beth Bailey in *America's Army: Making of the All-Volunteer Force*. Bailey's book provides an overview of the creation of the AVF and the general thoughts on the conclusion of the draft from a social perspective. She argues that the AVF has been successful, but the Army faced significant challenges in inducing recruitment as part of entering the labor market. The ability to procure quality personnel at required levels demanded increases in incentivization in line with free-market economists. Acknowledging the economic arguments relevant to the AVF, Bailey puts more emphasis on the social underpinnings of the implicit tax position, though she examines links between the social and economic arguments and the implicit tax that are central to the Gates Commission Report. Touching on the free market and recruiting challenges, Bailey argues that the Army proved an initially unwilling, yet ultimately successful participant in the conversion to the AVF.

I Want You: The Evolution of the All-Volunteer Force, by Dr. Bernard Rostker provides more fidelity into the AVF and conscription discussion. His book covers the end of the draft post-Vietnam War Draft with attention on the Gates Commission's impact on political decisions through the beginning of Global War on Terror (GWOT). Its central argument is that the success of the AVF supports the basic ideas of the Gates Commission, validating the AVF as the enduring future of the US military, but highlighting the potential for a need for conscription in major wars. Published in 2006, the book does not address the effects of the GWOT on the AVF. While providing substantial data and analysis on both costs and conscription, Rostker mentions the possibility of a return to conscription in a future major war but poses it as a problem for further research without rendering an opinion.

Both works by Bailey and Rostker champion the success of the AVF and provide examples of its flexibility and resiliency to varying challenges. Neither author satisfactorily provides a judgment on the ability to sustain the AVF in a major conflict. This monograph asks the question, can the United States continue the AVF in a major war or will it have to return to the draft? Specifically, what impact did cost have on the decision to return to a volunteer force,

and how far has the actual cost varied from the initial estimates as established by the Gates Commission? Using many of the same primary sources as Rostker and Bailey, with the addition of Department of Defense (DoD) data not available to either author, the analysis reveals a disturbing picture of cost challenges, mainly that the AVF cannot successfully conduct future LSCO without resorting to the draft.

Several analytical studies examined in Rostker's book provided the bulk of the primary data sources for previous cost analyses. The three major sources of primary data for comparative analysis come from the Department of the Army Center of Military History yearly historical summaries, the Defense Manpower Requirements Reports, and from the Defense Manning Data Center. Annual baseline data covering component force strengths, quality levels in the form of Armed Forces Qualification Test (AFQT) and high school diploma data, and personnel costs across the force come from CMH Military histories from 1973 to 2010. Trend analysis comparing force size, quality, and cost over time uses this data. To better comprehend the neoliberal arguments employed by the Gates Commissions, the discussion will address Milton Friedman's, *Capital and Freedom*. Lastly, the analysis will assess national strategy documents and Army doctrinal manuals to highlight strategic challenges to the AVF, which determine its operational focus and, thus, its manning, equipment, and fiscal requirements.

This paper avoids discussing the social and political arguments over ending the draft, except for when required to lay the foundation for the economic discussion. The first section covers a brief history of the debate to establish the AVF to identify the cost assumptions of the Gates Commission. Starting with President Johnson, it explores the issue from the 1964 Pentagon Draft Study to the 1968 Chicago Conference, culminating in the Gates Commission.

The second explores the Gates Commission recommendations during the 1970s culminating with the end of Jimmy Carter's Presidency. It examines the creation and modification of the Army Total Force policy utilizing both the active and reserve components in a future conflict and the immediate impacts of the AVF on the Selective Service System (SSS) including

reductions in mobilization readiness. Specifically, it focuses on how the AVF diminished any desire to plan, organize, or discuss the need for another draft and shows increases in future mobilization costs of reimplementing the draft. This section concludes with the Soviet invasion of Afghanistan and the reengagement of the SSS as a strategic aim.

The third section will look at the effects on personnel, turnover, and other non-pecuniary costs from the 1980s through GWOT. Beginning with the Reagan Administration's attempt to counter the Soviet threat in the 1980s and its associated force structure increases, it examines personnel utilization during the post-Cold War "peace dividend," Operation Desert Storm, Operations Other Than War (OOTW) in the 1990s, and the GWOT. It argues that structure reductions over this period increased pressure on the Total Force, placing greater reliance on the Reserve Component of the AVF for operations. The latter, in turn, has placed an implicit tax on reservists and their employers, undermining the prime neoliberal argument of the Gates Commission. The paper then concludes by considering the implications of these points for the pursuit of future LSCO.

There are several worthy subjects that the short length of this paper precludes examining. Some are already current research topics; others have been done but are worth updating. Women in the military and how they affect the labor market and technological impacts are current research topics. Cost studies are a regular focus of the Quadrennial Manning Reviews. However, now is the time to devote research on SSS mobilization capabilities and the ability to interface the military and the SSS once a draft is reinstated. There may be some activity on this front, but at this time the author was not able to find any recent military exercises and research into the actions required to reinstate and integrate the draft.

Section 1 – The Studies

To understand the push for the creation of the AVF requires a basic understanding of the draft and its associated problems. The United States imposed a draft temporarily in 1948 in response to the aggressiveness of the Soviet Union in Czechoslovakia and then permanently in

1950 during the Korean War. As the Korean War drew to a close, the United States faced the need for a large standing army to deter potential Soviet aggression. At the time, a large standing volunteer army did not seem economically feasible, leading to the continuation of the draft already imposed due to the Korean War. Enduring peacetime conscription raised issues as to how to integrate it into the everyday fabric of society.⁵ Deferments soon increased for specialty occupations and for educational attainment, such as in 1962 which saw 76,000 draft calls, but also 1.73 million exemptions.⁶ Along with low draft calls, ample deferments helped minimize opposition to the peacetime draft before the war in Vietnam, which dramatically increased troop numbers.⁷

However, even before the Vietnam War, questions arose about inequality and the burden placed on men who had no or more limited capacities to obtain a deferment, particularly minority and low-income citizens. These concerns ultimately led to the prominence of neoliberal ideas in support of ending the draft. That process began during the Johnson Administration with the quantitative analysis-driven leanings of Defense Secretary Robert McNamara. President Johnson requested that McNamara look into ways for reforming the SSS and feasibility of an AVF.⁸ The result was the 1964 Pentagon Draft Study.

The 1964 Pentagon Draft Study and the Chicago Conference

Comprised of multiple independent studies, the Pentagon Draft Study focused on two factors, the social equity of the current draft system and the economic feasibility of a shift to an

⁵ Selective Service System, "Background of Selective Service," accessed January 19, 2019, <https://www.sss.gov/About/History-And-Records/Background-Of-Selective-Service>.

⁶ Rostker, *I Want You!*, 28.

⁷ Aaron Friedberg, *In the Shadow of the Garrison State: Americas Anti-Statism and Its Cold War Grand Strategy* (Princeton, NJ: Princeton University Press, 2000), 179.

⁸ Rostker, *I Want You!*, 46.

AVF. Established by Deputy Assistant Secretary Defense William Gorham, an economist in his own right, the team included David Bradford of Princeton University, Stuart Altman of Brown University, Walter Oi of the University of Washington, and Alan Fechner of the Institute for Defense Analysis.⁹ While completing the study in 1965, an increased need for troop numbers in Vietnam and the subsequent doubling of draft calls delayed the study's public release.¹⁰

The first public discussion of the Pentagon Study occurred at a conference at the University of Chicago in December 1966 organized by Professor Sol Tax. Notable attendees included Milton Friedman, Director of the SSS General Lewis Hersey, Senator Ted Kennedy, and Congressman Donald Rumsfeld.¹¹ Altman, Fechter and Oi were also in attendance.¹² The *American Economic Association Journal* published the reports and results of the conference in May 1967.

One Pentagon economic study discussed at the Chicago Conference, "Military Manpower Procurement: The Supply of Military Personnel in the Absence of a Draft" by Dr. Stuart Altman and Alan Fechter, sought to distinguish between "true" volunteers in the current force vice the "draft-motivated" volunteers—the ones who volunteered to exercise some choice over their military service, but otherwise would not have enlisted on their own. The report concluded that the budgetary cost increases for instituting a volunteer force would range from \$5.4 billion, with an unemployment rate of 5.5 percent, up to \$8.3 billion with a lower unemployment rate of 4.0

⁹ John T. Warner and Paul Hogan, "Walter Oi and His Contributions to the All-Volunteer Force: Theory, Evidence, Persuasion" (Prepared for Contributions to Public Policy: A Session in Honor of Walter Oi, American Economic Association Annual Meetings, Boston, MA, January 3, 2015), 3.

¹⁰ Assistant Secretary of Defense for Manpower and Reserve Affairs Thomas D. Morris believed that publishing the results of the draft study during a need for force increases would create problems for the current draft system. See Warner and Hogan, "Walter Oi and His Contributions to the All-Volunteer Force: Theory, Evidence, Persuasion," 7.

¹¹ Warner and Hogan, "Walter Oi and His Contributions to the All-Volunteer Force," 4.

¹² Friedman, was on the commission panel for the 1970 Gates Commission. Altman, Fechter, and Oi were participants of all three: The Pentagon Draft Study, the Chicago Conference, and the Gates Commission.

percent.¹³ Comparing those figures to the \$12.6 billion for the 1965 draft-induced force, a \$5.4-\$8.3 increase in cost for a volunteer force represented a 42 to 66 percent increase in personnel costs—which also assumed cost reductions due to reduced turnover rates requiring lesser personnel in a volunteer force.

In light of these higher budgetary requirements for a volunteer force, it was Walter Oi who employed neoclassical ideas to argue that broader, social costs would be lower without the draft.¹⁴ His “The Economic Cost of the Draft” introduced the concept of a conscription tax or an implicit tax placed on drafted personnel. This implicit tax is the difference in the value placed on the individual’s labor paid at a lower rate (the draft pay rate) as compared to their civilian earning potential. According to Oi, the differential in pay is potential denied earnings for a draftee and should be counted as part of the overall economic costs.

¹³ Stuart Altman and Alan Fechter, “The Supply of Military Personnel in the Absence of a Draft,” *The American Economic Review* 57, no. 2 (May 1967): 30.

¹⁴ Rostker, *I Want You!*, 51.

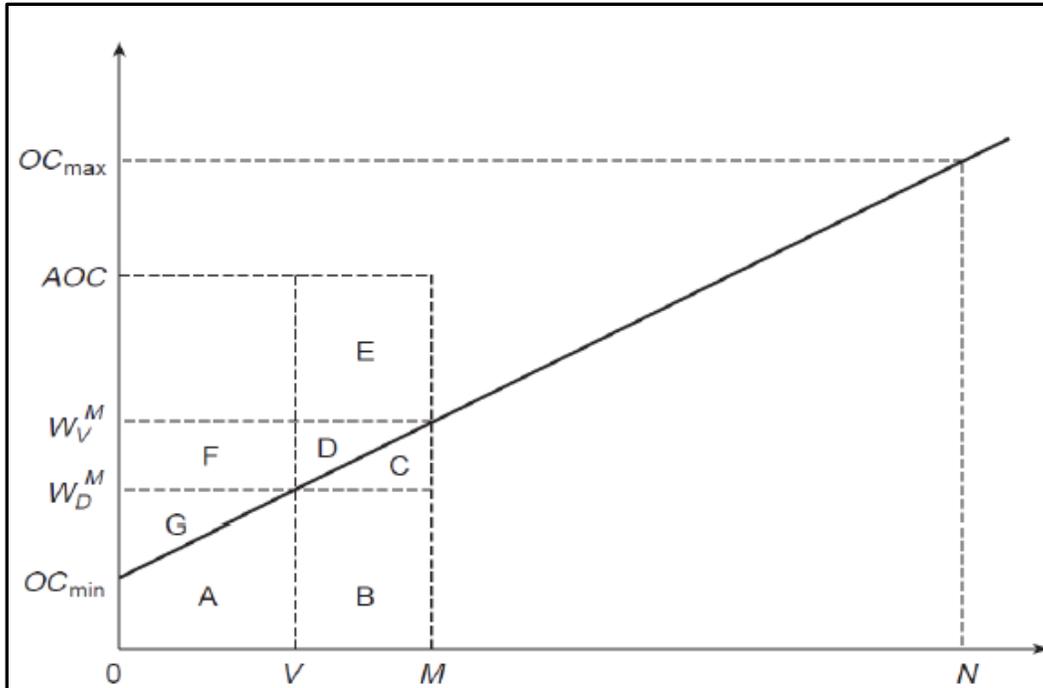


Figure 1. Oi's Conscription Tax and the Opportunity Cost of a Military Force. John T. Warner and Paul Hogan, "Walter Oi and His Contributions to the All-Volunteer Force: Theory, Evidence, Persuasion" (Prepared for Contributions to Public Policy: A Session in Honor of Walter Oi, American Economic Association Annual Meetings, Boston, MA, January 3, 2015), 6.

At the concept's base is opportunity cost, or what is lost by an individual when one choice is made compared to another. In figure 1, N is the available population, M is the military demand for recruits, and V are volunteers within the current draft system. OC_{min} is minimum Opportunity Cost, with OC_{max} being the maximum. The Average Opportunity Cost between OC_{max} and OC_{min} . W_{MV} is the incentivization (pay level) for a volunteer. The total cost for incentivization for an AVF is the sum of $A+B+C+D+F+G$. W_{MD} represents the incentivization rate of a draftee. The incentivization rate for the draft is $A+B+G$, an amount lower than what would induce the needed volunteers if the draft did not exist. Area C shows the opportunity cost imposed on personnel not willing to join at the W_{MD} rate but would join at the W_{MV} rate. The areas $F+D+C$ amount to the budgetary cost savings to the government of which C is a tax on those

individuals who could make more in the civilian sector.¹⁵ *E* represents the opportunity cost of recruits above and beyond what is needed to meet recruiting objectives.

As enlistment under the draft is not of the person's own choice, the opportunity cost counts as a loss in earning potential. Oi estimated that the amount for the implicit tax in area *C* amounted to roughly \$826 million in lost earning potential. In an AVF, the potential taxable income of Area *C*, made by those with higher earning potential in the civilian market who did not choose military service, would offset some of the budgetary costs of incentivization required to implement the AVF. This system punishes both the draft and the volunteer, as under conscription true volunteers that choose to enlist are subject to the lower induced wages relative to what they would earn in the free market. This point would become manifest in subsequent studies, and underpin future economic arguments on actual economic costs of the draft.

Oi's paper, in particular, was subject to significant criticism from other attendees of the Chicago Conference, much of which would be borne out by developments after the AVF was established. A number were voiced by professor George Hildebrand of Cornell, a future Deputy Secretary for the US Department of Labor. In particular, he noted that Oi's model would link military and civilian pay. First, as civilian pay rises, so too would military pay to remain competitive in the labor market. Second, nonpecuniary influences affect the OC slope in Oi's chart, translating into rising budgetary costs: If citizens are unconvinced that the nation is under threat, or if the war does not have popular support, recruitment requires increased incentivization to entice enlistment. Because of the potential of these factors to increase costs, Hildebrand argued that an AVF was more feasible in peacetime for employment in small conflicts—up to and including wars like Vietnam—but that major wars such as World War II would require a return to

¹⁵ Warner and Hogan, "Walter Oi and His Contributions to the All-Volunteer Forc," 7.

the draft to produce required troop numbers.¹⁶ Finally, he noted that utilizing free labor markets to acquire military manpower required DoD to possess the same financial flexibility and tools as the civilian sector to remain competitive, notably: the ability to hire, fire, change pay, downsize, and provided variable bonuses. However, the DoD lacked most of these capacities, which were determined by Congress.¹⁷

Paul A. Weinstein, a professor at the University of Maryland, challenged the idea of an implicit tax by arguing the draft also had unappreciated benefits. Military service provides skills for drafted workers. This perspective challenged that of both Altman and Flechter, and Oi, who believed quality recruits will have higher opportunity costs, and thus the Army must reduce quality standards or pay more to get the desired quality. Further compounding the problem is increased incentivization budget cost when labor is scarce during times of high civilian employment.¹⁸ Finally, while a volunteer force derives budget cost savings from a lower turnover rate, it becomes an older force, one that would have trouble adapting to increased technological sophistication, requiring either higher quality soldiers or more soldiers overall.¹⁹

The Pentagon Study and subsequent debates would eventually shape the political recommendations of the Gates Commission. Meanwhile, to get ahead of the debate and retain the draft, the DoD and the Army established their initiatives to reduce the impacts of the draft. These initiatives—Project 100,000 and Project Volunteer in Defense of the Nation/Volunteer Army—sought to increase the number of true volunteers to the point of negating a need for draft calls.²⁰

¹⁶ Vietnam is not legally a war as Congress did not officially declare war against the country. It is considered an “extended military operation” and not a “national emergency” as occurred in World Wars I, World War II, and the Korean War.

¹⁷ George H. Hildebrand, Paul A. Weinstein, and Harold Wool, “Discussion,” *The American Economic Review* 57, no. 2 (May 1967): 65.

¹⁸ *Ibid.*, 67.

¹⁹ Hildebrand, Weinstein, and Wool, “Discussion,” 68.

²⁰ Rostker, *I Want You!*, 151.

The Gates Commission

During the presidential campaign of 1968, Richard M. Nixon seized the opportunity to make the draft a central issue in his election campaign, which helped win him the election. As president, in 1969 Nixon established what became known as the Gates Commission to research and provide recommendations on transitioning to an AVF.²¹ Central to its recommendations is neoliberal economic theory and its approach to cost impacts. This, in turn, reflected the composition of the Commission and its preferred methodology. One of the Commission members was none other than Milton Friedman, the man arguably most responsible for developing the neoliberal or the Chicago School of economics; another was Alan Greenspan, also regarded as a proponent of its ideas. Moreover, the research staff consisted predominately of neoliberal economists, including Executive Director William Meckling as well as Stuart Altman, Harry Gillman, Walter Oi, and David Kassing.²²

Neoliberalism and Cost

After World War II, capitalist theory focused on Keynesian economics, which emphasized the role of a central authority, generally the government, in regulating economic activities. In the 1960s, economists at the Chicago School of Economics challenged this view, arguing that government control removes economic choice, and the removal of choice amounts to coercion. “There are only two ways of coordinating the economic activities of millions; one is central direction involving the use of coercion—the technique of the army and the modern totalitarian state. The other is voluntary cooperation of individuals—the technique of the market place.”²³ The fundamental issue for them was thus the protection of individual liberty. The chief

²¹ Rostker, *I Want You!*, 63.

²² Bloomberg, “Executive Profile and Biography: David J. Callard,” accessed January 18, 2019, <https://www.bloomberg.com/research/stocks/private/person.asp?personId=75698&privcapId=90550>.

²³ Milton Friedman, *Capitalism and Freedom* (Chicago, IL: University of Chicago Press, 1962), 13.

proponent of the Chicago School, Milton Friedman, pushed for more “laissez-faire” policies, relying on scientific data and modeling.

The term neoliberal is a more recent name for this style of economics that was not in use at that time. Whereas the term “liberalism” then implied a degree of government intervention associated with Keynesian economics, the Chicago School of Economics has more in common with the late 17th to early 18th-century version of an “intellectual movement that went under the name of liberalism [which] emphasized freedom as the ultimate goal and the individual as the ultimate entity in the society.”²⁴ Neoliberal economics champions reduced government intervention and increased free market capitalism as the basis of political freedom and individual liberty. It emphasizes competitive capitalism with free markets, where parties execute economic exchanges voluntarily without government intervention. “The kind of economic organization that provides economic freedom directly, namely competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other.”²⁵ The market allows for decisions of choice to occur at the lowest level possible, the transactional level.

For neoliberals, all parties have the voluntary freedom of choice over how they spend their money, and this also includes the choice of how and to whom they sell their labor. “The possibility of coordination through voluntary cooperation rests on the elementary–yet frequently denied–proposition that both parties to an economic transaction benefit from it, *provided the transaction is bi-laterally voluntary and informed*. Exchange can, therefore, bring about coordination without coercion.”²⁶ The key words here are “voluntary” and “informed” as the terms of the exchange are known and is entered into freely without any overt or hidden coercion. If a

²⁴ Friedman, *Capitalism and Freedom*, 5.

²⁵ *Ibid.*, 9.

²⁶ *Ibid.*, 13. (italics in original quote).

laborer is not well enough compensated for their time, they are free to seek employment elsewhere.²⁷ A person forced to work a particular occupation by the government has this choice removed, as is the case with the draft.

The neoliberal concept of individual liberty and choice was central to the Gates Commission recommendation for removal of the draft. For neoliberals, cost alone for the AVF was an insufficient defense for denying liberty. Their ideas permeate the theories and costs calculated in the report and the answers to the two questions posed to the Commission: (1) Is the AVF feasible, and (2) is the AVF desirable?²⁸ In responding to these questions, the Gates Commission employed a neoliberalist model of “actual” cost, one that identified implicit taxes, personnel turnover, draft avoidance, and other non-pecuniary issues.²⁹ These created a differential between the budgetary costs versus ‘actual’ economic costs to the whole of society, which formed the crux of its argument for transitioning to the AVF.

Actual vs. Budgetary Costs

The most significant obstacle to the AVF was budgetary cost. It was commonly believed that the AVF is much more expensive than the draft.³⁰ The idea of cost is central to the neoliberal argument and is the base calculus for the Gates Commission. The government looks at cost as a budgetary expense, a line item approach consisting of inflow and outflow of cash. The neoliberal, however, looks beyond the simple budgetary line and asks the question, “What potential loss are we incurring by our choices, and those unchosen, and how does that compare to our perceived budgetary costs?” It is from this approach that the Gates Commission showed that while the 1971

²⁷ E. Roy Weintraub, “Neoclassical Economics,” Library of Economics and Liberty,” accessed January 21, 2019, <http://www.econlib.org/library/Enc1/NeoclassicalEconomics.html>.

²⁸ United States President’s Commission on an All-Volunteer Armed Forces, *The Report of the President’s Commission on an All-Volunteer Armed Force*, 1.

²⁹ *Ibid.*, 28-33.

³⁰ *Ibid.*, 12.

defense budget would increase by \$2.7 billion for the AVF, the actual cost of the draft to the economic engine of the country is closer to \$6.25 billion.³¹ This seemingly large differential is a product of how the Gates Commission quantified actual cost, which was then used to argue that by switching to an AVF the overall economic cost would be considerably lower.

Actual Implicit Tax and the Loss of Civilian Wages

For neoliberals, the cost of chosen and unchosen options both have value. Opportunity cost, or the cost of denying a particular choice, is part of the overall value calculations to the individual. In the draft, the central government imposes an opportunity cost via coercion, removing choice from the citizen and thus depriving that individual of higher potential earnings outside of the military. The Gates Commission also highlighted the issue of equity. A conflict short of a major war does not require the drafting of all citizens; hence only some of the citizens suffer from the imposed opportunity cost. Drafting some, but not all, translates into a tax that is not equitable, as only a small segment of society provides security to which everyone is a beneficiary.³² In effect, other citizens enjoy the product of security, but a substantial payment burden falls on those providing security.³³ These soldiers receive lower wages than if they were employed in the civilian economy; as the draft does not compete within the free-labor market, this effect is called an “implicit tax.” It is the implicit tax to the soldier, and to other elements of society, that was used to compare the two systems.

³¹ US President’s Commission on an All-Volunteer Armed Forces, *The Report of the President’s Commission on an All-Volunteer Armed Force*, 7.

³² *Ibid.*, 9.

³³ When implicit tax is translated to an income tax, draftees and draft-induced enlistees incur a 51 percent tax rate (adjusted opportunity cost gross income) as compared to a civilian rate of only 10 percent based on similar income levels.

The Gates Commission calculated the implicit tax of missed civilian earnings on draftees and draft-motivated volunteers as approximately \$2.0 billion.³⁴ This was the opportunity cost or lost civilian wage opportunity, levied on these individuals through coercion of the draft. A second order effect of the implicit tax is its effects on true-volunteers. The lower wages enabled by the draft effects not only draftees but also true-volunteers, as pay is kept artificially low through the coercive nature of the draft. As such, true-volunteers are not paid for their free-market labor potential and helps subsidize national security through lost wages. That cost the Gates Commission calculated at \$1.25 billion.³⁵ This made the total cost of the implicit tax over \$3.25 billion in lost pay alone.

By increasing pay across the force by \$3.25 billion, some of that cost is offset by income taxes collected on those increased wages—amounting in \$540 million in returned revenue and making the AVF budgetary cost closer to \$2.7 billion.³⁶ It was this figure that the Gates Commission used as the baseline for the budgetary cost of transitioning to the AVF, which was an increase in the budgetary costs when compared to the 1971 draft costs. The Gates Commission sought to prove that actual costs of the AVF, while higher from a budgetary standpoint, are lower when compared to the actual costs of the draft and include budget efficiencies of the former.³⁷ Its members believed that by 1977, for a force of 2.5 million personnel, further efficiencies would reduce the cost of the AVF from \$2.7 billion to \$2.1 billion after it had established itself.³⁸

³⁴ United States President's Commission on an All-Volunteer Armed Forces, *The Report of the President's Commission on an All-Volunteer Armed Force*, 26.

³⁵ *Ibid.*

³⁶ *Ibid.*, 8.

³⁷ *Ibid.*

³⁸ *Ibid.*

Reduced Personnel Turnover

A key component of the projected cost savings was the reduction of attrition. Increased attrition requires more recruits, and those recruits require more training. Since conscription is coercive and many draftees do not want a military career, re-enlistment rates for first-term service personnel were low.³⁹ Additionally, enlistment periods for conscripted personnel were only two years, and a typical volunteer enlisted for three or more years. Short draftee enlistments create significant turnover, requiring a constant intake and training of personnel. Conversely, when soldiers stay in the Army, it benefits from reduced training costs and budgetary savings.

These savings stem from reducing soldiers in training status, thus reducing the size of the training units, and making more soldiers available for operational mission requirements. The Gates Commission calculated with such changes, a force of 2.44 million personnel would have the same capacity as one that had had 2.5 million soldiers, longer enlistments further reduced the need to recruit additional personnel.⁴⁰ By 1975, to maintain a force structure of 2.5 million service members under draft conditions, the Gates Commission estimated the military would require 452,000 annual enlistments. However, the AVF would achieve the same capability with only 342,000 enlistments, due to decreased turnover, equating to budgetary cost savings of \$675 million.⁴¹ Similarly, recruiting requirements would drop from 183,141 to 135,090 personnel per year, a difference of over 48,000 per year and a savings of approximately \$266 million.

The Gates Commission did suggest that the current service-driven quality levels may be unnecessarily high. The primary method for determining eligibility and quality for service is the AFQT. “[T]he AFQT was established to (a) measure examinees’ general ability to absorb military

³⁹ United States President’s Commission on an All-Volunteer Armed Forces, *The Report of the President’s Commission on an All-Volunteer Armed Force*, 28.

⁴⁰ *Ibid.*, 29.

⁴¹ *Ibid.*

training within a reasonable length of time, and (b) provide a uniform measure of examinees' potential usefulness in the military."⁴² The test ranks recruits in distinct groups (see Figure 2). Congress prohibits anyone testing in category V from serving, making category IV the category with the lowest aptitude soldiers eligible for service (among the bottom 10-30 percent of the population for intelligence). The perception is that lower scoring individuals lead to higher training costs and increased attrition.

AFQT category	Percentile range
I	93-100
II	65-92
IIIA	50-64
IIIB	31-49
IV	10-30
V	1-9

Figure 2. DoD Armed Forces Qualification Test Scores, Computing AFQT Scores from Historical Data. Paul Mayberry and Catherine Hiatt, "Computing AFQT Scores from Historical Data" (Research, Center for Naval Analyses, Alexandria, VA, August 1992), 17, accessed November 26, 2018, <https://apps.dtic.mil/dtic/tr/fulltext/u2/a263893.pdf>.

The Gates Commission cited examples from Project 100,000, a project which tested the viability of lower aptitude personnel for military service, as an example where lower costs could be achieved if quality standards are lowered.⁴³ Defining the appropriate level of quality would

⁴² Armed Services Vocational Aptitude Battery (ASVAB), "History of Military Testing," accessed December 28, 2018, http://official-asvab.com/history_coun.htm.

⁴³ United States President's Commission on an All-Volunteer Armed Forces, *The Report of the President's Commission on an All-Volunteer Armed Force*, 46.

remain an issue throughout the life of the AVF, being the primary driver from increased personnel costs.

Draft Avoidance Costs

The Gates Commission also noted that the desire to avoid military service, while not having a budgetary cost, incurs actual costs on the economy. Draft deferments provide a method to avoid the draft but force people to make life choices that they would not otherwise make without the threat of the draft. Deferments available for higher education, specialty occupations, and for raising a family all affected people's choices—effectively “Channeling young men into colleges, occupations, marriage or fatherhood [that] is not in their best interest or society as a whole.”⁴⁴ The draft then creates a neighboring effect on other economic sectors, forcing people to make choices not in line with either the individual citizen's or the government's best economic interest.

The most well-known deferment is the one gained for higher education. The cost of larger enrollment increased budgetary costs for the universities to accommodate the surge of deferral-seeking students. While the government does not bear the cost, it transfers to other sectors of the economy, in this case, the academic community. The Gates Commission estimated the aggregate economic (actual) cost of these actions at \$3 billion.⁴⁵ This figure represents almost one-half of the actual cost of the draft as argued by the Gates Commission. Further, the Gates Commission anticipated additional savings from labor efficiencies and civilian substitutions could offset some the increased AVF budget cost, albeit at a reduced amount for the Army compared to the other services.

⁴⁴ United States President's Commission on an All-Volunteer Armed Forces, *The Report of the President's Commission on an All-Volunteer Armed Force*, 31.

⁴⁵ *Ibid.*, 27.

Section Conclusion

In the end, the Gates Commission made the argument that the actual costs involved in the AVF and the draft should be the deciding factor. It presented the increased AVF budgetary cost of \$2.1 billion as a bargain when compared the draft's actual cost of over \$6.25 billion. By 1971, the Gates Commission argument of the holistic economic cost approach had won over President Nixon and Congress and confirmed their belief in the viability of the AVF. However, with a conflict in Vietnam still ongoing, the AVF was not enacted until Vietnam manpower requirements fell—which only occurred in 1973 with the lapse of the Selective Service Act of 1971. While the Gates Commission's focus on actual cost ultimately ushered in the AVF, it was not long before this rationale was forgotten—with it a return to the hard arithmetic of budgetary cost.

Section 2 – The AVF in the 1970s

The transition to the AVF had problems. From the beginning in 1973, both the military and civilian leadership struggled to make the transition while balancing perceived needs and cost. Military incentivization and service quality requirements competed putting the viability of the AVF in doubt—forcing tough decisions and beginning a cycle of decreasing force structures, increased reliance on the Reserves, and renewed calls for a standby draft system. As these needs intersected, the debate focused on how to meet national security requirements without breaking the bank.

This decade marks the initial struggle of transitioning to a free labor market. While the Gates Commission had sold the AVF on economic actual cost and individual liberty in line with the civilian labor market, the government remained unwilling to adhere to the free-market model completely. Actions of this decade set a precedent for acceptable market measures the government was willing to take, and those it refused to allow. As the government adhered to the budgetary cost approach and continued to restrict free-market options, personnel costs would

continue to rise—ultimately leading to reduced force structure. This issue of soldier quality, and how the neoliberal ideas conflicted with the institutional approaches, led to a battle between two competing quality approaches—one of the markets and the other of requirements. The winner, the requirement approach, would shape budgetary costs for years to come.

Total Force

In 1973, the Army believed that any war with the Soviet Union would be won or lost before a draft-based mobilization could occur. As it would be fought with the standing army, the first battle could define the entire war. This concept became the “come-as-you-are” doctrine of Active Defense, which prescribed maximizing the potential of readily available forces.⁴⁶ More specifically, forces that did not win quickly would subsequently be overwhelmed by superior Soviet numbers, and therefore must be able to achieve victory long before mobilization actions could produce replacements.⁴⁷ The Army’s answer was the Total Force concept.

Both Active and Reserve components comprise the Total Force. The former is the standing US Army, whereas the latter consists of the Army Reserves and the National Guard. As part of the force structure reductions from the transition to the AVF, active duty forces had been reduced. This downsizing, in turn, increased the Army’s reliance on reserve forces in the advent of war. The Total Force concept envisioned utilizing all components of the Army in any future conflict in a tiered structure, with the active Army being the priority concerning both receiving modern equipment and maintaining readiness.⁴⁸ That said, both the Army Reserves and the

⁴⁶ John Romjue, *From Active Defense to AirLand Battle: The Development of Army Doctrine 1973-1982* (Washington, DC: Government Printing Office, 1984), 16.

⁴⁷ *Ibid.*, 6.

⁴⁸ Made up of both the Army Reserves and the National Guard, the Selected Reserve is a part-time element designed to augment the Active Component. National Guard units are citizens of their respective States. As such, mobilization for Federal conflicts requires the approval of the State Governor. Citizen Soldiers comprise the Army Reserves and the National Guard. While part of the Army, these are part-time Soldiers are also workers within the civilian economy.

National Guard were still organized, funded, and resourced towards a war of total mobilization. Moreover, any conflict short of a national emergency would require reserves to augment the active forces during its initial stages, not later.⁴⁹ This doctrine reduced the perceived effectiveness and necessity for utilizing the draft, as any future war would be over before the mobilization could occur. With the next war being fought with forces in being, the quality of the limited force became a major emphasis for the Army.

Army Positions on Quality in 1973

The first friction between the military and Congress over quality and cost came as the military was transitioning from the draft to the AVF in 1973. In the Defense Appropriations Act for 1972, Congress prohibited “the Secretary of Defense from establishing quotas for enlistments on mental categories,” mandating a more decentralized, service-led approach.⁵⁰ Congress did this to prevent advocates of the AVF from ensuring the AVF’s success through lowering quality standards.⁵¹ With the services free to set their recruiting standards, the Army pushed for increased quality standards via an occupational requirement approach, which stipulated higher-quality requirements for recruits. However, the Gates Commission had warned that excessive quality standards would artificially increase the labor purchase price, which would prevent the Army from hitting Congressionally mandated end strength.

⁴⁹ Bernard D. Rostker, Charles Robert Roll, Jr., Marney Peet, Marygail K. Brauner, Harry J. Thie, Roger Allen Brown, Glenn A. Gotz, Steve Drezner, Bruce W. Don, Ken Watman, Michael G. Shanley, Fred L. Frostic, Colin O. Halvorson, Norman T. O’Meara, Jeanne M. Jarvaise, Robert Howe, David A. Shlapak, William Schwabe, Adele Palmer, James H. Bigelow, Joseph G. Bolten, Deena Dizengoff, Jennifer H. Kawata, H. G. Massey, Robert Petruschell, Craig Moore, Thomas F. Lippiatt, Ronald E. Sortor, J. Michael Polich, David W. Grissmer, Sheila Nataraj Kirby, and Richard Buddin, *Assessing the Structure and Mix of Future Active and Reserve Forces: Final Report to the Secretary of Defense* (Santa Monica, CA: RAND Corporation, 1992), 33.

⁵⁰ Robert Griffith, *The U.S. Army’s Transition to the All-Volunteer Force 1968-1974* (Washington, DC: Government Printing Office, 1997), 186.

⁵¹ *Ibid.*, 186.

In response to this Congressional change the new Assistant Secretary of Defense for Manpower and Reserve Affairs, Roger Kelley, established the Central All-Volunteer Force Task Force to analyze quality and the occupational requirement approach from a neoliberal market perspective. Its report, much like the Gates Commission, determined that service quality requirements exceeded minimum needs and that lower quality standards would be acceptable for satisfactory job performance.⁵² Noting that in the zero-draft environment there “may be a decrease in the quality of manpower available to the Military Services or increased costs associated with obtaining higher than the required quality of manpower,” the Central All-Volunteer Force Task Force concluded (much like Oi’s analysis for the Pentagon study) that to attract potential enlistees with higher opportunity costs required increased incentivization.⁵³ If incentivization remained the same, then there would be a shortfall in recruitment.

This view contradicted others within the Army. Acting Secretary of the Army for Manpower and Reserve Affairs, Paul Phillips, viewed quality as a requirement tied to the needs of an occupational specialty.⁵⁴ Under the current standards, Army recruiters could meet all numerical recruiting quotas utilizing category IV personnel. While the Army believed category IV personnel made “good soldiers” and were easy to enlist, they lacked the trainability; for complex technical roles, only 33 to 65 percent were deemed trainable for such tasks.⁵⁵ Further, the Army believed those without high school diplomas posed more risk of increased disciplinary problems, capping non-diploma applicants at 30 percent of enlistees. A 70 percent high school

⁵² Central All-Volunteer Force Task Force, *Civilian Substitution: A Report on the Substitution of Civilians for Military Personnel in the Armed Force* (Washington, DC: Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs), November 1972), 2, accessed January 12, 2019, <https://apps.dtic.mil/dtic/tr/fulltext/u2/764523.pdf>), 2; United States President’s Commission on an All-Volunteer Armed Forces, *The Report of the President’s Commission on an All-Volunteer Armed Force*, 46.

⁵³ Central All-Volunteer Force Task Force, *Civilian Substitution*, 2.

⁵⁴ Griffith, *The U.S. Army’s Transition to the All-Volunteer Force 1968-1974*, 186.

⁵⁵ *Ibid.*, 187.

diploma rate was in line with the rates found under the draft, albeit under coercion. Phillips believed it was better to purchase higher quality, as more capable recruits would cost less over time: while the Army would pay more for the initial purchase of high-quality labor, the reduced training, disciplinary, and turnover costs make it a more cost-effective proposition.⁵⁶ Based on this data, he pushed for increased quality levels.

Phillips directed a reduction of category IV aptitude-scores accessions (enlistments). He believed it would improve quality with only a marginal impact to enlistment numbers, anticipating a drop of only 3,000 for FY73.⁵⁷ Kelley's office reviewed Phillips' plan and determined the shortfall would be closer to 10,000. From October 1972 to January 1973, recruiting went well, achieving 95.6 percent of the monthly recruiting goal to reach 815,000 end strength by the end of the year.⁵⁸ In response to the success, Phillips restricted lower quality factors further by denying any category IV personnel without a high school diploma and lowering the category IV ceiling from 19 percent to 15 percent.⁵⁹ After draft-induction authority was terminated on January 27, 1973, the effects were more dramatic, with the Army falling short of recruitment goals by 12,000 and only meeting 68.5 percent of the goal as compared to the same time frame in 1972—more loss than Kelley's team had predicted.⁶⁰

Subsequently, the Central All-Volunteer Task Force concluded: “the Services’ statements of quality requirements for accessions exceed minimum needs.”⁶¹ As it was not capable of calculating the lifecycle cost savings Phillips claimed in argument, it endorsed Kelley's approach.

⁵⁶ Griffith, *The U.S. Army's Transition to the All-Volunteer Force 1968-1974*, 200.

⁵⁷ *Ibid.*, 187.

⁵⁸ *Ibid.*, 199.

⁵⁹ *Ibid.*, 200.

⁶⁰ Gus Lee and Geoffrey Parker, *Ending the Draft: The Story of the All Volunteer Force* (Washington, DC: Human Resources Research Organization, 1977), 386.

⁶¹ Central All-Volunteer Force Task Force, *Civilian Substitution*, ii.

Despite that fact that the Army failed to reach its Congressionally mandated strength levels with Phillips' program, for reasons still unclear Kelley allowed it to continue. But that failure soon drew the attention of Congress, starting a debate on the increasing budgetary costs of the AVF and the possible need for a return to the draft.

Rising Personnel Costs and the Return of Selective Service

Compounding the effect of the Army's experiments with quality, in May 1973, the Government Accounting Office sent a report to Congress highlighting rising costs in the AVF. While echoing many of the key concepts in the Gates Commission, the Government Accounting Office report estimated that the AVF contributed to a 23 percent increase in personnel costs from 1964 to 1973—a \$3.192 billion increase compared to the Gates Commission's projected \$2.1 billion estimate.⁶² This rise occurred despite a drawdown from a Vietnam force high of 3.5 million military members to 2.2 million in 1973—300,000 less than the Gates Commission estimate of 2.5 million. These figures highlighted that personnel expenditures were exceeding estimates and driving force structure down.⁶³

In reaction to this report, US Senator Sam Nunn from Georgia led the charge against cost. In a March 1973 speech to the Georgia General Assembly, he raised concerns about the relative personnel budget disparity between the United States' 67 percent expenditure versus the Soviet Union's 25 percent. In particular, he highlighted that direct personnel cost rose from \$5,435 per soldier in 1964 to \$11,580 by 1973, with a corresponding force structure drop of 371,000 personnel. Finally, the 1968 personnel budget was \$32.6 billion and had jumped to \$43.9 billion in FY74, with a corresponding decrease in overall defense personnel of 1.6 million.

⁶² Comptroller General of the United States, *Report to the Congress: Problems in Meeting Military Manpower Needs in the All-Volunteer Force* (Washington, DC: Government Printing Office, May 1973), 4.

⁶³ *Ibid.*, 63.

Congress established the Defence Manpower Commission on November 16, 1973, to investigate the rising costs of military manpower and to provide guidance on pay structure changes. Releasing the report in May 1976, it did not condemn the AVF and its associated quality and cost, as Senator Nunn thought it would.⁶⁴ To the contrary, it said that “emphasis and priorities by necessity have been properly focused upon the active forces,” effectively approving the services higher quality personnel cost argument in both pay and bonus incentivization.⁶⁵ But the commission acknowledged that the military budget now competed with social welfare budget items “that often are underwritten at the expense of defense.”⁶⁶ Additionally, it voiced concern that the while actions for the active component were successful, the same could not be said for the reserves. “Recognizing that the AVF was defined as a smaller all-volunteer active force supported by strengthened Reserve Components, one must question whether the Total Force policy is a truly viable concept.”⁶⁷ The commission was particularly concerned that reserve units would not be operationally ready for at least 30 to 90 days after mobilization, and more likely 120 to 180 from a practical planning standpoint.⁶⁸ This lack of reserve readiness questioned the viability of the Total Force concept versus an active SSS. More forcefully, the report concluding that the Total Force “is far from a reality and the expectations of it may have been overstated” and that its capacity to meet national emergency needs was overrated.⁶⁹ The commission determined there would be shortage in personnel beyond the 100th day of a mobilization requiring a return to the

⁶⁴ Rostker, *I Want You!*, 295.

⁶⁵ Defense Manpower Commission, *Defense Manpower: The Keystone of National Security* (Washington, DC: Defense Manpower Commission, 1976), 13.

⁶⁶ *Ibid.*, 39.

⁶⁷ *Ibid.*, 207.

⁶⁸ *Ibid.*, 2.

⁶⁹ *Ibid.*

draft.⁷⁰ The Total Force simply could not generate enough personnel, quick enough, in the event of a major war.

While the commission did not produce significant recommendations to reduce the cost of the AVF, it put the DoD on notice that Congress was concerned. Soon Assistant Secretary Bill Brehm moved to reduce increasing manpower costs. Brehm first showed that the AVF had contributed to an increase of over 11 percent of the overall defense budget from 1964 to 1976, with a decrease in 716,000 (19 percent) in active military and civilian personnel.⁷¹ In particular, he highlighted the cost of rapidly increasing retirement pay benefits due to increased retention and careerism of the AVF, which jumped from \$1.2 billion in 1964 to \$7.3 billion in 1976 and (which would become a recurring issue). Additionally, he drew attention to the drop of the DoD's budget share of 43 percent to 27 percent, highlighting prioritization of social programs in national priorities as part of the discretionary budget. Brehm pushed to reduce the personnel budget, which accounted for 55 percent of the Army's budget in FY77, to 53 percent in 1977. He suggested two ways to reduce manpower costs: (1) reduce strength or (2) reduce the average cost per person.⁷² He recommended moving Basic Allowance for Housing to fair market rates (charging the Soldier more for government quarters) and for a reduction in Reservist pay. He also advocated moving away from civilian wage comparability increases and recommended reducing military retirement benefits to save costs. Almost one-third of the cost savings was in a reduction in proficiency pay and reenlistment bonuses.

However, the most damaging move made by Brehm was a severe reduction in the recruiting resources—over 6 percent in advertising and enlistment bonuses, effectively lowering

⁷⁰ Defense Manpower Commission, *Defense Manpower*, 430.

⁷¹ US Congress, House, Hearing before the Committee on Armed Services, HR 11500, 94th Cong., 2nd sess., January 27, 1976, 16.

⁷² *Ibid.*

the competitiveness of the military versus civilian employment.⁷³ By 1979, the military was no longer meeting its recruiting goals, with all services hitting only 90 percent of their mandated end strength.⁷⁴ It was this reduction in recruiting funding, plus stagnant military compensation, that produced an AVF crisis for the Carter Administration - a crisis so severe that former President Nixon pronounced the AVF a failure and called for reintroduction of the draft. By the end of 1979, Congress and the Pentagon realized that military compensation was no longer competitive to reach desired quality and quantity levels. But concerned with rising inflation and the overall size of the federal budget, President Carter disagreed, and he vetoed the Uniform Services Health Profession Pay Act of 1980. The Joint Chiefs of Staff then went into open revolt, declaring before Congress that the defense budget was not sufficient to meet the Soviet threat and reach required personnel quality levels.⁷⁵

The saving move for the AVF came from Senator Nunn who, via Congressional hearings, had come to realize that a return to the draft was no longer feasible and that the AVF must be made to work.⁷⁶ In light of an unwilling presidential administration, Senator Nunn pushed forward with the Nunn-Warner amendment providing \$527 million in compensation in 1980 and an additional \$720 million in 1981. In the end, the Senate voted for an 11.7 percent pay increase effective October 1, 1980.⁷⁷ While President Carter reluctantly supported the increase, the budget still did not fully meet manpower requirements to counter the Soviet threat as laid out by the Defense Manpower Commission. Yet it was not anxieties about manpower or costs that directly

⁷³ US Congress, House, HR 11500, 35.

⁷⁴ US Congress, Senate, *Department of Defense Appropriations for Fiscal Year 1980: Hearings Before a Subcommittee of the Committee on Appropriations* (Washington, DC: Government Printing Office, 1979), 8.

⁷⁵ Rostker, *I Want You!*, 405.

⁷⁶ *Ibid.*, 372.

⁷⁷ *Ibid.*, 407.

led to the reestablishment of the SSS. Rather, it was the Soviet Union's 1979 invasion of Afghanistan. In response, President Carter mandated a return to the pre-mobilization registration for the selective service. President Carter's goal for reinstating the SSS was less about operational needs as established by the DoD, but rather designed to send a strategic message to the Soviet Union, "[R]egistration for the draft is needed to increase our preparedness and is a further demonstration of our resolve as a nation . . . vigorous effort to improve our current capabilities will help . . . to deter Soviet aggression."⁷⁸ The rapid reinstatement of the SSS was conducted predominately for political and strategic requirements. Even with it reinstated, and draft registrations now a pre-mobilization requirement, the military would double-down on the Total Force Concept, as SSS to this day lacks the requisite organization and resources to implement conscription.

Section Conclusion

As the Army entered the 1980s, it found itself at the base of a compensation mountain. Instead of fighting to catch up to the civilian market as happened in the 1970s, events would catapult costs significantly above the cost of inflation. Compared to 1970, the Army lost 300,000 personnel, the active component now only comprising 54 percent of the Army's Total Force, with the remaining 46 percent coming from the Selected Reserve and Individual Ready Reserve. Personnel costs increased by almost \$2.0 billion per year on paper (adjusted for inflation) –the real dollar cost was closer \$4.1 billion.⁷⁹ While this cost seemed to be in line with the Gates Commission estimates of a yearly increase of \$2.1 billion for the entire DoD it obscured a

⁷⁸ The Jimmy Carter Presidential Library and Museum, Records of the Office of the Staff Secretary: A Guide to Its Records at the Jimmy Carter Library, Selective Service Revitalization and Registration of Women, February 8, 1980, 2, accessed February 12, 2019, https://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf.

⁷⁹ Karl Cocks, William Gardner Bell, Romana M. Danysch, Detmar H. Finke, Walter G. Hermes, James E. Hewes Jr., Vincent C. Jones, and B. C. Mossman, *Department of the Army Historical Summary Fiscal Year 1978* (Washington, DC: Center of Military History, 1980).

disturbing trend: by 1980 the Army's personnel costs had significantly increased while overall strength had decreased.

The 1970s marked the decade of transition to the AVF. It was in this decade that any thoughts of returning to a peacetime draft were effectively killed. However, with it came rising personnel costs, decreasing force structure, and an increasing reliance on the Total Force to meet national security objectives. Although President Carter re-established SSS before leaving office, the Reagan administration would usher in a new period of growth and cost for the AVF—and while helping to undermine the USSR, it would set the stage for a new battle on personnel cost.

Section 3 – Rising Costs and Greater Utilization of Reserves 1980

At the end of the 20th century and beginning of the 21st, the AVF wrestled with new challenges not foreseen by the Gates Commission. The collapse of the Soviet Union, global security commitments in the 1990s, and the terrorist attacks of the new millennium provided a test of limits and political will. Each period brought new issues of cost and security, starting fresh debates on the peace-time viability of a large volunteer force. Ultimately, almost 45 years since the end of the draft, the United States has an increasingly strained Army, decreased force structure, and a new implicit tax on the Selected Reserve—all due to the rising cost of personnel for the AVF.

The 1980 election of Ronald Reagan to the Presidency provided fresh support, and higher costs, for the AVF. Seeking a strong deterrent to the Soviet Union, and to keep military careers competitive, Reagan's administration pushed for an increase in military pay of 14.3 percent in 1982—5.3 percent higher than Carter's 1982 already approved pay increase of 9 percent.⁸⁰ This

⁸⁰ US Congress, Senate, *Pay Increase for Military Personnel: Hearing Before the Subcommittee on Manpower and Personnel of the Committee on Armed Services*, 97th Cong., 1st sess. (Washington, DC: Government Printing Office, 1981), 25.

was in addition to the 11.7 percent increase imposed by the Carter Administration in 1981, and increased military pay by a combined 26 percent. The pay raise had the desired effect on recruiting and quality, with the Army reaching 71 percent of total High School graduates in 1982, up from 57 percent in 1981.⁸¹ The number of category IV personnel dropped from 49 percent in 1980 to 27 percent by 1981.⁸² The size of the Army under the AVF reached its maximum in 1987 at 1.58 million soldiers, benefitting from high unemployment rates and low wages for unskilled workers earlier in the decade.⁸³ The total cost of the 5.3 percent increase was \$980 million for pay, however, with projected growth in retirement pay projections of an additional \$680 million.

The fall of the Berlin wall in late 1989, though, demonstrated a crisis within the Soviet sphere of influence. By 1990 General Colin Powell, Chairman of the Joint Chiefs of Staff, realized that with the Soviet Union's pending collapse would come a push to reduce the size of the force and a desire to realize a post-Cold War "peace dividend." His concept, the Base Force, was the answer for reduced spending, which saw the abandonment of the Forward Defense doctrine and a shift towards regional conflict.⁸⁴ The Base Force plan proposed to save 10 percent of the defense budget (20 percent coming from personnel) by reducing force structure by 25

⁸¹ Lawrence Korb, *Memorandum for the Special Assistant to the Secretary of Defense. Subject: Monthly Report on Recruiting and Retention* (Washington, DC: Assistant Secretary of Defense (ASD-MRAL), July 6, 1981), 2.

⁸² *Ibid.*

⁸³ David Grissmer, James Hosek, and Richard Eisenman, "Trimming the Senior Enlisted Force: Estimating Cost Savings and Structuring Institutional Incentives" (Research, RAND Corporation, Santa Monica, CA, October 1989), 5.

⁸⁴ Lorna Jaffe, *The Development of the Base Force 1989-1992* (Washington, DC: Government Printing Office, 1993), 4.

percent.⁸⁵ The plan was put on hold due to the Gulf War but was quickly implemented after its end.⁸⁶

Whereas the Army's 1987 active strength was 800,000 soldiers, under the Base Force it fell to 509,000 by 1995. The resulting 25 percent decrease translated into a 29 percent, or an \$8 billion-dollar, reduction in personnel costs for the Army.⁸⁷ A further review, the Bottom-Up Review, sought to further slash these costs to 33 percent of the 1987-size force by FY93.⁸⁸ However global security commitments grew, and personnel pay and allowances remained relatively consistent, with an average cost of \$41,000 per soldier from 1990 to 1995.⁸⁹ This forced the AVF to maintain a smaller force structure to achieve the reduced budgetary price point.

Following the Gulf War, the military drifted in and out of different contingency operations, and became embroiled in global peacekeeping activities or OOTW.⁹⁰ With the Base Force and Bottom-Up Review designs predicated on fighting two wars simultaneously, there were not enough remaining forces to fight two Major Theater Wars and conducting almost continuous peace-keeping operations.⁹¹ Peace-keeping, or contingency, operations soon

⁸⁵ Jaffe, *The Development of the Base Force 1989-1992*, 36.

⁸⁶ To Many, the Gulf War (Desert Shield and Desert Storm) validated the Total Force as a functional structure in a conventional conflict. This helped shape AC/RC force ratio discussions in later years.

⁸⁷ Stephen Gammons and William Donnelly, *Department of the Army Historical Summary Fiscal Year 1995* (Washington, DC: Center of Military History, 2004).

⁸⁸ Eric V. Larson, David Orletsky, and Kristin Leuschner, *Defense Planning in a Decade of Change: Lessons from the Base Force, Bottom-Up Review, and the Quadrennial Defense Review* (Santa Monica, CA: RAND Corporation, 2001), xviii.

⁸⁹ William Webb, Charles Anderson, Dale Andrade, Mary Gillett, Glen Hawkins, Dave Hogan, Thomas Popa, Rebecca Raines, and James Yarrison, *Department of the Army Historical Summary Fiscal Year 1990 and 1991*, ed. Scott Janes (Washington, DC: Center of Military History, 1997), 129; Gammons and Donnelly, 18.

⁹⁰ Bailey, *America's Army*, 224.

⁹¹ Larson, Orletsky, and Leuschner, *Defense Planning in a Decade of Change*, iv.

amounted to one Major Theater Wars worth of resources.⁹² In effect, the Army was resourced for two Major Theater Wars but was engaged in three, with OOTW deployments growing 300 percent from 1987 to 1997.⁹³ For example, to support operations in Bosnia, the Army activated forces from its Early Support Force pool, which had been designed to provide reserves for a major conflict.⁹⁴ Almost 48,000 reservists were activated to support operations in Haiti, Bosnia, and Kosovo.⁹⁵ While unplanned, the activations were necessary to support OOTW operations and maintain the ability to fight a theater war. The result was greater reliance on the Reserve Component. By 1997, the Army had been reduced to 64 percent of its total 1987 force structure with only 46 percent of its personnel in the active component, compared to 54 percent in the reserves.⁹⁶ In 1987, the AC/RC ratio had been 52/48 percent.

As the 1990s closed and the GWOT began, personnel budget cost accelerated quickly. Increased operational tempos drove the 1995 soldier cost from \$41,000 to almost \$115,000 by 2010. Moreover, GWOT represents the largest activation of reserves in the history of the AVF, as well as the greatest reliance upon reservists in United States history. Since 2001 the Army, which contributed over 58 percent of the total forces in support of GWOT, has supplied 1.33 million soldiers. Of that total, 38 percent (or 500,000 reservists) have been activated (some voluntarily) to

⁹² Michael Ryan, *Military Readiness, Operations Tempo (OPTEMPO) and Personnel Tempo (PERSTEMPO): Are U.S. Forces Doing Too Much?* (Washington, DC: Congressional Research Service, Library of Congress, January 1998), 2.

⁹³ Ibid.

⁹⁴ General Accounting Office, *Military Operations: Impact of Operations Other Than War on the Service Varies* (Washington, DC: Government Printing Office, May 1999), 55.

⁹⁵ Lawrence Knapp and Barbara Torreon, *Reserve Component Personnel Issues: Questions and Answers* (Washington, DC: Congressional Research Service, Library of Congress, October 2018), 8.

⁹⁶ Ryan, *Military Readiness, Operations Tempo (OPTEMPO) and Personnel Tempo (PERSTEMPO)*, 6.

support operations.⁹⁷ In contrast, the Korean War required activation of 857,000 reservists for a total force of 5.7 million (15 percent) and the Gulf War only 239,000 of 2.3 million (10 percent).⁹⁸ Yet the pressures on the reserve force, and limits on its ability to support the enduring war on terror, required an increase in the active force—at a more expensive price point.

The Gates Commission had argued that even with higher budgetary costs, transitioning to the AVF would be cheaper in comparison to the actual costs of the draft. But the full economic cost argument of the neoliberals was forgotten, and concerns with budgetary cost took hold. To offset the rising costs of personnel, the government continually reduced force structure. Even with these force reductions, budgetary costs have risen faster than anticipated, and especially since the beginning of GWOT.

⁹⁷ Jennie W. Wenger, Caolionn O’Connell, and Linda Cottrell, *Examination of Recent Deployment Experience Across the Services and Components* (Santa Monica, CA: RAND Corporation, 2018), 3, accessed February 12, 2019, https://www.rand.org/pubs/research_reports/RR1928.html.

⁹⁸ Knapp and Torreón, *Reserve Component Personnel Issues*, 7.

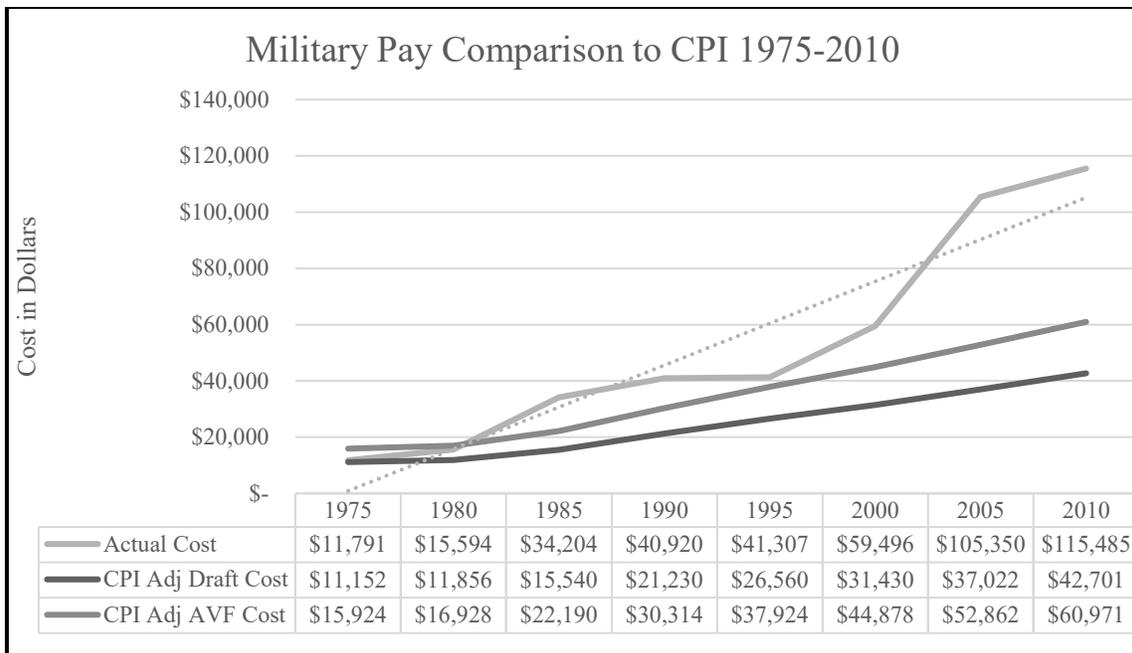


Figure 3. Military Pay Comparison to Consumer Price Index. Created by author. Data from Department of the Army, *Historical Summaries* (Washington, DC: Center of Military History, 1992-2010), accessed February 25, 2019, <https://history.army.mil/html/bookshelves/collect/dahsum.html>; US Bureau of Labor Statistics, “Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average, All Items by Month,” accessed January 3, 2019, <https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-201901.pdf>.

Figure 3 shows how pay per soldier has increased over time when compared to the adjusted Consumer Price Index (CPI).⁹⁹ The CPI adjusted draft cost is the average pay per soldier under draft pay rates (as of 1970), as adjusted for inflation. The CPI adjusted AVF cost is the average pay per soldier the Gates Commission suggested would be required to meet 1970 opportunity cost differentials, and adjusted for inflation. The trend line highlights that personnel costs have been increasing more than expected. The average cost of soldier’s pay in 2010 is almost double that anticipated based on the Gates Commission’s calculations, and adjusted for inflation. During the early 1990s, the Bottom-Up Review recommendations and corresponding decreases in force structure helped keep pay stagnant. Pay then accelerated, relative to the CPI, as mobilizations as part of OOTW increased. GWOT then sent pay levels trending even higher.

⁹⁹ Military compensation uses the Employment Cost Index for wages and Consumer Price Index for retirement benefits. ECI was created in 1975 after the Gates Commission. For consistency, CPI is used to match Gates Commission estimates. CPI represents purchasing power for good as compared to inflation.

A circumstance not adequately considered by the Gates Commission is that once pay is increased, it is politically difficult to subsequently cut it. The cost of the military never decreases going forward.¹⁰⁰ Rather, large wartime pay increases such as during GWOT become the “new normal.” The only way to reduce cost is to freeze pay raises, which can affect the retention of trained personnel, reduce the size of the force, or reinstate the draft.¹⁰¹ Over the history of the AVF, the trend has been to trade active strength for budgetary cost savings, relying more on the reserves to meet the nation’s defense needs.

As a result, increased costs and decreasing active force structure has made the Army more reliant upon the reserves than ever before. Since the Korean War, the United States has maintained a large standing active force, reaching its highest point of 1.5 million soldiers in 1987. The AVF then rapidly diminished due to cost and the “peace dividend” of the post-Cold War era. By the time of the terrorist attacks of 2001 the force would be a third smaller, at 1.03 million soldiers. Of that number, 480,000 were serving on active duty, 352,000 in the National Guard, and 206,000 in the Reserves—more than one-half, 55 percent, in the reserves.¹⁰² That proportion has dramatically shifted since 1978, when the Active Component comprised 60 percent of the Total Force (see figure 5). However, as this force decreased the proportion of reserve to active soldiers would increase.

¹⁰⁰ William Brehm, “All Volunteer Force: A Special Status Report,” *Commanders Digest* 15, no. 9 (February 9, 1974): 6.

¹⁰¹ Comptroller General of the United States, *Report to the Congress: Problems in Meeting Military Manpower Needs in the All-Volunteer Force*, 68.

¹⁰² Dwight Oland and David Hogan, *Department of the Army Historical Summary Fiscal Year 1992* (Washington, DC: Center of Military History, 2001), 13.

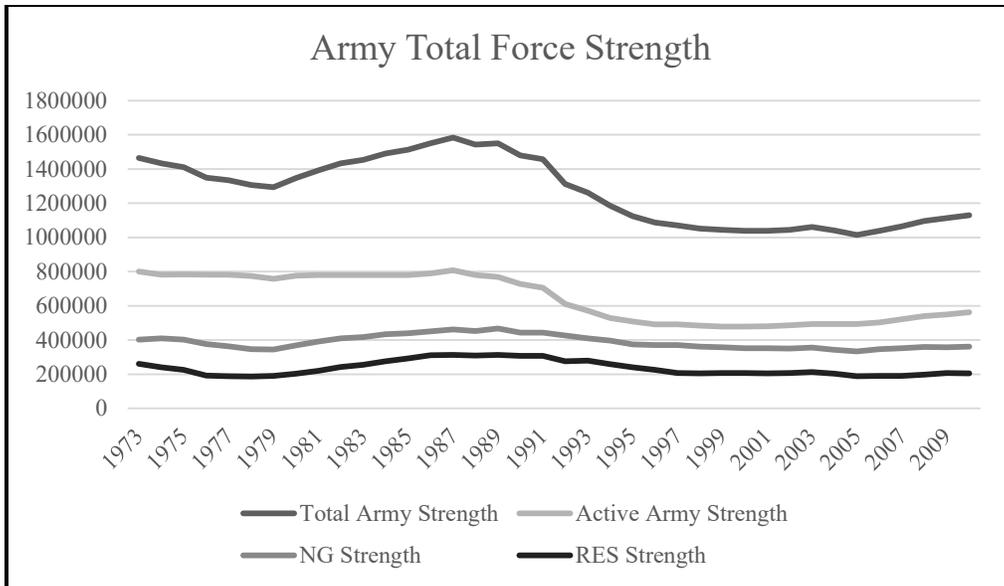


Figure 4. Historical Army Total Force Strength. Created by author. Data from Department of the Army, *Historical Summaries* (Washington, DC: Center of Military History, 1992-2010), accessed February 25, 2019, <https://history.army.mil/html/bookshelves/collect/dahsum.html>; US Bureau of Labor Statistics, “Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average, All Items by Month,” accessed January 3, 2019, <https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-201901.pdf>.

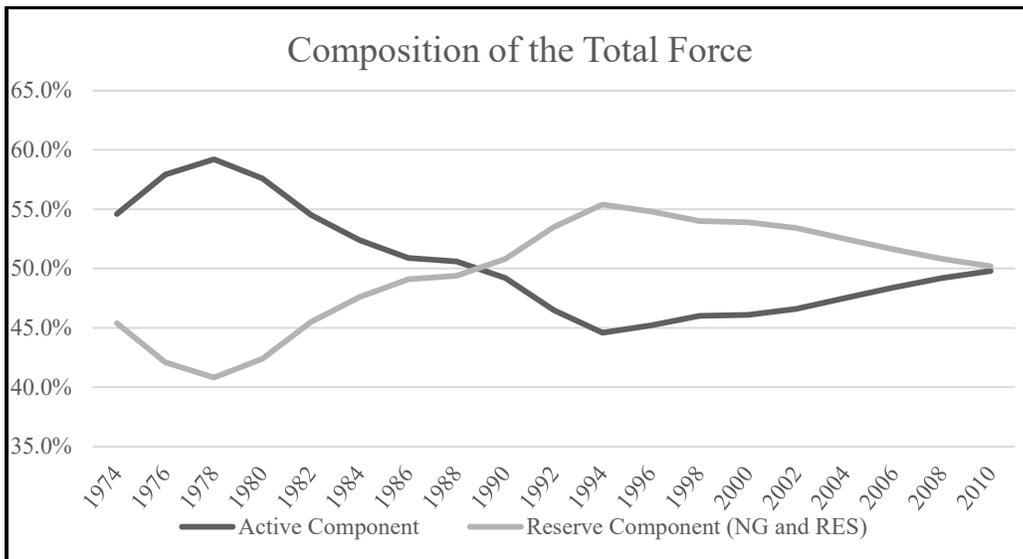


Figure 5. Military Pay Comparison to Consumer Price Index. Created by author. Data from Department of the Army, *Historical Summaries* (Washington, DC: Center of Military History, 1992-2010), accessed February 25, 2019, <https://history.army.mil/html/bookshelves/collect/dahsum.html>; US Bureau of Labor Statistics, “Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. City Average, All Items by Month,” accessed January 3, 2019, <https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-201901.pdf>.

The Base Force concept did not anticipate US forces would be used so extensively in subsequent peace-keeping operations. The result was a much-reduced Total Force, and particularly its Active Component, to carry the burden of increased deployments and commitments for global security—a force that, for the first time in the history of the AVF, had more reservists than active duty members.¹⁰³ As of now any commitment of Army forces requires the involvement of the reserves, and the burden of national defense is borne more heavily and acutely by reservists and their employers. As championed by the Gates Commission, reserve activations may “force [citizens] to serve in a military at artificially low pay . . . which subsidizes those in the society who do not serve.”¹⁰⁴ Regardless of the social impact, the reality is that as the Army continues to rely more on the reserves to meet its security commitments, it may be increasingly costly to recruit and retain personnel in the next major conflict with a great power.

The attacks of September 11, 2001, set the United States on a course for a prolonged war, the economic and social costs of which bring base arguments of the Gates Commission back into the spotlight. The simultaneous deployment of the AVF in Afghanistan and Iraq, while maintaining a standby capability for an additional global contingency produced unsustainable personnel costs, leading to the trading of one implicit tax for another. The Gates Commission neoliberal concept of actual cost includes the cost of lost economic choice, or opportunity cost, to the individual. With increasing budgetary costs reducing force structure, reserve activation increased during OOTW and GWOT. Using increased reserves instead of active forces takes reservists away from their civilian employment. In some cases, this is beneficial for soldiers if military pay is better than their civilian options. In other cases, where the reservist makes substantially more than when employed by the military (managers, technical workers, doctors, for

¹⁰³ Vincent Demma, *Department of the Army Historical Summary Fiscal Year 1989*, ed. Susan Carroll (Washington, DC: Center of Military History, 1998).

¹⁰⁴ United States President’s Commission on an All-Volunteer Armed Forces, *The Report of the President’s Commission on an All-Volunteer Armed Force*, 9.

example) military action imposes a substantial pay cut. This places an implicit tax on each soldier by removing the option to make more money in the civilian economy. This is a natural side-effect of Congress reducing active-duty force structure and placing larger operational requirements on the reserve force.

The implicit impact on the soldier is obvious from the neoliberal standpoint. When the government activates a reservist, there is the potential for lost wages depending on the capability of the soldier in the civilian market place. But the drawdown of the active force and the frequency of reservist activation has led to a different variant on implicit tax. Before 1990, reservists had rarely deployed other than part of total mobilization.¹⁰⁵ Now, one out of every three soldiers supporting GWOT is a reservist. This created a secondary social effect by causing reservists difficulty in retaining employment. To protect servicemembers, Congress implemented the Uniformed Services Employment and Reemployment Rights Act. This act shifted some of the cost burden—and thus implicit tax—from the soldier to the employer.¹⁰⁶

Under a normal free labor market, an employer would be free to fire the reservist and hire a new employee to fill the vacancy. As the soldier entered into a voluntary agreement with the government to become a soldier, neoliberal free market rules do not obligate an employer to honor the employee's contract with the government and guarantee his position upon return—but Uniformed Service Employment and Reemployment Rights Act (USERRA) does. Realizing that activation of reservists may cause them to lose their civilian jobs, or prevent the hiring of service

¹⁰⁵ Neil Singer, Eleanor Schwartz, and Natalie Bragg, *The Effects of Reserve Component Mobilizations on Civilian Employers* (Alexandria, VA: Institute of Defense Analysis, June 2008), 7.

¹⁰⁶ Friedman provides an analogy for the dangers of shifting economic burden in the name of social justice. In *Capitalism and Freedom*, he uses the concept of rent control to show the indirect impacts of correcting the perceived social injustice of high rent by subjecting landlords to rent caps below the fair market rate. This is a form of an implicit tax as the landlord is now subsidizing the renters housing. Under rent control, artificially low rent impacted the landlord's ability to maintain the quality of the dwelling, creating a downward spiral lower revenue and building degradation. Ultimately leading to greater economic inequality.

members, USERRA was passed in 1994.¹⁰⁷ USERRA protects employees by requiring employers to provide rehire rights to activated reservists.¹⁰⁸ As this act coerces the employer to go against the rules of the free market, it places an implicit tax on employers requiring them to assume some of the cost of national defense.

The 1990s were the years of active force reductions for the Army. This was the period that the reserves became a mandatory component for any future action as part of the Total Force. GWOT showed the need for the reserves, and the danger of shrinking end strengths and rising cost. Now a segment of the society, reservists and employers would carry a disproportionate share of the national defense financial burden—creating a new implicit tax in direct opposition to the intent of the Gates Commission.

Conclusion

In 2002, shortly after the invasion of Afghanistan, but before the invasion of Iraq, Representative Charles Rangel (D-New York) wrote an opinion piece for the *New York Times* titled “Bring Back the Draft.” Rangel argued for a return to the draft, similar to the counter-arguments of the Gates Commission by asserting military service is a civic duty required by all.¹⁰⁹ He was concerned with the force size requirement of 250,000 active forces, plus an additional 265,000 reservists for the invasion, noting that the latter was as large as the requirement for the First Gulf War.¹¹⁰ He questioned whether the current military “is of sufficient strength and size to meet present and future commitment”—especially in the light of an evolving war on terror that

¹⁰⁷ Singer, Schwartz, and Bragg, *The Effects of Reserve Component Mobilizations on Civilian Employers*, 1.

¹⁰⁸ US Department of Defense, “What Is USERRA,” Employer Support of the Guard and Reserve, accessed February 17, 2019, <https://www.esgr.mil/USERRA/What-is-USERRA>.

¹⁰⁹ Charles Rangel, “Bring Back the Draft,” *New York Times*, December 31, 2002, accessed January 5, 2019, <https://www.nytimes.com/2002/12/31/opinion/bring-back-the-draft.html>.

¹¹⁰ Ibid.

may demand greater future commitments.¹¹¹ He was rebutted by Secretary of Defense Donald Rumsfeld—who had attended the 1966 draft conference at Chicago University. Rumsfeld highlighted the successes of the AVF, and the drawbacks of the draft using the neoliberal argument, “There is no need for it [a draft] at all. The disadvantages of using compulsion to bring into the armed forces men and women needed are notable . . . people were brought in; they were paid some fraction of what they could make in the civilian manpower market because they were without choices.”¹¹² Rumsfeld emphasized the effect of the implicit tax and loss of opportunity cost choice to draftees, and how the government had removed the individual’s choice—that the draft was more inefficient and the AVF provided for more economic freedom.

Relying upon the Total Force, with no conscription to provide an alternative source of manpower, the US Army invaded and occupied Iraq while maintaining simultaneous operations in Afghanistan. But with the release of the 2017 version of *FM 3-0 Operations*, it is undertaking a new challenge, shifting its doctrine from counter-insurgency to preparing to defeat near-peer adversaries in large-scale combat operations.¹¹³ But the characteristics of LSCO point to a war of increasing complexity, casualties, and duration—even more so than a potential late-Cold War clash with Soviet and Warsaw Pact forces in Europe.¹¹⁴ The combination of increased lethality of LSCO, combined with the severe reductions in force structure, and the high cost of personnel procurement, makes the next conflict particularly risky for the AVF. Yet even without the possibility of LSCO, an ever-decreasing authorized Army end-strength continues to put a premium on procuring talent.

¹¹¹ Rangel, “Bring Back the Draft.”

¹¹² US Department of Defense, “News Brief-Secretary Rumsfeld and Gen Myers,” *Scoop News*, January 7, 2003, 7.

¹¹³ Donald J. Trump, *National Security Strategy of the United States of America* (Washington, DC: Government Printing Office, 2017), 27.

¹¹⁴ US Department of the Army, *Field Manual (FM) 3-0, Operations* (Washington, DC: Government Printing Office, 2017), 1-2.

The nation must decide how to balance the neoliberal argument of individual liberty against the budgetary cost of national defense. As costs continue to grow and the force gets smaller, the Army must be prepared for the possibility that the AVF cannot provide the manpower necessary to prosecute the next war—it must prepare for a possible to return the draft. It must train, exercise the planning, develop the infrastructure, and practice the integration actions necessary to ensure that combat capability is rapidly generated to affect the outcome of the conflict. This is no easy task, and it may be politically unsavory to “train for the draft,” it is better to be prepared and not need it, than the other way around.

The nation should prepare for the possibility of war with a great power, to include a need for increased manpower to prosecute the war successfully. It is time to consider hard solutions to the personnel problem. It may be time to reduce security commitments worldwide. If we are unwilling to do this, we must either ask the taxpayer to fund a properly sized military capable of meeting the need for the conflict, with corresponding increased budgetary costs to cover the reservist implicit tax—or, we must consider spreading the burden as equally as possible with a return to the draft. If the premises of the neoliberal Gates Commission still underpin the concept of the AVF, then we owe this to the American people who all enjoy the benefit of national defense borne by a disproportionately select few.

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