

The Market for Military Manpower: Alternatives to Efficiency

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Note: The views expressed in this talk are those of the author and should not be interpreted as those of the Congressional Budget Office.

I'm going to talk about why the future AVF might not lead to a more efficient compensation and personnel management system. More efficient here means able to provide a force of a given capability at lower cost. This is worth talking about because understanding why the AVF might not be headed toward greater efficiency could help us design more realistic policy options. Also, being from CBO, it's often my job to throw a little cold water.

Proponents of an efficient AVF sometimes argue that DoD has to be efficient if it is going to maintain a high quality volunteer force within a limited budget. And looking just at trends in recruiting and first term/career tradeoffs, it appears that the AVF and the drive for efficiency has in fact been a very powerful force. In those areas—the first research areas that Bernie Rostker identified yesterday—the AVF has moved in directions that economists suggested.

But the AVF has not had such a dramatic effect on the overall structure of the military's compensation and personnel management systems. That structure predates the AVF. We haven't seen some of the innovations that economist, including several of the speakers yesterday, might argue would enhance efficiency—opportunities for lateral entry, large variation in pay and retirement points across occupations, separation of pay from rank, pay that reflects individual performance or capabilities.

What Could Motivate New Directions?

We have had the AVF for over 25 years. If efficiency is going to motivate new directions, we have to argue that what worked for the AVF in the past is going to be very expensive or, better yet, ineffective in the future. We need some combination of social or military trends and fiscal constraints that will, as one of the background papers for this conference suggests, “push the bounds of past practice, and lead the All Volunteer force into a new era.”

But some of the most immediate reasons for change seem to be waning. The civilian job market is very strong today-- but that means CBO's 5 and 10 year projections call for it to loosen somewhat. The youth job market could loosen even more. The size of the youth cohort will rise by almost 20 percent in the next 10 years.

As Susan Everingham and Jim Hosek, among others, have pointed out, there are some longer term social and military trends might push the AVF in new, possibly more efficient directions. And I find that I am unable to resist the temptation to speculate briefly three of those trends. But don't mistake my lack of self-discipline for optimism. Gradual long term trends lack urgency—they might not be nearly as effective in motivating change as some sudden emergency and the fear of immediate, catastrophic failure.

Growth in the Importance of Technical Manpower

The first possible source of long-term stress is that technical occupations that command a high wage in the civilian economy may become more important in the military. This could make it hard for DoD to manage shortfalls through its limited bonus programs, reduce the importance of youth and vigor, and make the short military career—which limits the return to training—less cost effective. That is a plausible story, and could motivate new, efficient directions.

But another possibility is that DoD will design its systems and support practices so that the truly technical jobs are kept out of the battlefield and in the hands of civilians. We may need to look closely at the definition of technical and ask whether the mix of enlisted personnel is really moving becoming more technical. A quick look at the distribution personnel by DoD occupational codes—at least at the 1 digit level—suggests that the percent of the active enlisted force engaged in technical occupations, like electronic equipment repair-- is not increasing. It might

be that each occupation is itself becoming more technical --although when OSD recently revalidated its benchmarks for recruit quality, it found that the tasks required for the 24 representative occupations in its analysis had not changed very much since the 1980s.

The Need for a More Flexible Force

A second source of long-term stress on the AVF could be the need for more flexible force. This doesn't mean more technically skilled personnel in technical occupations-- it means very high quality people who are cross-trained in more than one occupation, or trained in a very broad set of skills. People who can adapt quickly to different missions and rules of engagement and who have the maturity to exercise independent judgment.

One recently retired Army General went so far as to claim that "The day of the 18 year old infantryman is over. He doesn't have the maturity, the mental balance, and the ability to deal with psychological stress." I know some Marines, in particular, who would take exception to that. Nonetheless, if the percentage high aptitude 18 year old high school graduates not going on for at least some college becomes very small, that group might eventually become self-selected based on unobservable personal characteristics that would not meet DoD's needs. DoD might find that it needed to recruit the kind of people who would go after college credits--even if those credits did not provide specific technical skills.

The AVF could respond to that pressure in more or less efficient way. One inefficient but traditional solution would be to raise pay scales for all enlisted personnel and maybe limit the number who enlisted without some college or require some college for promotion into the career force.

Another solution would be to expand the system of rank and pay for education: Susan Everingham pointed out that currently officers have a BA when they enter and, with few exceptions, enlisted recruits do not. So there is already a kind of lateral entry for those with 4 year college degrees. Maybe DoD could create a new rank structure--along the lines of warrant officers-- to make an attractive career track for those who enter with an associate degree or so many college credits. That could also help break the arguably outmoded social dichotomy between the officer class of gentlemen and ladies and the enlisted class of men and women.

And another solution--and one that is being looked at for some of today's possibly temporary recruiting problems-- would be for DoD to pay upfront for individuals to get associates degrees or professional certificates in return for a service obligation. That might be a good policy for society as a whole, but costly for DoD. DoD might still need to raise enlisted career pay scales or create new rank structures if it wanted to retain those individuals.

The Need for a CONUS-Based Expeditionary Force

So the AVF might have to become more high tech or a more flexible. A third new direction for the AVF might arise as the result of a social trend--growth in the importance of the second wage earner--and a possible military trend--a continued move toward a CONUS based expeditionary force.

Casey Wardinsky pointed out that the percentage of military families with two wage earners has increased from about 35 percent in 1973 to over 65 percent today. DoD may be paying an increasing wage premium to make up for the earning power lost due to frequent moves. We can imagine increased pressure from military families for longer tour lengths leading both to savings in PCS costs and greater productivity in military jobs. If greater stability encouraged more military families to integrate with civilian communities, there could also be savings from reduced reliance on the in-kind benefits that DoD now provides on-base--child care, stores, housing, schools. The current plan to increase housing allowances to cover the full cost of standard off-base housing is one indication that the future AVF might in fact move in this direction.

But, not to get carried away, U.S. tour lengths and the ability of many military families to homestead are limited by the rotation of troops to and from permanent assignments at overseas bases in Europe and Asia. So the AVF is most likely to move in this direction if military and diplomatic pressures lead to the adoption of a more CONUS based force, in which few members would PCS overseas. Maybe a force in which expeditionary units would be trained up in the U.S. and then sent to overseas bases on 6 month temporary deployments where they would exercise with our allies and be on-call for contingencies.

Why Greater Efficiency May Not be the Trend

So it is possible that the need for a more technical force, or a more flexible force, or a CONUS-based expeditionary force could motivate new, more efficient directions for the AVF over the very long run. But looking at what is actually happening, it seems more likely that concerns about fairness, rather than efficiency, are going to shape the AVF in the near future. There are several reasons for that.

The Effects of Retirees, Budget Surpluses, and the Threat

One explanation is the large number of retirees relative to active duty personnel. Since 1973, the number of active duty members per military annuitant has fallen from 2.4 to .7. This means that there is strong support for the benefits that are used by retirees—the military health system, commissary, exchange—regardless of their efficiency as a tool for recruiting and retention. A comprehensive health benefit for retirees over 65 might be only fair, but in terms of recruiting and retaining an AVF, still not the most effective way to spend perhaps \$4 billion a year.

Other reasons why efficiency might not be driving the AVF in new directions include the presence of a federal budget surplus and the absence of a pressing military threat. The DoD budget is not large enough to support the national strategy, but there is slack in the sense the penalties associated with not fulfilling the strategy are not as clear as they were in the Cold War.

We may feel that some inefficiency is affordable. The Soldiers' Sailors' Airmen's and Marines' Bill of Rights Act of 1999 that repealed REDUX and provided across the board pay raises above the ECI certainly did so without a lot of analysis of whether it was the most efficient way to improve retention and readiness. And although some aspects—like the authorization of a thrift savings plan for military personnel—might be seen as opening the door to future retirement reform, that was not the main thrust of the act.

Perennial Obstacles

Finally, there are all the perennial obstacles to changing the compensation system in the name of efficiency. It is a very complex, interrelated system. Civilian decision makers are understandably wary about imposing changes over the objections of military leaders, and many military leaders are reluctant to change familiar traditions. Incremental policies, like increased bonus authorities or the increase in housing allowances, are often the easiest to get support for. But in some cases the best solutions cannot be approached incrementally.

And in the case of in-kind benefits—housing, medical, child care, commissaries—there is the problem that some eligible beneficiaries rely heavily on the benefits while others do not. That means, for example, there is no way to compensate those military retirees who use the commissaries without giving a large and costly windfall gains to those who do not. And to the extent that DoD is involved in the production of the in-kind benefits there may be a DoD bureaucracy—supported by private sector suppliers—that will oppose change in the name of service members quality of life.

Alternatives to Efficiency

Well, suppose that all this pessimism is justified. Future stresses—whatever they really do turn out to be—don't drive the AVF in new directions but just make it less efficient. That might not prove so disastrous. As long as there are good substitutes for active duty manpower, the costs that an inefficient market for military manpower can impose are limited. And in the past, DoD has successfully substituted capital, civilians, and reservists for active duty labor while increasing capability.

Substitute Capital for Labor

One way that DoD might deal with increases in the cost of manning the AVF would be to substitute capital for labor. The DoD capital stock is hard concept to deal with, but estimates made using a couple of different methods each show that the amount of capital per active duty member has doubled since the 1970s. Secretary Danzig makes it clear that the Navy has a long way to go, but it may have come a little further than we recognize. In the future, increases in the cost of labor due to inefficient personnel policies could lead to further capital deepening. It's a

direction that DoD is likely to be moving in any case, as new technologies—robotics, sensors— make it easier to use equipment instead of manpower. And the substitution of capital for military manpower is going to be particularly attractive if the U.S. continues to use its forces in situations where the national interest may not, in the eyes of the public, justify a large loss of life.

Substitute Civilian Contractors for Military Manpower

Another alternative is to substitute civilian for military labor. Historically, this seems to have meant the substitution of civilian contract labor for active duty personnel. There has not really been any long term upward trend in the ratio of DoD civilians to military personnel-- in 1973 there was 1 DoD civilian for each 2 active duty service members just as there is today.

In contrast, purchased services have risen. Purchased services include maintenance of real property, maintenance of equipment, medical services, professional and administrative services, and data processing—things that might have been done by either military or DoD civilians in the past. In 1973, DoD spent about one-fifth as much on purchased services as on military labor. Today, it spends half as much. This trend could be one way that DoD has found it can support a more high tech force even though it may not have a lot more technical people in military. Or it maybe its just technical work can be done more efficiently away from the battlefield. Some of this shift reflects conscious policy efforts, like A-76 competitions. But much of it is probably the result of gradual changes—perhaps driven by costs—in ways of doing business. DoD now has a medical system in which more families go downtown to the doctor (rather than to the MTF), and maintenance system in which black boxes are sent off for repair (rather than repaired by servicemembers).

Substitute Reservists for Active Duty

In the past, DoD could also reduce the amount of military labor it had to purchase by using reserve instead of active units. This option could be less effective today, when scenarios don't really allow time for the most manpower intensive combat units to train up. Depending on how U.S. forces are used in peacetime, even some of the support skills that are the easiest to maintain in the reserves—civil affairs, psychological operations—may eventually have to be kept in the active force in greater numbers.

But the reserves are looking for new missions. And the reserve compensation and personnel management system offers some of the features that a radically changed active duty system might. Reservists remain in the same location rather than PCS in same way as actives; they are integrated with the civilian community rather than relying on DoD for medical, child care, housing; there is more lateral entry in the sense that individuals often leave and rejoin; they may stay on the same job for many years, accumulating experience and using their technical skills even as they progress in rank; they don't necessarily retire around age 40. The Air Force has started taking advantage of this by using dual status military technicians (DoD civilians who are also member of the selected reserve) to man some maintenance, air defense, and air traffic control units that it finds difficult or costly to fill with active duty personnel, including units in Alaska and Hawaii. Rural areas in CONUS could be next—some reservists want to live permanently in Montana. This is not the traditional role of miltechs in supporting reserve units—instead it involves whole units of miltechs performing missions in support of the active force as a substitute for units in the active force.

In the future its is possible that the lines between DoD civilian, contract, active duty and reservist might blur—there could be members of reserve units performing full-time work for the active force as either the employees of contractors or as DoD civilians. They would convert to military status only if a mobilization required them to deploy. That kind of solution might satisfy political concerns of reserve supporters as well as provide an alternative to the active duty manpower system.

Summary

So, whatever stresses the AVF faces in the future, DoD might respond by reducing its reliance on active duty manpower. It might do this even as capabilities increased. In the private sector, real output per labor hour has risen by almost one-third since 1973. Military output has lots of dimensions, but I think most military leaders would assert that the U.S. military is much more capable than it was in the 1970s. Capability has increased even though

the size of the active duty force has fallen by about 40 percent and total military labor inputs (military personnel costs deflated by the cost of labor in the private sector) is down about 30 percent.

On the one hand, its good that DoD has alternatives to making its active duty compensation and personnel management systems more efficient. On the other hand, those alternatives could work to let the pressure off, and reduce the prospects of major changes in that system.