The Socio-Economics of a Draft Army Versus a Volunteer Army: A Teaching Exercise

By Chuck Fischer

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ABSTRACT

This teaching exercise examines the economics of a Draft Army versus a Volunteer Army in terms of some key socio-economic considerations: opportunity costs, wage elasticity of demand, wage bill, personnel turnover, ethics of recruitment, functioning of the labor market, morale, and training costs. The material is intended to help students grasp important economic concepts in an application context. This exercise is primarily intended for students in a labor economics class or in introductory microeconomics.

FOR THE INSTRUCTOR

Tools and concepts that students will need for this exercise:

- Basics of labor demand and supply and competitive equilibrium
- Compensation = wage/salary plus the monetary value of supplemental benefits
- Opportunity cost
- Substitution and output effects of labor demand
- Reservation wage
- Efficiency wages
- Price elasticity of labor demand

INTRODUCTION

Today there are some who want to bring the old Draft Army back. For example, Congressman Charles Rangel argues we need a draft army as a matter of sharing the burden of war. In his words:

When I served, the entire nation shared the sacrifices through the draft and increased taxes. But today, only a fraction of America shoulders the burden. If war is truly necessary, we must all come together to support and defend our nation. … If we don't have the will to fully share the burdens of war, then we have no right to send our sons and daughters into harm's way (Cohen, 2015).

Other arguments for bringing back the Draft Army are that the shared experience of the draft would unite different classes and cultures of Americans and that national service is beneficial to the nation and the individuals involved. On the matter of class and cultures, Brad Allenby, in his article “We Need to Bring Back the Draft,” argues that there is:

… a dangerous complacency in a society where class cleavage and political divisiveness is growing stronger, where fewer and fewer institutions provide opportunities that cut across self-selected communities of interest and ideology,
and where the divide between civilian and military cultures is already dangerous and growing wider (Allenby, 2013).

These issues and arguments are part of a general debate about which is best for America, a Draft Army or a Volunteer one (see Warren, 2012). However, as important as they are, they are not our focus. Our goal is to examine some key socio-economic considerations in this debate.

FOR THE STUDENT: What do you think are some of the key economic considerations? One involves costs. Hint: it is a critical concept in economic decision-making. Need more help? It is a type of cost any mortal faces every day of his/her life. More help? Life is not without sacrifice!

We will focus on the last decade of the Vietnam war era, from 1965 to 1975. This period of time provides a rich contrast between the Draft Army of most of the Vietnam war years to our Volunteer Army of today, which began in 1973. After a discussion of the economics of the Draft Army, we will then look at the market-driven Volunteer Army that replaced it.

Finally, on a personal note, I have some anecdotal insights to offer to this discussion, having served (1969 – 1970) in Vietnam in the Draft Army. My experiences fall in line with many of the key arguments for replacing the Draft Army with a Volunteer one. They also provide some “seasoning” to some of the arguments examined, but of course they are only anecdotal. I will include a few short “war stories” for illustration and hopefully interest.

THE DRAFT ARMY OF THE VIETNAM WAR

Classification Recruitment

A Draft Army is based on the conscription (i.e., compulsive enlistment in military service) of individuals to meet the Army’s personnel needs that are not met by those that voluntarily chose military service. How conscription is implemented makes a big difference in terms of its socio-economic consequences. This is aptly illustrated in the two very different approaches used during the Vietnam War.

Initially a classification system was used, whereby young men of the ages of 18 to 25 were classified according to military readiness to serve. The classification system used during the Vietnam War was quite extensive and complex (22 categories); however, we will focus on only a few key categories that are relevant to this teaching exercise:

I-A Available for Military Service
I-S Student deferment by statute (High School student)
II-S Registrant deferment because of activity in study (Undergraduate College student)
III-S Registrant for deferment because of activity in study (Graduate student)
FOR THE STUDENT: Why out of 22 Selective Service categories did the author select so many "S" ones? Was there a problem with individuals using student deferments? Hint: Think about this issue in ethical, socio-economic terms.

This classification system worked well in providing the military personnel needed during the Vietnam War, but it was seriously flawed in a critical way. It disproportionately called upon the socio-economically disadvantaged to fight the war. This became more and more apparent to the public over time and eventually brought strong political pressure on Congress to abolish the classification system, which was accomplished in 1969.

Incidentally, during the Vietnam War in the 1960s, prior to my military service I went from a I-S classification to II-S and then to III-S before finally being classified as I-A and ultimately serving in the Draft Army. For quite some time, I was a good example of what the public and many politicians believed was unacceptable about the classification system; that is, someone like me would be able to “beat” the draft through student deferments (though not my intention for I had planned all along to get my PhD and become an economics professor).

Those that had access to higher education were able to avoid (or at least delay) being drafted. Unlike World War II, the Vietnam War did not engender widespread patriotic support. Many young men wanted to avoid Vietnam, even at the expense of jail time in the US or leaving the country illegally (many were welcomed or at least accepted in Canada). Higher education was flooded with students seeking military deferment, but mostly by those with the academic and financial resources for access. As such, the classification system resulted in a disproportionate percent of draftees coming from the ranks of the poor and the uneducated, with the “privileged” staying out by way of student (and other types of) deferments. It was no surprise that approximately 50% of the draftees in my platoon in basic training did not even have a high school education. America, essentially, was selecting the disadvantaged to fight and die for the rest of the country. As this became more and more apparent and repugnant, Congress was pressured to end the classification system. Instead a national lottery was used to select those for duty in the Draft Army. But, a lottery approach, like many things in life, had both desirable and undesirable effects.

Lottery Recruitment

Lottery Recruitment for the Draft Army was accomplished by a national lottery. Draft lotteries were conducted for the years 1969 through 1975, but the last set of draft numbers actually used was for 1972. The numbers for 1973 were never used as the authority to induct expired June 30, 1973.

There were different methods used for the lottery, with the first one (February 1969) being probably the most memorable. On separate pieces of paper the numbers 1 through 365 were written and then placed in 365 plastic capsules. The first number drawn was 258, which corresponded to September 14. All individuals eligible for the draft that year with that day as their birthday were assigned lottery number 1. And so
the process went for all 365 drawings. The first 195 dates were sufficient to fill the Army’s recruitment needs that first year. This basic process continued the next year, with a somewhat different method used but still of the nature of a random drawing.

**FOR THE STUDENT:** A lottery approach was primarily intended to eliminate the bias of the classification system toward the disadvantaged. And it did so, capturing a more representative and diversified cross section of young men. But this more equitable system of conscription came with a higher cost to society. What was it?

While this lottery greatly alleviated the problem of a disproportionate number of the disadvantaged fighting and dying in Vietnam, it came with higher opportunity costs. Under the lottery, recruits with considerable education and skills were more likely to be selected than under the classification system which was biased toward selecting those with little formal education and/or career skills (Bingley, Lundborg & Lyk-Jensen, 2014).

**FOR THE STUDENT:** Does this cost argument seem like nonsense since all human life must be of an equal value? The answer is both yes and no. Yes, intrinsically and morally all human life is of equal value, but that does not negate the higher opportunity cost of a lottery. How can these two positions be reconciled?

The opportunity cost argument is not to be confused with the intrinsic worth of a human being, which might be defined in terms of God’s creation. Such worth cannot be measured and is arguably infinite. However, when economists evaluate the value of a human being they look at his/her productive characteristics (e.g., life-time productivity, earning power). Thus, the reconciliation is that when a highly educated/skilled individual is killed in War, that is a greater loss to the economy (e.g., labor productivity is a key driver of macroeconomic growth) than the loss of someone who is less skilled/productive. However, it does not imply that the former has more intrinsic/moral value as a person than the individual with less education/skills.

**Immunity From Supply and Demand?**

In the Draft Army financial compensation and the size of the military were set by Congress, not by the forces of labor supply and demand. They were not market-driven, as is the case of the Volunteer Army which followed.

**FOR THE STUDENT:** Having said this, it is nonetheless possible to draw a demand curve for military labor under a Draft Army. In general terms, what would it look like?

Hint: think about what you know about price elasticity of demand when quantity demanded is completely unresponsive to wage or price changes. The classic textbook example is the demand for insulin by a diabetic. In this case the demand curve is vertical, that is perfectly inelastic—within a wide range of prices, the quantity demanded of insulin by the diabetic is not affected by price increases. A given dose of insulin is medically required for the life of the diabetic, so it is not realistic for him/her to decrease quantity demanded as the price of
insulin increases. How can this be related to the demand for soldiers under a Draft Army?!

Traditional labor demand and supply offer some insights into this case. Labor demand would be vertical for the Draft Army, as the quantity demanded was not affected by the compensation level. Rather, the size of the Arm was determined by the politics of Congress and the strategic needs of the Army. For example, Congress set the compensation for servicemen in basic training (“boot” camp) in the late 1960s at $90/mo. (plus approximately $200 in benefits/mo.). Any increase (decrease) in compensation for the recruit would not decrease (increase) quantity demanded as is the case with the traditional downward sloping labor demand curve.

FOR THE STUDENT: What can you say about the viability of this entry-level compensation to attract Army recruits? For some clues to this question, let us turn to the supply side of the labor market.

On the supply side, the Army’s entry-level compensation of $90/month plus benefits was certainly not competitive. It was seriously insufficient for attracting the needed number of enlistees. Recall that labor supply in a competitive market indicates the opportunity costs of labor. For a worker to voluntarily accept a particular wage and benefits offer, it must meet his/her opportunity cost (i.e., next best alternative). Otherwise, it would not be economically rational to accept the offer.

This brings us to a key point: conscription into the military would not be needed if compensation at least approximated labor’s opportunity costs (if compensation was competitive). The proof of this is in the success of today’s Volunteer Army in meeting its enlistment goals, but let us not get ahead of the story.

A Perfect Storm and the End of the Draft Army

As the Vietnam War winded down, the Draft Army was on the way out, officially ending in 1973. Rather than any single cause, it was a combination of events and pressures that led to its demise—economic (Henderson, 2005), political (Tollison, 1970) and social (Fisher, 1969).

FOR THE STUDENT: Based on the above discussion, what do you believe accounted for the end of the Draft Army? Note: We have examined the economic and the social, but not the political. Can you think of any political windfall for President Nixon in ending the draft?

It really was a “perfect storm” that lead to the demise of the Draft Army. Consider the following:

- The Vietnam War was unpopular and very divisive for the country. It ripped at the very fabric or our society, with passionate confrontations between Doves (generally politically liberal) and Hawks (politically conservative for the most part).
- Under a military draft, often soldiers were fighting a war that they did not believe in. There was no unifying patriotic call to defend America as was the case during World War II. (The primary geo-political rationale for US involvement in Vietnam was Dr. Walt Rostow’s so-called “domino theory,” focusing on the dire
consequences to the region if South Vietnam fell to the communist regime of North Vietnam (Milne, 2009). As an academic/theoretical argument, the domino theory hardly had the impact in real terms of Hitler’s brutal aggression in Europe on the eve of World War II.)

- The public, in general, saw the draft was being unfair—selecting a disproportionate number of the poor and uneducated. This was particularly so under the classification system, but it even persisted under the lottery which followed. There were too many ways for “advantaged” individuals to avoid the draft.
- Also, consider the practical implications of forcing under-paid soldiers to fight a war they did not believe in: low morale, low productivity/effectiveness and high turnover (failing to reenlist at the end of their two-year term of conscription). On a personal level, while serving in the Fourth Infantry Division in Vietnam, 1969-70, I saw widespread illegal drug use, low morale, contempt for the military leadership among draftees, shirking of responsibilities, and the like. Naturally, this is not an effective way to fight a war.
- Finally, there is a political component to this. President Nixon saw ending the draft as way to quiet the growing anti-war sentiment across the country. The draft had become as unpopular as the war. Nixon thought that if middle-class young people no longer had to worry about fighting in Vietnam they would lose interest in opposing the war.

Thus, it is no surprise the Draft Army’s days were limited, coming to a close just two years before the Vietnam War ended in 1975. Mr. Dwight Elliot Stone, an apprentice plumber from California, was the last man to be drafted. He did not have to go overseas during his seventeen months in the Army (seven short of a full term).

I personally find it ironic that the last draftee was from California. During my basic training at Ft. Lewis in Washington State, I quickly found out that you were in big trouble with your Drill Sergeant if you were from California (which fortunately I was not). The Drill Sergeants always rode the draftees from California particularly hard, saying anybody from there must be either a “fruit or a nut”! This harassment probably stemmed from the fact that so much of the resistance to the war originated in California, with the University of California, Berkeley being a hot spot of dissent and anger against the draft and the war.

THE MODERN VOLUNTEER ARMY

A Volunteer Army replaced the Draft Army of the Vietnam War. The Volunteer Army, still in place today, is so named since recruitment goals are filled entirely by volunteers. This has been successfully accomplished in several wars since Vietnam, even in the unpopular wars in Iraq and Afghanistan (though admittedly not as unpopular with the American public as was the Vietnam War).

FOR THE STUDENT: How was this accomplished, getting young men and women to volunteer for duty, even if it meant fighting in very difficult combat conditions? Hint: think of “Ice Road Truckers”!
Hail The Labor Market!

The Volunteer Army is able to meet its recruitment needs primarily by offering competitive wages and benefits (and to a lesser degree by way of family military tradition, patriotism, etc.). Recruitment is driven by the market—labor supply and demand. On one side of the market is the supply of those individuals with a propensity for military service (e.g., patriotic, risk-seeking or not highly risk averse). On the demand side is the government’s need for those individuals. The situation is similar to the ice road truckers in the popular TV “reality” show. Compensation (and in some cases, also the thrill) attracts the truck drivers to such dangerous work. These truckers—driving heavily loaded vehicles across frozen lakes in Canada and Alaska—can make enough money in three months of driving the ice roads to about equal what they would make in a year of trucking in the lower US! That may not be sufficient compensation for most truck drivers, but it is enough for the number needed for the task. To put it bluntly, if the reward is high enough, some people will consider doing almost anything!

FOR THE STUDENT: What are the relevant factors driving the supply of and demand for Army soldiers?

Returning to the Volunteer Army, on the demand side, we have the interplay of military needs and politics. For example, Army Chief of Staff General Raymond Odierno (now retired) requested about 1.1 million soldiers (February 2014) to meet the Army’s mission around the world—deterrence and making sure that others don’t do certain things that would harm US national security. However, the active duty component (about 450,000 soldiers) was set to shrink by 30,000 due to automatic budget cuts known as sequestration.

FOR THE STUDENT: What would the demand curve for the Volunteer Army look like—downward sloping, vertical, horizontal, …?

Here, labor demand, as is the case with most labor demand curves, would be downward sloping (left to right). The logic of this is based on the substitution and output effects. For the substitution effect, as soldier compensation increases the Army has an incentive to substitute physical capital (e.g., unmanned tanks) for personnel at a faster pace. The output effect works in the same direction, to reduce the quantity demanded of soldiers. That is, there is pressure on Congress to minimize the size of the military as compensation per soldier increases (see Vickers, 2002). (This is analogous to the traditional output effect in the for-profit sector where higher compensation decreases the profit-maxing rate of production and thus the quantity demanded of labor, ceteris paribus.) Thus, the substitution and output effects account for an inverse relationship between compensation and the quantity of soldiers demanded, giving us a downward sloping demand curve.

On the supply side, we have the standard supply relationship between compensation and the number of individuals that would be willing to enlist in the Army. Key here is the individual’s opportunity cost (see above discussion). We can expect the supply curve to be upward sloping, with those having relatively low opportunity cost being along the lower portion of the curve (e.g., unemployed, working at low
compensation, women without young children) and vice versa for those farther up the supply curve. Also important is how risk-averse are the individuals. At the very low end of the supply curve we would have individuals that have low opportunity cost and/or are thrill-seekers. (In Vietnam we had “John Wayne” guys who thought it was exciting to go out on patrol and would volunteer for such duty. I was not one of those.)

The forces of supply and demand interact to impact compensation (and sometimes recruitment standards). If the compensation is too low, the quotas will not be met and thus compensation will need to be increased (and/or recruitment qualifications reduced, which is the same thing as an increase in compensation per unit of quality). If the compensation is too high, there will be far more volunteers than needed, likely leading the Army to be more selective in its recruitment of soldiers (decrease in pay per unit of quality).

Absent a draft, the armed forces must compete in the labor market for new enlisted and officer personnel. The career force by definition has always been a “voluntary force,” and thus has always had to compete with civilian opportunities, real or perceived. …. If the services are having recruiting difficulties, then compensation increases might be appropriate …. Conversely, if military compensation is lower than equivalent civilian compensation, and if the services are doing well in recruiting and retaining sufficient numbers of qualified personnel, there might be no reason to raise military compensation (Kapp & Toreon, 2015).

As you can see, this is not a pure textbook supply and demand equilibrating process since politics (Congress) and Department of Defense bureaucracy, among other factors (e.g., patriotism), play a role. However, the key thing for our discussion is that total compensation must at least meet potential recruit’s opportunity cost (reservation wage). Otherwise, they would not freely volunteer for duty in the Army. We know that was not the case in the Draft Army as the number of volunteers fell far short of the Army’s needs.

**Taxpayer’s Cost**

Market/competitive compensation must be relatively expensive for taxpayers, who ultimately pay for the modern Volunteer Army, compared to the Draft Army. Or, maybe not.

**FOR THE STUDENT:** Can you build a case where the Volunteer Army would actually be less expensive than conscription? Two hints: elasticity of demand and why some private company’s pay efficiency wages.

An important consideration here is the size of the wage (or total compensation) bill. For simplicity, let us consider only wages (and exclude the monetary value of fringe benefits). The wage bill is simply the average wage for entry-level soldiers times the number of soldiers. The average wage, as argued above, is higher under a Volunteer Army than under a Draft Army. However, the number of soldiers is generally lower under a Volunteer Army, as explained earlier in terms of the substitution and output effects. In the words of Vickers, “The last thing Americans want is for their military to
look like their federal bureaucracy. Rather, Americans want a lean, mean, fighting machine. Painfully cutting personnel is the only true way to make sure they'll have it” (2002).

Higher wages push in the direction of a higher wage bill for taxpayers, but the smaller number of soldiers does just the opposite. It therefore comes down to the relative magnitude of those two forces, which is accounted for by wage elasticity of demand. If the demand for soldiers is wage elastic, the decrease in the number of soldiers for a Volunteer Army is relatively larger than the increase in wages and thus the wage bill actually decreases! The opposite is true if demand is wage inelastic. So, whether the wage bill goes up for a Volunteer Army compared to a Draft Army depends largely on wage elasticity of demand, which tends to be wage elastic due to political pressures to make a Volunteer Army attractive to taxpayers.

Furthermore, under a Volunteer Army one can expect lower personnel turnover and thus lower training costs than under a Draft Army (Perri, 2010). Volunteers are more likely to reenlist for military service than are those that were conscripted. High turnover is quite expensive as military equipment becomes more sophisticated and requires more training.

Then, there is also the cost to the soldier him/herself. As David Henderson argues, economists “laid out a solid analytic case against the draft, pointing out that the cost of a drafted military exceeded the cost of an all-volunteer force but that this cost fell heavily on the shoulders of draftees and draft-induced volunteers” (2005). Thus, ironically, not only may the Draft Army be more expensive than a Volunteer Army, but a good portion of the expense is born by the soldiers recruited (and induced to “volunteer” as a means to obtaining a non-combat Military Occupation Specialty).

**FOR THE STUDENT:** Can you remember from the previous discussion why much of the cost of a Draft Army fell on the soldier.

Recall, under the Draft Army soldier compensation generally did not cover his (women volunteered for non-combat positons, but they were not drafted) opportunity cost. If it did, there would be no need for a draft!

All in all, it is no (economic) mystery why the Volunteer Army replaced the old Draft Army. It is comprised of soldiers who enlist based on their self-interests and want to do what they are doing (Altman, 1967). It is a more professional and more motivated Army (Ross, 1994). Morale is higher and turnover and training costs are lower (Schubert, 1982). Even the wage costs (the wage bill) to taxpayers may be less (Withers, 1972). Though not perfect, it has compelling economic logic which the Draft Army lacked.

However, this is not to say that the debate is over. There are those who believe we should bring back the draft. The reasons tend to be mostly based on ethical issues and not economic ones. For example, Allenby argues that “Simply put, emerging military and security technologies, combined with the political and cultural effects of an all-volunteer force, is making war too easy, and the draft is one of the few ways to mitigate that undesirable trend” (2013).
In economics, our task is to apply economic analysis to the debate and leave such other considerations to those better equipped to analyze them. Economic considerations certainly did play a key role in ending the Draft Army. “Economists were heavily involved in writing the staff reports for the Presidential Commission on the All-Volunteer Force” (Henderson, 2005).

Concluding Perspective

Going “cheap” can be very expensive. The economics of a Draft Army illustrates that very expensive lesson. Though a Draft Army may be appealing for non-economic reasons, as noted above, it does not make sense on economic grounds. The low compensation paid to draftees means that much of the burden of staffing the Army is shifted from taxpayers to draftees who have to absorb much of the opportunity costs of their military service. And, ironically, it does not guarantee a lower wage bill to taxpayers compared to staffing a Volunteer Army. Adding to this are the problems of low morale, low military effectiveness and professionalism, high personnel turnover and high training costs common under a Draft Army.

The basic tools of economics (e.g., supply and demand, opportunity cost, elasticity) help us to understand the economic logic of a Volunteer Army over a Draft Army. The very strengths of a Volunteer Army are what a Draft Army lacks: high morale, strong professionalism, low turnover, etc. This contrast between the deficiencies of a Draft Army and the strengths of a Volunteer Army lie in the difference between compelling people to do something they do not want to do (during the Vietnam War) and “incentivizing” individuals to freely choose to do something they do want to do. Those that call for a return to the Draft must base their arguments for doing so on grounds other than economic logic—at least for those that are economically literate! As a student of economics, you can be proud to be among that group (which is important not only for this issue, but also a wide range of other problem areas challenging the country).

REFERENCES


Photo: It is of Curtis W. Tarr, Director of the Selective Service System, turning a drum containing capsules of draft numbers at the annual draft lottery in 1972. Its source is the Library of Congress.