Compulsory Conscription or Mobilization Using Market Forces: Economic Aspects

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Discussions on the issue of conscription of soldiers into the IDF pay insufficient attention to economic aspects. Four decades ago economic aspects lay at the heart of a similar discussion then taking place in the United States. In 1970, a special commission appointed by the Nixon administration to consider the issue of the draft (the Gates Commission) issued a report that laid the basis for the US military's transition from compulsory conscription to an all-volunteer force. Commission members included prominent economists such as Milton Friedman and Alan Greenspan. As a result of the Commission's work, and in order to meet its needs, the new field of military personnel economics came into being. In this article, I will explain the economic aspects of the draft in the US and apply them to Israel. Note that there is no one single ideal model of conscription, and hence different models can be compared from different perspectives. One of these perspectives is the economic perspective; my intention here is not to argue that the economic assessment is in some way decisive or more important than any other.

The starting point of the economic discussion is the contrasting nature of the two methods of conscription: compulsory conscription mandated by law and voluntary enlistment based on market forces. The economic discussion compares the implications of both methods in two fundamental areas: distribution effects, or in less technical language, sharing the burden; and allocation effects, which refers to the impact on the effective use of the resources at the disposal of the economy. Another focus of the economic discussion is the cost-benefit analysis of the armies that have been conscripted using each method. For example, a professional army of volunteers inducted by means of market forces may be more expensive than an army of soldiers

engaged in compulsory service, but may also be more efficient in providing security.

The basic rule in manpower recruitment, it should be emphasized, is recruitment based on market forces. This is the underlying premise of employee recruitment for all positions in the public sector: police, nurses, tax collectors, and so on, and the military conscription of soldiers by the force of law is a prominent exception that an economic analysis is hard pressed to justify. In actuality, compulsory conscription can be justified from an economic perspective only in exceptional situations requiring unusually large numbers of manpower for an extended period of time, as in the case of long wars or as a result of some other ongoing state of emergency.

We can of course ask ourselves how it is possible to produce large reserves of manpower with suitable military training without the route of compulsory service. This question has to do with the role, size, and constitution of the reserve units during future conflicts, and it is not at all certain that compulsory service is the most effective solution for building the reserve forces that would be required in such situations.

The Gates Commission needed to deal, inter alia, with the question whether it would be possible to fill the essential quotas for the army through market mechanisms (after the termination of compulsory conscription). During the 1970s, discussions in the United States mentioned approximately 2.5 million soldiers, and there was understandable concern regarding the possibility that it might not be possible to recruit the required number of volunteers.

The Economic Implications of Conscription

The economic discussion perceives compulsory military conscription as a sort of hidden tax. Those required to serve in the military are forced to relinquish a civilian income they could have been earning, but the hidden tax exceeds the loss of their alternative civilian income due to differences in convenience between a "normal" way of life and the physical and social conditions of military service. Without a doubt this tax is unique in nature. Typically, people are taxed for the compensation they receive in exchange for their work, whereas here, what is being taxed is the time of the individual. The tax is the work itself, not a portion of the income derived from the work.

Thinking of compulsory service as a tax prompts the question, as in other instances of taxation, whether it is progressive or regressive in nature, that is, whether it decreases or increases inequality in the distribution of income

(or the distribution of wealth) among the population. The answer is that it is a regressive tax that increases inequality, first, because at any given time it is paid by only a small portion of the population, and second, because no one else in society, apart from the soldiers, is subject to such a high rate of taxation. According to calculations undertaken in the United States, Belgium, and Holland, the tax is actually 60-80 percent of the alternative income the individual could have been earning if he were working in the civilian sector instead of performing compulsory service. Nowhere else do we find such a high rate of taxation. In this way, the fewer the people who take part in compulsory military service, the greater the inequality that results.

As noted, the other implication has to do with the allocation of resources in the economy, or the effective use of the resources at the economy's disposal, and this can be divided into two levels: the national economy level and the level of the country's security establishment. On the national economy level, an efficient allocation of production factors is achieved when people are permitted to select their own vocation: every person chooses the vocation in which he or she assesses that the marginal product would be the highest, resulting in more effective income. Freedom of choice in this context facilitates specialization according to relative advantage and creates a more efficient allocation of the production factors in the economy. Interference in freedom of choice prevents efficient allocation, or in economic terms, results in a waste of resources.

On the security establishment level, inefficient allocation stems from the budgetary cost of manpower. The security establishment reacts to the relative costs with which it is presented, and from its perspective conducts itself appropriately. It selects the combination of production factors with which it generates security in accordance with the relative costs, resulting in inefficient combinations of production factors, or in other words, combinations that result in less security. Specifically, more workers are used in capital development in comparison to situations in which there is no compulsory service and manpower is mobilized using market forces. In all armies that have moved from a compulsory army into a professional all-volunteer force, manpower was reduced and capital utilization increased. For example, when manpower is inexpensive, the army places an ambush to attack the enemy. When manpower is more expensive, it looks for alternatives, and for example, may use a satellite instead.

Distortions also result among different types of manpower. The army makes greater use of compulsory soldiers and less use of other types of manpower, resulting not only in fewer regular army personnel and civilian army employees but also fewer indirect workers, meaning employees of civilian companies engaged in selling products and services to the security establishment. In other words, when faced with a choice between production and acquisition, the security establishment prefers the option of self-production using the ostensibly cheap labor at its disposal. This usually results in the production of less security with a given budget.

The Economic Analysis of Cost versus Benefit

Under the cost column, the cost of the conscripts must be considered, but not the direct cost, rather, the alternative cost. Additional components of cost that must be taken into account are the costs of training and exercises, the loss of resources as a result of inefficient allocation, and the administrative costs of conscription. With regard to all four of these components, the cost of a compulsory army is higher than that of a volunteer force:

a. The alternative cost of the conscripts is higher because the market model is based on bottom-up conscription, which first drafts low cost inductees, and continues along the supply curve until reaching the desired quantity of individuals. In compulsory conscription, the process is top-down, with different selection tests aimed at choosing the best candidates. As the best candidates for military service are usually the best in the market, their alternative cost is higher and, as a result, the alternative cost of a compulsory army is higher.
b. In terms of the cost of training and exercises, the relatively quick rate of turnover (in Israel, every three years) means that the army must be engaged in training new soldiers in ongoing fashion. In a compulsory army, at any given time, a greater percentage is engaged in exercises and a lower percentage is engaged in actual production (providing security). In a professional army, on the other hand, the cycle is longer, and the average period of service is much longer than three years, such that a greater percentage is engaged in producing output.
c. In terms of the loss of resources, I have already noted the distortion of relative costs due to the low budgetary cost of compulsory soldiers, which results in the inefficient allocation and wasteful utilization of resources. This dynamic has no equivalent in armies mobilized by market forces.

d. As a rule, administrative costs are derived from the number of conscripts, which is higher in compulsory armies, and to which special costs must also be added. In the context of compulsory service, these include enforcement costs (contending with draft dodgers), and in the context of market-based conscription, costs such as marketing and publicity, bonuses for conscription personnel, and others must be considered.

On the benefit column, the following factors must be considered: productivity that increases with experience (which in turn, is contingent upon duration of service) and greater availability for operational duty (stemming from the fact that at any given time in an all-volunteer force, a larger percentage is available for operational activity and is not related to training or exercises); a greater abundance of capital (resulting from the relative costs of labor and capital); and, according to some analysts, higher motivation (based on the argument that those serving in the military as a profession are more highly motivated than those on whom service is imposed).

That being the case, the components in the cost column indicate that a compulsory army is more costly, while the components of benefit indicate that a volunteer army is preferred. In other words, the cost of a compulsory army is higher than that of a volunteer army. This assessment is applicable when the number of soldiers is identical, and even more so, it is argued, in the case of a volunteer army with a smaller number of soldiers.

The economic debate also deals extensively with the process of transition from one model to the other, which should be gradual to enable the economy to absorb the relatively large number of young workers that a volunteer army would render unnecessary. It was in this manner that such transitions were conducted in Britain, France, and the United States.

Also related to the issue of transition is the question of whether a reduction in the duration of compulsory service is a desired stage on the road to an all-volunteer force. Compulsory service today may not be optimal, and it may appear possible to make do with less than three years. There are differences, however, between different kinds of military vocations. In an increasing portion of military vocations even the current duration of compulsory service is insufficient for acquiring the desired level of skill, and any reduction in this term would only exacerbate the problem. This is another aspect of the problem – training versus output: if the length of service is reduced, it can be assumed that the period of time devoted to exercises and training will exceed the time devoted to the production of output. As a result, the army

will have little time, if any, to reap the fruit of its investment, as the trained soldier will be discharged shortly after completing his training.

The transition between the current situation and an all-volunteer military force should involve what I call many "integrated tracks." In integrated tracks, soldiers commit ahead of time to a certain number of years of service (at standing army terms). The best known example of this approach in the IDF is the pilots' training course, and this should be expanded to other vocations as well. Integrated tracks appear to offer the best of both worlds. On the personal level, commitment to an integrated track enables individuals to influence the nature of their service. For example, a candidate for the IDF's Center of Computing and Information Systems commits to a number of years of extra military service with the knowledge that in the course of his service he will also be acquiring a prestigious profession. He does so by choice in order to affect the nature of his service and acquire skills that will likely benefit him later on in life. From the perspective of the army, this extends the duration of service and enriches the experience of those serving. In addition, the combination of compulsory service and service according to regular army terms reduces the cost in comparison to an all-volunteer military force. Today, the IDF has many vocations that can be classified as integrated tracks, and the more there are, the smoother will be the transition to an all-volunteer force.

Concluding Remarks

First, greater emphasis must be placed on the cost of manpower, as it accounts for approximately half of the country's defense budget. It is impossible to discuss the defense budget and the possibilities of cutting the budget without taking into consideration the component accounting for half of the expenditure. The time has come to address seriously and thoroughly the method of conscription and the mode of service, if only to seek out ways to reduce the defense budget.

The second remark pertains to the issue of equality in sharing the burden. Transition to a volunteer army may offer a solution to this problem. No one refers to a problem of sharing the burden with regard to prison guards, police personnel, and nurses, as these are public professions for which recruitment is carried out via market forces.

The third remark pertains to the subject of civilian national service, which is typically depicted as an answer to the vexing problem of inequality in

sharing the burden. However, civilian service is an issue requiring a separate discussion in its own right.

In conclusion, military service in Israel suffers from an element of distortion, and using civilian service as a means of solving the problem of inequality in sharing of the burden is only likely to result in further distortion. In addition, we must remain mindful of the fact that civilian service may be detrimental to workers with low income and little education. Today, there are approximately 14,000 people taking part in civilian service in Israel, but if the program begins to accept entire age groups, the expanded scope of the program will cause injury to an entire strata of the population that is currently already living at or under the poverty line.