

**MilPlan: A Plan to use the Military to Combat the Economic Crisis**

***Backup to “Using the Military to Defend Against the Economic Threat”***

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MilPlan envisions using the military's capacity to quickly recruit and train people – an important capacity for mobilization and one which it has demonstrated repeatedly in the past – to (1) create several hundred thousand jobs to offset unemployment and (2) better prepare these people to find private employment when it is again available.

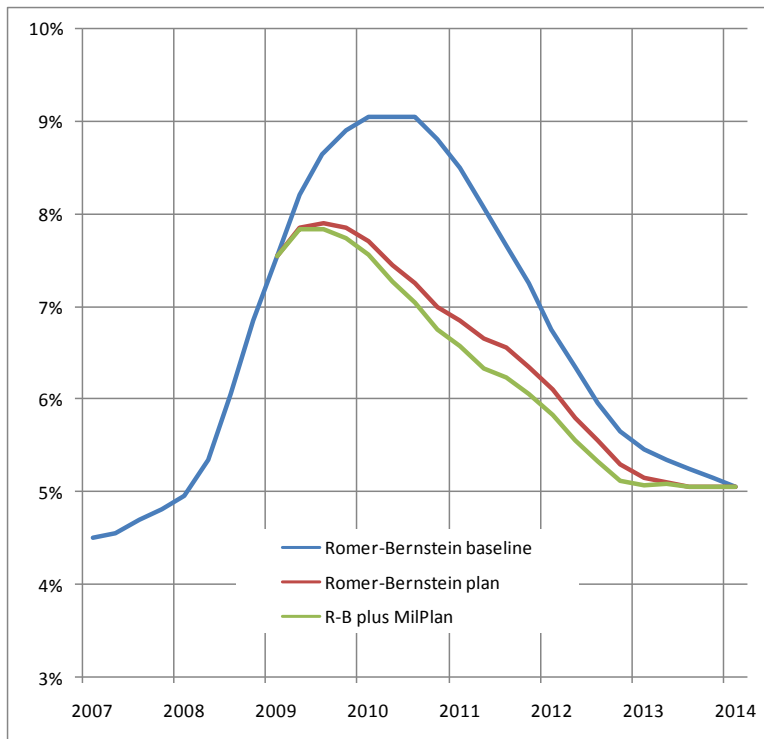
The baseline is taken as the plan analyzed under the bylines of the Obama Administration's chief economic advisors, Christina Romer and Jared Bernstein.<sup>1</sup> The plan itself is officially styled “The American Recovery and Reinvestment Plan” (ARRP),

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<sup>1</sup> “Job Impact of the American Recovery and Reinvestment Plan,” Jan 9, 2009.

but I will refer to it as the Romer-Bernstein or R-B plan to emphasize that I am talking about what is described and analyzed in that paper, rather than whatever Congress finally

enacts.



*Figure a. Unemployment*

The employment effects of the R-B plan I take as represented by the lines shown in its Figure 1, reading their data to the nearest 0.05%.<sup>2</sup> This results in figures that are slightly different in some cases from those quoted in the report's text, but I have preferred them for the practical reason that they are the only

source of the time series data that I need. These data have been replotted here in *Figure a*, together with my estimates of the effects of a fairly conservative version of MilPlan.

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<sup>2</sup> This has revealed that the scale of the time axis is nonlinear, but it does not appear that this affects the results significantly.

Overall, I estimate that MilPlan can provide about half a million added jobs at peak and reduce the total losses in job-months by about 7.3% as compared to R-B alone.

The basic elements of the plan are very simple:

- Use the normal military recruiting and accessions mechanisms to raise end strength significantly beyond current force needs.
- House the added recruits in temporary facilities as necessary.
- Provide the extra recruits with skills training to suit them for jobs in the civilian workforce when hiring resumes.
- When the economy starts to approach full employment, rapidly release all remaining extra recruits and dismantle the temporary facilities.

Beyond this, the plan looks to the future and how the military can play its part in cutting government expenditures sharply following economic recovery, without hurting U.S. security.

MilPlan is related to the suggestion earlier put forward by Martin Feldstein, Harvard economics professor and formerly Ronald Reagan's chief economic advisor.<sup>3</sup> Mr. Feldstein,

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<sup>3</sup> "Defense Spending Would Be Great Stimulus," *Wall Street Journal*, Dec 24, 2008. I had outlined similar proposals in an Oct 27 post to an online discussion group I had reason to believe was read by various figures in both

however, did not deal with many important details and his plan is less ambitious than I calculate is reasonably feasible.

Mr. Feldstein also discussed liquidating the base maintenance and repair backlog and ramping up production of hardware, as had I in my earlier proposal. I discuss these matters here but do not include estimates of their impact. I am presuming that the R-B plan already includes base maintenance and repair in its estimates, since it lays stress on “shovel ready” federal construction and infrastructure repair as having high potential multipliers, and presumably defense officials would early have brought the backlog (and the existence of many corrective plans ready for immediate action) to the attention of the economic team.

Hardware production is not so clear, as the R-B plan makes no direct reference to it. However, I do not have immediate access to the information that would be needed to assess the feasibility of ramp-up on a line-by-line basis, nor its economic impacts where it may be feasible and desirable. Thus I confine myself to qualitative discussion.

In FY 2008 the armed services (less the Coast Guard) recruited approximately 15,000 new personnel per month, on average. Given availability of potential recruits with sufficient

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parties under the title of “Defense in the 2nd Great Depression.” Thus my ideas did not derive from Mr. Feldstein.

interest in enlisting I believe it should be feasible to increase this by 10,000 per month within 90 days. I note that the military has increased its recruiting by larger margins than this in emergencies in the past. Given the labor market as depicted in *Figure a*, it does not seem unreasonable to imagine that the added recruits will be readily available.

I envision that these “extra” recruits would be enlisted under 2+6 contracts, involving two years of active duty (which could be terminated or extended at the government’s convenience, as always), followed by a six-year reserve obligation. The main inducement to enlist would be a “best efforts” promise by the government to provide jobs training and avoid overseas deployments. If it proved that an enlistment bonus were necessary this would have the benefit of going to people who could be relied upon to spend most of it, but it would have to be tailored so as not to undercut recruiting to meet existing force requirements. “Back-end” inducements, such as commitments to provide educational assistance under the GI Bill, should be weighed carefully in light of long-term needs. They are not desirable as a stimulus measure but might be justifiable by other standards.

(It might not be a bad thing to raise the regular enlistment bonuses during the recession, again on the principle that the money will go to people with a particularly high marginal propensity to spend.)

The training syllabi would need to be a compromise between what would best fit the needs of the economy and what the services are able to teach. They should be the subject of a collaboration between the DoD and Department of Labor. Certainly the services can do very well in teaching many basic skills, and the general experience of serving in the armed forces is one which many young people have traditionally found to be valuable, even if not always pleasant at the time.

Following completion of normal recruit training and any basic service school, participants would be assigned to a jobs training program. The appropriate program for each participant would be determined on the basis of the usual military aptitude assessment process. After completing his or her job training the participant would be assigned to an appropriate unit where the newly acquired skills could be utilized.

Because the services – and particularly the Army and Marine Corps – are generally tightly stretched at present, they would have difficulty in finding training and support personnel from existing resources. Reserve and National Guard personnel could be offered two-year non-deployment tours to fill these slots, and of course civilian employees or contractors could also be brought aboard to do this work. With a very bad labor market it seems likely that there would be little difficulty in meeting these needs.

The accompanying spreadsheet lays out some calculations of the effects of a representative program. For the most part it should be self-explanatory. It assumes that 10,000 people are added per month, which in practice would imply a need to recruit something like 11,000 to provide for early attrition. Once it becomes clear that unemployment is returning to the non-inflationary minimum the number of accessions is ramped down, and remaining personnel are separated rapidly as the NAIRU is actually reached.<sup>4</sup> Ten thousand administrative and training people are assumed, plus a number equal to one third of the total trainees. It is assumed that half a labor month will be required to provide the temporary facilities for each of the 330 thousand people who will be involved at the program's peak. A multiplier of 1.5 total persons employed per person hired directly into the program is used.

The result is that about 320 thousand trainees pass through the program over the assumed period of subnormal employment, and at peak it adds about half a million jobs. If we measure the magnitude of the slump in job-months lost from now until the assumed return of full employment at the end of

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<sup>4</sup> To match what seems to be the assumption in the Romer-Bernstein paper the NAIRU (Non-Accelerating-Inflation Rate of Unemployment) is here taken as 5.05%. This is not a critical assumption and the overall results are little affected if the NAIRU is taken to be higher.

2013 then we see that MilPlan cuts the forecast 203.6 million job-month deficit by about 14.8 million, or about 7.3%.

One of the attractions of the plan is the degree to which it lends itself to the elusive goal of fine-tuning. The program can be extended and even expanded if the recovery is not progressing as well as predicted, while personnel can be separated quite rapidly as recovery nears completion. And there is every reason to expect a good multiplier from such a program, since virtually everyone involved will have a high marginal propensity to spend and there is very little outlay lag.

The last to join will be separated from active duty before their enlistments are up and thus miss out on some of their training. This is virtually unavoidable given realistic limits of foresight regarding the future course of unemployment. Presumably the strong job market will cushion their disappointment. Enlistment will taper off naturally to some extent as jobs creation accelerates, even before full employment is approached.

Little need be said of the base repair and maintenance backlog. Contracts for this are ready to be let quite quickly for the most part and it should provide good stimulus. It is important to try to distinguish which bases and facilities will actually be needed in the future insofar as possible. Where bases should be retired, it may be possible to contract for environmental remediation and perhaps facilities conversion

rather than repair. It is entirely predictable that base closure issues will be messy as usual.

Much the same can be said of production ramp-up questions. Every program will have its advocates (and probably detractors as well), regardless of actual merit. As I discuss in the accompanying paper,<sup>5</sup> it is crucially important to bear in mind that government expenditures need to be cut as quickly and deeply as possible to permit us to repair our much-battered finances. We don't want to repeat the mistake of 1936 but cutting back too soon, but once it is clear that the threats of depression and deflation are safely out of the way then budget-cutting needs to take priority. And the defense budget is high on the list of those that can stand to be cut. That will be easier if we do not build up a surplus of nice, new equipment. Narrow program advocates, recognizing this, may strive to build up a surplus to buttress their case that their preferred force should be protected from cutback.

In any event, close examination will show that programs vary a great deal in how easily they can be ramped up now to aid the stimulus and how readily they be ramped down when the time comes to cut back. These issues need to be assessed swiftly but well by people who understand the issues and are not committed to particular programs.

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<sup>5</sup> "A Technology Strategy to Discourage Strategic Rivals."

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