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Rethinking the Reserves

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Prepared for the Office of the Secretary of Defense

Approved for public release; distribution unlimited



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The research described in this report was prepared for the Office of the Secretary of Defense (OSD). The research was conducted in the RAND National Defense Research Institute, a federally funded research and development center sponsored by the OSD, the Joint Staff, the Unified Combatant Commands, the Department of the Navy, the Marine Corps, the defense agencies, and the defense Intelligence Community under Contract W74V8H-06-C-0002.

Library of Congress Cataloging-in-Publication Data is available for this publication.

ISBN: 978-0-8330-4498-3

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Published 2008 by the RAND Corporation

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Summary

Introduction

The United States is now engaged in a different type of war—long term, low-intensity conflicts to stabilize Afghanistan and Iraq—in which the Department of Defense (DoD) has made unprecedented use of its Reserve Components (RC). Forces that had previously been viewed as suitable for strategic missions, what we refer to here as *Strategic Reserves*, and called up less than once in a generation are now being used to manage operational force missions, what we refer to here as *operational forces*, with an expectation of call-up as much as one year in six and, recently, even more frequently.

This changed threat environment and different utilization pattern suggest the utility of rethinking our conception of the RC, the level of commitment expected from its members, what roles are assigned to them, and their compensation. This monograph provides such a rethinking. The ideas expressed deliberately take very little as given. Transitional and political issues are ignored. Instead, the monograph begins by asking what defines the reserves—that is, what makes the reserves inherently different from the actives. Given the answer to that question, the monograph considers each of the issues raised.

Much of the discussion here concerns the Army. The Army has by far the largest Reserve Component, overall and relative to the size of the Active Component (AC). It is currently being stressed and has recently been well studied. It is the focus of the author's ongoing work.

We leave to others more careful consideration of the extent to which the arguments do or do not apply to the other Services.¹

What Defines the Reserves?

The essence of the reserves is the *part-time nature* of their service. This part-time nature has three crucial implications:

1. *Citizen Soldiers*: Because reserve duty is only part-time, almost all reservists have a civilian job (or are attending school part time or full time). Inevitably, reservists (and therefore DoD policymakers contemplating using reservists) must juggle the requirements of reserve duty with the requirements of that civilian job (or school). For a given level of compensation, the greater the conflict is between reserve responsibilities and civilian jobs, the fewer the people who would be expected to enlist in the reserves.
2. *Less Expensive*: Because of their part-time nature, reservists simply spend less time in uniform. Therefore, in years in which they are not mobilized, they can be paid less. For the Army National Guard, a very rough estimate is that a drilling reservist is paid for only about one-sixth as many days as an equivalent Active Component soldier. Relative costs are slightly higher, perhaps one-fifth to one-third those of the actives (e.g., *Total Force Policy Report to Congress*, DoD, 1990; CBO, 1990; Palmer et al., 1992; CBO, 2005a), but still much less. Thus, in peacetime, reserve units are much less expensive. Given that

¹ This monograph considers only DoD reserves. The Coast Guard, which is a part of the Department of Transportation, also has reserves. The U.S. Coast Guard Reserve has contributed significantly to the Global War on Terrorism (GWOT), including port security operations in the Iraq theater, but it is not formally a part of DoD. Note, however, that in the event of Total Mobilization, the Coast Guard, including its reserve, would become a part of the Department of Defense. On the Coast Guard Reserve, see Commandant, U.S. Coast Guard, 1996.

On the Coast Guard's role in Operation Iraqi Freedom, see "Iraqi Freedom Fact Sheet," 2005.

the need for military forces varies widely over time, the reserves would appear to be an attractive form in which to hold a surge capacity, paying them full-time only when they are needed full-time. The “in peacetime” caveat is crucial. The relative cost of reservists in wartime involves more subtle calculation and is likely to vary with the frequency of use and rotation policy.

3. *Limited Training Opportunity*: Because reservists are part-time, they may be less capable than AC forces. Because they have only severely limited time available for training in peacetime, reservists often need more time post-mobilization (often several months) to sharpen their existing skills and to learn new skills related to their specific anticipated missions. Despite this intensive post-mobilization training, for some tasks, the skill level (or capability) of reservists and the reserve unit may remain lower than that of AC forces who had the benefit of more-intensive training in the years before deployment. This discussion assumes that military skills atrophy when not training. That assumption seems plausible for military-specific skills (e.g., infantry). Alternatively, when a reservist uses his/her military skills in his/her civilian career (perhaps a chaplain, civil affairs, construction, military police), it seems plausible that the reservist is as skilled as (or even better skilled than) his AC counterpart.

The balance of the monograph considers potential policy changes that follow from the changing security environment and these three aspects of the reserves.

What Is the Relative Cost of the Reserves with Rotation?

The conventional argument for using the reserves rests partly on a significant cost advantage. For DoD, reservists are part-time employees. They can, therefore, be paid less and have a lower operating tempo. The previous literature (augmented with the discussion below) suggests that a reserve unit has costs in the range of one-fifth to one-third those of the corresponding AC unit.

This cost per unit is the appropriate cost concept for units to be used without rotation and with very low probability (i.e., a reserve for deep strategic missions)—the Cold War model—of reinforcing forces for an unlikely war fought using Total Mobilization. Under Total Mobilization, large numbers of reservists would have been mobilized for the duration of the conflict (i.e., no rotation). Note that Total Mobilization never occurred, so costing based only on peacetime relative costs—while ignoring costs in wartime—was approximately appropriate.

Forces were actually used this way in Operation Desert Storm. Large numbers of reservists were mobilized for the duration of the conflict. There was no rotation.

The relevant cost computation, and the implied relative cost, changes radically when forces are expected to be used with rotation, as is the reality in stability operations conducted as part of the ongoing Global War on Terrorism (GWOT). This new reality implies two changes to costing.

First, DoD now expects to use the RC with some frequency, so any cost computation needs to consider both costs in “peacetime” (i.e., when reserve units are not used) and costs in “wartime” (i.e., when reserve units are used).

Second, with rotation, the appropriate cost is not per unit but per unit “Boots on the Ground” (BoG) (i.e., actually serving in the conflict versus at the rotational base at home). According to current policy guidance, AC forces are to be *deployed* about one-third of the time (i.e., one year activated and then two years at home). In practice, AC forces have deployed much more intensively than that (more than half the time). According to current policy guidance, RC forces are to be mobilized about one-sixth of the time (i.e., one year mobilized and then five years not mobilized; however, the Army reserve continues to state a policy of one-fifth). Time deployed is less than time mobilized because of post-mobilization training. In practice, RC forces have also deployed more intensively than that guidance, but the increase in intensity has not been as sharp as for AC forces.

Rotation policy is the crucial input for computing the relative number of units in the force to maintain one unit BoG and then the relative cost of maintaining one unit BoG. According to the official

policy guidance, that ratio is slightly less than three; that is, it takes slightly less than three times as many RC units in the force as AC units in the force to maintain one unit continuously BoG. According to actual recent practice, that ratio is slightly less than four.

These results about the relative number of units in the force can be used to compute the relative cost of the RC and the AC for stability operations. Exact computations are sensitive to assumptions. Crucial considerations include the relative unit cost per unit, expected actual rotation practice when the RC is used (and thus the relative number of units in the force to maintain one unit BoG), and the expected fraction of time that the RC will actually be used intensively.

The key consideration appears to be rotation policy. If we assume current rotation policy, for plausible values of the other parameters, the RC is usually cheaper. However, if we assume that when we next use the RC intensively we will also use the AC as we are using them now, then for plausible values of the parameters, the RC is more expensive than the AC.

Beyond the exact result of these calculations, it seems clear that the relative cost of the RC rises sharply when the projected use involves rotation. What was without rotation a striking cost advantage is nearly cost parity; that is, *cost considerations no longer overwhelmingly favor the RC*. DoD policymakers might want to consider appropriate reactions to such a sharp increase in providing rotational forces using the RC versus using the AC. The standard economic argument would suggest that the appropriate reaction would be twofold. First, decrease demand for the solution whose relative cost has risen sharply; that is, use the RC in fewer roles (e.g., only as a deeper reserve). Second, decrease supply (i.e., cut reserve force structure) by decreasing cost (e.g., reserve enlistment bonuses) until the remaining forces are closer to cost-effective.

Of course, cost minimization of force structure for stability operations is far from the only consideration in choosing force structure. A more complete analysis would need to consider other factors, including the size of the implied Strategic Reserve, state missions, homeland security, the Abrams Doctrine, ability to recruit and retain some alternative force structure, forces for short-warning contingencies, ability to surge above the rotation guidance, and relative military effectiveness.

Many of these factors appear to imply a size of the reserves larger than is implied by simple cost minimization of force structure for stability operations.

How Should the Reserves Be Compensated?

When the reserves were used less than once in a generation, potential reservists could evaluate RC affiliation by considering only peacetime compensation. New DoD policy implies that reservists should expect to be mobilized several times in a career. Given this changed policy, potential reservists need to consider both peacetime and wartime compensation.

Loughran, Klerman, and Martin (2006) have shown that cash compensation rises in wartime. Nevertheless, some available evidence (e.g., the lack of volunteers) suggests that reservists perceive that they are worse off when they are mobilized.

Given that whether one will be mobilized is uncertain and that DoD makes the decision to mobilize, this perception that one is worse off when mobilized is problematic. It probably raises DoD costs. In addition, it gives DoD an incentive to overmobilize reservists, which, in the long run, may lead to retention issues.

One alternative is to increase compensation when mobilizing the reserves to reduce the magnitude of the decline in total well-being when the reserves are mobilized. Recent moves to increase health and education benefits for activated reservists have this effect. Additional special pay for long mobilizations would be a more direct approach.

What Are Some Alternative Models for the Reserves?

The previous analyses of relative cost and compensation assumes the current conventional reserve model: in peacetime, one weekend a month and two continuous weeks (often during the summer) per year; in wartime, mobilization one year in six. Other models for part-time service members are worthy of consideration.

One approach—Extended Reserves—would offer large bonuses to reservists who, having been mobilized once, would volunteer to be mobilized a second time in six years. Because such individuals replace a second reservist, DoD could offer a large bonus and still derive considerable cost savings. We note, however, that such large bonuses might leave DoD open to charges that these reserve forces were “mercenary.”

Achieving these cost savings requires shrinking the reserves. How much to shrink the reserves requires knowing what fraction of reservists would accept the bonus. Needing all the soldiers possible, we can easily learn something about the fraction of reservists who would be willing to take a bonus, perhaps simply by mailing bonus offers of varying sizes to a random sample of reservists who have already served and recording response rates.

Another alternative approach to the reserves—*cadre*—would maintain only leaders (e.g., noncommissioned officers and officers above major) in the reserves. Then, when a stability operation began, recruiting would be increased to fill out these cadre units. Allowing a year to decide that a prolonged stability operation had begun, another year for recruiting, another year for Basic Training and Advanced Individual Training, and another year for collective training, these forces could be available in the fifth year of a conflict.

This approach exploits the long lead times available when reserves are used with rotation. Since such a cadre concept would pay most of the force nothing in peacetime, there are potential cost savings. Ongoing work at RAND is exploring the magnitude of the potential savings and details of implementation. Open issues include the appropriate way to cost such units, the extent to which some of the officers and noncommissioned officers could be drawn from the existing force structure (e.g., positions at the U.S. Army Training and Documentation Command [TRADOC]), and how many cadre units additional recruiting could plausibly fill.

Concluding Thoughts

The nation faces a new security reality—stability operations. Given available forces, force concepts, and compensation, DoD has reacted by making unprecedented use of the reserves. Over the intermediate term (i.e., not the current conflict, but the next conflict; perhaps five to ten years out), DoD should respond to this new security reality by rethinking available forces, force concepts, and compensation. The Office of the Assistant Secretary of Defense, Reserve Affairs' Continuum of Service concept begins that rethinking. This monograph suggests some issues and concepts for consideration.