

**Expeditionary Economics:  
A Force Multiplier in a Counterinsurgency Fight**

**A Monograph  
by  
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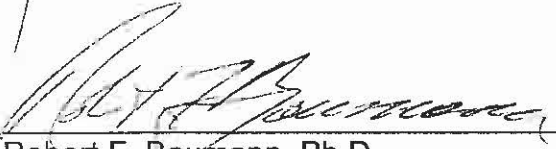
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## **Abstract**

EXPEDITIONARY ECONOMICS: A FORCE MULTIPLIER IN THE COUNTERINSURGENCY FIGHT by MAJ Nathaniel S Miller, US Army, 46 pages.

The Army has equipped leaders with the tools to address most elements of a counterinsurgency. However, it has failed to do so with economics. This is because of three reasons. First, they cannot settle on a theory. Second is a lack of clearly defined roles between the military and other agencies. Third is a lack of systems in place to train and assign an officer with economic competence to tactical units. Consequently, the Army's ability to make economic progress has been limited. Japan presents a different example of economic development employed by the Army. Officers governing Japan after WWII were trained specifically for the job.

Today, some are advocating for Expeditionary Economics. This will, in theory, give leaders a means to solve immediate economic problems in a post-conflict environment. Advocates do not envision the military assuming a role that others address. Rather, they argue for giving the Army the ability to address the stability issues that are linked to economic problems. The Army should address their doctrine, personnel, organization, training, and education to create practitioners that can develop an economic line of operations. This would benefit the Army in future stability focused operations.

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## Introduction

With the mixed results of stabilization efforts over the past ten years in Iraq and Afghanistan, scholars and experts are looking to models and methodologies that can provide more consistent results. Carl Schramm, the former CEO of the Kauffmann Institute, believes that the solution is to equip the U.S. Army with the tools to promote free market capitalism. He calls this approach “expeditionary economics.” This concept has opened a prolonged discussion on implementing this idea by creating space for a market economy to take root in a recently war torn state. However, the U.S. Army is not currently built for this kind of activity. It does not have the expertise, language, or doctrine to pilot an operation designed to promote economic development.

This monograph will attempt to answer the question “Should the U.S. Army develop the capability to conduct expeditionary economics?” Using a case study, the author will highlight the efforts of the U.S. Army in Japan in the post-World War II era. This Japan case study will serve as an example of success to guide the discussion of the contemporary environment. The author will compare this case study with contemporary efforts in the current Operating Environment to assess the wisdom of implementing some or all of the prescriptions of Carl Schramm and the Kauffman Foundation. Then, the author will also explore the ideas of current experts in economics and development through personal interviews, some with practical experience in military development operations and others with a wide range of knowledge of the topics. Using their personal experience, the author will attempt to derive potential prescriptions for the Army if it were to delve into this field.

Currently the Army has very little institutional knowledge on the topic of Expeditionary Economics. In 2006, for example, only 561 Army officers had degrees in economics.<sup>1</sup> Going forward, the Army could mitigate this by creating doctrine and a language for economic growth.

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<sup>1</sup> James C. Laugrey, “Know Before You Go: Improving Army Officer Sociocultural Knowledge.” (Monograph, U.S. Army War College, 2008), 24.

The closest thing that currently exists in the Army is the Money as a Weapon System (MAAWS) Standard Operating Procedure. This SOP is infrequently updated and has remained essentially unchanged since its introduction in 2009. MAAWS is little more than a guide for spending money. The aim for the guidance is to guard against fraud, waste, and abuse. The underlying assumption in MAAWS is that commanders at the tactical level know what to do with the enormous amount of Commanders Emergency Response Program (CERP) funds available to them. This assumption is faulty at its core.

The Japanese reconstruction efforts in the post-World War II era stand out as an example of great success in both stemming an insurgency and in planting the seeds of successful economic development. In this instance, the U.S. Army occupied the territory of a bitter defeated enemy and through careful application of diplomacy and skill assisted Japan in becoming the world's second largest economy. There was no CERP available to tactical leaders in this era and yet the Japanese were a major economic power within fifteen years of Hiroshima. Why is this so? One reason is the skillful application of U.S. Government funds aimed at setting conditions for economic growth. These efforts did not put tactical level leaders in a position to make decisions outside of their scope of expertise. Additionally there was a specific, detailed plan on how to bring about the economic development of the state as opposed to the more haphazard efforts of the last decade.

Afghanistan in 2008 and Japan in 1945 are certainly very different places. However, both were recently defeated enemies of the U.S. who had been antagonists for more than a decade. The lessons one can draw from the Japanese experience are by no means universally applicable to the modern context, but they do show a competence at economic development that may be missing from the modern military.

If the Army's current competence is lacking, what is the solution? Some would argue that the Army should not enter into the field of economic development at all. This would ensure that the narrow focus on hunting and killing insurgents never strays from the Army's vision thus

avoiding mission creep. While this sentiment is certainly understandable, it is not realistic. Since the Mexican War in 1846, the U.S. Army has found itself time and again in the position of the lone supreme authority in a post-conflict environment. Consequently, phase IV planning must take more of an aim at setting conditions for post-conflict regions to grow economically and thus break the cycle of conflict. In order to do this, the Army in conjunction with the U.S. Department of State, must develop coherent doctrine of post-conflict economic development. This doctrine must be rooted in a set of economic principles and then must be explained to the leaders who will implement these policies. Currently there is no field manual on expeditionary economics. There is no verbiage in our lexicon on how economic development happens. There is no training on how to implement economic policy or how to cultivate economic growth. In short, there is no doctrine. Until the Army codifies a doctrine on economic development, it is not capable of conducting expeditionary economics.

## **Literature Review**

Economics is a young field compared to the sciences and philosophy. Adam Smith is widely considered the father of economics. He established the first principles of the field and is therefore relevant today in economic discussion. The most prominent modern economist is John Maynard Keynes. His theories were widely applied during the Great Depression of the 1930s and as a consequence, his lexicon is still used in modern economic discussion. However, he does have fierce critics who reacted to his theories throughout the 20<sup>th</sup> century. Modern economic debates are usually framed as a Keynesian perspective versus neo-classicists. The most influential neo classicists are Friedrich von Hayek and Milton Friedman. This school of thought is known as the Chicago school of economics. A discussion of expeditionary economics must first consider the economic principles espoused by these individuals.

## Adam Smith- The Wealth of Nations

Adam Smith created the field of economics in 1776 with his seminal work, *The Wealth of Nations*. In this book, he lays the framework for all subsequent economic thought in response to the prevailing view of economics at the time, mercantilism. Smith posits that the wealth of a nation depends upon 1.) the productivity of labor<sup>2</sup> and 2.) the proportion of laborers who are usefully or productively employed.<sup>3</sup> He also presents the concept that all individuals should pursue their own financial best interest and this will ensure the overall good of the economy. This has come to be known as the “invisible hand of the marketplace” and is commonly understood as a bedrock principle of capitalism today.<sup>4</sup>

Smith also made a distinction between productive and unproductive labor. He posits that the most productive labor is labor applied to the production of goods and services. He writes “The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers.”<sup>5</sup> With this, Smith argues that government expenditure is necessary but should be kept to an absolute minimum for the sake of economic growth. These principles of the invisible hand guiding growth and the inhibition of government-guided economic policy were prevalent in all developed nations until the early 20 century.

## John Maynard Keynes

John Maynard Keynes is arguably the most influential economist of the 20<sup>th</sup> century. He argued forcefully for frequent, direct intervention into an economy to ensure its health and for the good of the populace. His theories guided many policy decisions undertaken during the Great

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<sup>2</sup> Adam Smith. *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen and Co Inc, 1904), 11.

<sup>3</sup> Ibid., 431.

<sup>4</sup> Ibid., 583.

<sup>5</sup> Ibid., 330-331.

Depression. Since then, most U.S. policy makers have been influenced by Keynesian ideas in their economic approach. Richard Nixon even said once, “We are all Keynesians now.”<sup>6</sup>

According to Alan Butler, an economic professor of economics at Princeton University,<sup>7</sup> Keynesian economics has six basic tenets: 1.) A Keynesian believes that aggregate demand is influenced by a host of economic decisions—both public and private—and sometimes behaves erratically; 2.) changes in aggregate demand, whether anticipated or unanticipated, have their greatest short-run effect on real output and employment, not on prices; 3.) prices, and especially wages, respond slowly to changes in supply and demand, resulting in periodic shortages and surpluses, especially of labor; 4.) the typical level of unemployment is not ideal—partly because unemployment is subject to the caprice of aggregate demand, and partly because prices adjust only gradually; 5.) Many, but not all, Keynesians advocate activist stabilization policy to reduce the amplitude of the business cycle, which they rank among the most important of all economic problems; 6.) Finally, and even less unanimously, some Keynesians are more concerned about combating unemployment than about conquering inflation.<sup>8</sup>

The Keynesian approach to an economic system is, therefore, a fundamental departure from Adam Smith. While Smith advocated a “hands off” approach to an economic system to allow the invisible hand room to work, Keynes believed in active government intervention in the form of either capital infusions or tax cuts. Keynes argued in his “theory of the multiplier” that either form of capital infusion would increase employment and thus aid economic development.<sup>9</sup> Also unlike Smith, Keynes did not distinguish between productive and unproductive labor. He felt that if one were employed, then he would be an aid to the economy by spending money.

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<sup>6</sup> Alan S. Blinder, “Keynsian Economics,” *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/Enc/KeynesianEconomics.html> (accessed September 16, 2011).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, & World, Inc., 1935.), 113-122.

Therefore, whether he produces anything or not, the fact that he is spending money in the economy is a good thing.<sup>10</sup> However, Keynes does note one important caveat: to increase the “multiplier” i.e. the amount of capital into an economic system, there must be a requisite increase in goods and services available for the new capital. Without this increase in goods and services, it would simply result in inflation as prices rise to account for the influx of cash.<sup>11</sup>

## **The Austrian School of Economics**

Though Keynesian thought dominates modern economic discussion, there were other counter voices. Starting in the 1930s, there was a strong anti-Keynes reaction from economists who felt that Keynesian prescriptions for economic growth were misguided. The first was Friedrich von Hayek, an Austrian, who forcefully argued against government intervention in economics in his seminal work, *The Road to Serfdom*. In it, Hayek argued against a strong hand by the government in the economy. Hayek came from the Austrian School of Economics that was founded in the 1730s by Carl Menger in his book, *The Principles of Economics*. The Austrian School argues that economic analysis is universally applicable and that the appropriate unit of analysis is man and his choices.<sup>12</sup> Consequently, an economy must be based on an individual’s choices. Therefore a government limiting choices or infringing upon an individual’s liberty is a recipe for disaster. Even though it could be well intentioned, Hayek believed that it would have unintended and far reaching consequences that not only inhibited growth, but impinged upon liberty. He wrote, “Even the striving for equality by means of a directed economy can result only in an officially enforced inequality - an authoritarian determination of the status of each

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<sup>10</sup> Ibid., 128-129.

<sup>11</sup> Ibid., 123-124.

<sup>12</sup> Peter J. Boettke, “The Austrian School of Economics,” *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/Enc/AustrianSchoolofEconomics.html> (Accessed 2 Dec 11).

individual in the new hierarchical order.”<sup>13</sup> Hayek and his followers therefore argued for as little regulation and interference in the economy as possible; he assigned a preeminent importance to liberty above all else.

## The Chicago School

Hayek also taught late in his career at the University of Chicago.<sup>14</sup> There, he worked with the prominent economist Milton Friedman. Friedman built upon Hayek’s critiques of Keynes in his work, *Essays on Positivist Economics*. In this and other works, Friedman and his students developed the monetarist view of economic development. According to economist Phillip Cagan, Monetarism is “a tendency in economic thought that emphasizes the role of governments in controlling the amount of money in circulation. It is the view within monetary economics that variation in the money supply has major influences on national output in the short run and the price level over longer periods and that objectives of monetary policy are best met by targeting the growth rate of the money supply.”<sup>15</sup>

Friedman and the monetarists argue against government intervention into the economy through employment programs or infusions of cash. They claim that intervention causes unintended consequences that the government cannot possibly manage. This is because it is not possible to know exactly how much infusion of capital is necessary to reach full employment. This actually destabilizes a system, which of course, is counter-productive. Therefore, according to monetarists, infusions of cash into the market are wasteful and inefficient.<sup>16</sup>

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<sup>13</sup> F.A. Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 2007), 342.

<sup>14</sup> David R. Henderson, “Friedrich August Hayek,” *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/Enc/bios/Hayek.html> (accessed 22 February, 2012).

<sup>15</sup> Philip Cagan, “Monetarism.” In *Money: The New Palgrave*, by John Eatwell et al., 195-205 (New York: W.W. Norton and Co, 1989), 195.

<sup>16</sup> Milton Friedman, *Essays in Positive Economics* (Chicago: The University of Chicago Press, 1953), 118-132.

As a result of this split in modern economic theory, there are in the development realm differing views on how to best encourage development in emerging economies. The Keynesian view of interjecting capital into a system seems to be the philosophy underpinning development efforts in areas recently touched by war. However, this is transparent to military practitioners who have not been schooled in Keynesian economic theory.

## **Differing Views on Economic Development**

Keynes, therefore, would approach economic development in a different way than Hayek. Keynes would channel money into a system through a centrally planned economy. However, this solution requires a functioning government. One alternative to this approach is capitalist peace theory. This theory is a response to Democratic Peace Theory, which argues that Democracies are inherently peaceful and less likely to go to war with one another.<sup>17</sup> Capitalist Peace Theory, on the other hand, argues that a state with liberal economic policies is more peaceful than a state without and that a robust capitalist economy is a prerequisite to democratic governance.<sup>18</sup>

This theory is expanded upon in the book, *The Invisible Hand of Peace*, where Patrick McDonald argues the following findings based on his research: 1.) Higher quantities of private property reduced the likelihood of conflict between states during the Cold War and post-Cold War periods; 2.) Free-trade policies reduced the likelihood of conflict between states during the Cold War and post-Cold War periods; 3.) Free-trade policies reduced the willingness of governments to initiate military disputes during the first era of globalization (1750-1914); 4.) Higher quantities of private property reduced the willingness of governments to initiate military disputes in the Cold War and Post-Cold War periods; 5.) Democratic states were more likely than autocratic states to initiate military disputes in the period prior to World War I; 6.) The

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<sup>17</sup> Word IQ.com, "Democratic Peace Theory," Word IQ.com, [http://www.wordiq.com/definition/Democratic\\_peace\\_theory](http://www.wordiq.com/definition/Democratic_peace_theory) (accessed 5 DEC 11).

<sup>18</sup> Erik Gartzke, "The Capitalist Peace," *American Journal of Political Science* 51(2007): 166-191.

peace among democratic states does not emerge until after World War I; 7.) Even during the Cold War and post-Cold War periods, the peace among democratic states was conditioned by capitalism. This peace holds only if both states possess liberal property rights regimes; 8.) The capitalist peace operates independently of the characteristics of the political regime of the state. Under this theory, higher quantities of private property lead to more peaceful foreign policies by both autocrats and democrats.<sup>19</sup>

These findings are significant in the modern era of limited war and counterinsurgency. They imply that in modern conflict, U.S. policy may have given short shrift to economic issues in favor of promoting liberal democracies around the world to achieve peace. If McDonald is right, then liberal economic policies are the most important thing in a stability operation. In fact, capitalism is an important pre-condition for democratic governance. This assertion is firmly rooted in Hayek, who said that “If ‘capitalism’ means here a competitive system based on free disposal over private property, it is far more important to realize that only within this system is democracy possible.”<sup>20</sup>

Furthermore, McDonald argues that “Propelled by the economic revolutions of Ronald Reagan, Margaret Thatcher, and Deng Xiaoping, governments around the world have increasingly adopted neoliberal economic policies privatizing domestic industry, cutting trade barriers that insulate domestic firms and international competition, eliminating domestic price controls, and substantially reducing the size of Keynesian fiscal outlays.”<sup>21</sup> This is the opposite view as Keynes, who argues for a strong state presence in economic development. This juxtaposition sets up an important debate that must be settled in U.S. foreign policy. Should we

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<sup>19</sup> Patrick McDonald, *The Invisible Hand of Peace: Capitalism, The War Machine, and International Relations Theory*, (New York: Cambridge, 2009), 43.

<sup>20</sup> F.A Hayek, *The Road to Serfdom*, (Chicago: The University of Chicago Press, 2007), 234.

<sup>21</sup> McDonald, 2009, 2.

pursue a Keynesian, governance first path? Or should we give economic issues preeminence as argued by Hayek?

The U.S. military has without exception pursued a democracy-first policy in counterinsurgency operations. In both Iraq and Afghanistan, to use recent examples, the military changed the regimes of the state and moved on to post conflict operations. These operations began with “democracy” in the form of elections, and then moved on to governance coupled with economic reform channeled through the fledgling government. MacDonald, however, would find this wrongheaded and he offers compelling evidence from recent U.S. conflicts.

### **Expeditionary Economics**

In the most recent U.S. conflicts, notably Iraq and Afghanistan, significant time and effort has been expended in attempts to cultivate the economies is an important element of stabilizing recently war torn areas. This concept is articulated in the U.S. Army’s Field Manual 3-07, *Stability Operations*. “Sound economic policies promote equitable, sustainable growth. It is the key to remedying underlying tensions in society.”<sup>22</sup> Toward this end, the U.S. military has undertaken (uncomfortably at times) the mantle of encouraging, and in some cases directing, economic development in areas of operations where it is promoting stability. After observing these efforts, Carl J. Schramm, the President and CEO of the Ewing Marion Kauffman Foundation, wrote that the U.S. efforts, while well intentioned, are misguided. In the May/June 2010 issue of *Foreign Affairs*, Mr. Schramm argues, “It is imperative that the U.S. Military develop its competence in economics. It must establish a new field of inquiry that treats economic

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<sup>22</sup> U.S. Army, *Field Manual 3-07 Stability Operations* (Washington DC: United States Department of Defense, 2008), 3-14.

reconstruction as part of any successful three-legged strategy of invasion, stabilization, or pacification, and economic reconstruction. Call this 'expeditionary economics'."<sup>23</sup>

The United States Agency for International Development (USAID) is the principal U.S. agency for extending assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms.<sup>24</sup> Critics of USAID claim that the planning process is out of step with the rest of the government, primarily the U.S. Military, and that there is not a mechanism that coordinates the efforts between the two organizations. In fact, Dr. Schramm makes the case that the U.S. Military should play an active role in economic development in post conflict environments. He asserts that the military's role should be central to cultivating the economies. This would represent a significant shift in the way the military thinks of its mission and its planning priorities in a war. Phase IV operations are often spoken of in terms of how the military will augment and support government and non-government agencies who specialize in these problems.

Schramm argues for a different approach. He writes. "Too often, in both military and international development spheres, there has been a failure to consider the postwar economy in any strategic sense. Military doctrine has usually treated operations other than war as secondary matters to be handed off to other agencies."<sup>25</sup> This is true, primarily because of the stated mission of the DOD and of other organizations such as the State Department and USAID. Schramm, however, prescribes an economic capacity within the U.S. military: "Because the American military will face economic reconstruction tasks in the future, the United States needs to engender an independent capacity for economic analysis within the military." He goes on to criticize the "whole-of-government" mantra applied to Phase IV operations as a whole stating that it leads to

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<sup>23</sup> Carl J. Schramm, "Expeditionary Economics," *Foreign Affairs*, May/June (2010): 90.

<sup>24</sup> United States Agency for International Development, "About USAID," [http://www.usaid.gov/about\\_usaid/](http://www.usaid.gov/about_usaid/) (accessed 2 DEC, 2011).

<sup>25</sup> Carl J. Schramm, "Expeditionary Economics," *Foreign Affairs*, May/June (2010): 96.

“too many cooks in the kitchen” syndrome.” He further argues for a more active role of private business in post-conflict regions independent of the federal government. This prescription is a manifestation of Hayek’s view; Schramm wants the private sector to lead the way in development while cooperating with a U.S. military-led security and governance effort.

Under Schramm’s leadership, the Kauffman Foundation has sponsored a great deal of research into the burgeoning field of expeditionary economics. Among the positions argued for in this research is reestablishing the World War II Era School of Military Government that prepared military officers to govern post-war Germany and Japan.<sup>26</sup> Most notably, Schramm suggests the creation of a military economic analysis institute (he suggests the name “The Armed Forces Institute on the Economics of Security and Strategy”) that could function as a “think tank” for economic ideas.<sup>27</sup> His suggestion implies that the U.S. Army would then be the lead agent in executing the ideas developed by the institute. The Kauffman Foundation also argues for a much larger role for the private sector and for far less central planning in the economy. According to Schramm, this market-oriented approach is necessary to ensure that the economic development in an Area of Operations is in accordance with local need and demand.

Critics of this approach note that this idea leaves very little room in a Phase IV operation for the U.S. State Department or for USAID. Schramm seems to believe that the foreign aid/assistance efforts by those agencies are better left to areas of the world not involved in armed conflict. Critics also correctly point out (as Dr. Schramm also concedes) that the U.S. military does not have the institutional knowledge or capacity to competently take on the role of planning for and executing economic development in post-conflict regions. If the military were to take on a

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<sup>26</sup> Rebecca Patterson, “Revisiting a School of Military Government: How Reanimating a World War II- Era Institution Could Professionalize Military Nation Building,” *Ewing Marion Kauffman Foundatin Research Series: Expeditionary Economics* (2011): 4.

<sup>27</sup> Carl Schramm, “Institutionalizing Economics Analysis in the U.S. Military: The Basis for Preventative Defense,” *Joint Forces Quarterly* 61 (2011): 36.

larger role in planning for economic development in a post-conflict environment, it must have the proper capacity, core competencies, and training. Therefore, this paper will answer the question, “Should the Army develop the capability to conduct expeditionary economics?”

## Methodology

In order to address this question, this paper first analyzes the Army’s existing knowledge and systems to competently facilitate expeditionary economics. It then examines the current strategic context as well as the extent and deficiencies of the doctrine, organization, personnel, education, and training systems currently in place. This paper then reports the thinking of two key current practitioners COL Michael Meese and COL Jeffrey Peterson. These men are experts in the economics field and have military experience. They are therefore uniquely positioned to provide practical prescriptions on necessary changes to the current system. This is followed by a case study of the post-World War II occupation of Japan and establishes real world examples of successful implementation of economic development by the U.S. military. Japan serves as an excellent case study for a variety of reasons. First, Japan was an aggressive military power with a muscular foreign policy prior to World War II and has not been in a major military conflict since. Second, Japan had a centralized economy that was democratized and opened to foreign markets during the U.S. occupation – precisely what an expeditionary economist would argue for. Third, the Japanese economy was responsible for 4% of world economic output in 1939, before World War II. Despite being devastated by the war, by 1980 Japan had the second largest economy in the world.<sup>28</sup> Fourth, the U.S. occupation is an example of the kind of unity of command that Schramm prescribes. GEN Douglas MacArthur, as the Supreme Commander of the Allied Powers, wielded almost total power in Japan and as a result was able to implement a holistic reform program that avoided project fratricide. Lastly, the Japanese occupation shows a real

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<sup>28</sup> The United Nations, “National Accounts Main Aggregates Database,” <http://unstats.un.org/unsd/snaama/dnllist.asp> (accessed 15 DEC 11).

world example of the U.S. School of Military Government for which Rebecca Patterson argues.<sup>29</sup>

In order to provide contrast, the contemporary example of Nangarhar Province in Afghanistan is used to show the ways the U.S. Army is currently dealing with economic issues. The author, in this case study, compares the situations and issues encountered by the 173<sup>rd</sup> IBCT with their predecessors in Japan. Finally, this paper assesses the feasibility of prescriptions from the practitioners, and through the lens of the case studies, offers an assessment as to their feasibility within the current operating environment.

## Part One – Current Systems

### Strategic Context

The development of expeditionary economics capability within the military could represent a shift in U.S. policy. In the Presidential Policy Directive on Economic Development, dated 2011, the Obama Administration explicitly states that it wants USAID to be the lead U.S. agency in economic development:

The United States will: Elevate development as a central pillar of our national security policy, equal to diplomacy and defense, and build and integrate the capabilities that can advance our interests. To ensure that development expertise is brought to bear in decision-making, the Administrator of USAID will be included in meetings of the National Security Council, as appropriate. The Administrator will report to the Secretary of State, who will ensure that development and diplomacy are effectively coordinated and mutually reinforcing in the operation of foreign policy. Through existing policy mechanisms (e.g., trade policy through the United States Trade Representative's Trade Policy Review Group, etc.), an assessment of the "development impact" of policy changes affecting developing countries will be considered reestablish the United States as the global leader on international development. This entails a long-term commitment to rebuilding USAID as the U.S. Government's lead development agency – and as the world's premier development agency.<sup>30</sup>

Schramm and the Kauffman Foundation argue for a decreased role of USAID in post-conflict environments at exactly the same time the President has reaffirmed USAID's role. The

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<sup>29</sup> Rebecca Patterson, "Revisiting a School of Military Government: How Reanimating a World War II- Era Institution Could Professionalize Military Nation Building," *Ewing Marion Kauffman Foundation Research Series: Expeditionary Economics* (2011): 5.

<sup>30</sup> The White House, "Fact Sheet: USAID," <http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy> (accessed 12 Aug, 2011).

Army's focused shift to expeditionary economics could create redundancies in the government's development efforts abroad and result in "project fratricide." This is particularly important to note given the possibility of budget cuts across the government for the foreseeable future.

## **Doctrine**

The U.S. Army currently has no economic development doctrine. There is a great deal of discussion in doctrine today about the importance of economics in stability operations in FM 3-24 *Counter Insurgency*, FM 3-07 *Stability Operations*, and in FM 3-05.40 *Civil Affairs Operations*. However, there is little of practical use in these Field Manuals.

For example, FM 3-07 describes ten sub tasks under the stability task "Support to Economic and Infrastructure Development." These tasks are Support Economic Generation and Enterprise Creation, Support Monetary Institutions and Programs, Support National Treasury Operations, Support Public Sector Investment Programs, Support Private Sector Development, Protect Natural Resources and Environment, Support Agricultural Development Programs, Restore Transportation Infrastructure, Restore Telecommunications Infrastructure, and Support General Infrastructure Reconstruction Programs.<sup>31</sup> But this doctrine does not address the question of who in a military formation should be responsible for these actions and greatly assumes competence in the economics field.

It further states that "At the local level, emphasis is on generating employment opportunities, infusing monetary resources into the local economy, stimulating market activity...However, military forces must avoid causing unintended disruptions to the local markets by suddenly stimulating the economy. Unanticipated demand on local markets may cause

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<sup>31</sup> U.S. Army, *Field Manual 3-07 Stability Operations* (Washington DC: United States Department of Defense, 2008), 3-14-3-19.

prices to spike, thus making products cost prohibitive for the people.”<sup>32</sup> This is, of course, much easier said than done. This statement exemplifies the tension between Keynesians and Monetarists. Aside from this short mention in FM 3-07, there is little guidance to a tactical level commander as to how he or she should manage this delicate balance.

Similarly, in the U.S. Army’s *Money as a Weapon System* standard operating procedure, which guides how leaders are to spend Iraqi Commanders Emergency Response Program (ICERP) funds, leaders are instructed that criteria for a project are 1.) Execute quickly, 2.) Employ many Iraqis, 3.) Benefit many Iraqi people, and 4.) Be highly visible.<sup>33</sup> Nothing in this guidance addresses the balancing act noted in FM 3-07. Consequently, it is safe to assume that a tactical level leader looking to achieve mission success will enthusiastically conduct operations in accordance with the guidance in MAAWS. This means that he/she could very well engage in counterproductive efforts by over-stimulating an area of operations with money before the local system can properly absorb it, thus leading to inflation and, potentially, corruption.

## **Personnel and Organization**

Most tactical actions in the modern operating environment occur at the Brigade Combat Team (BCT) level. However, a BCT staff currently has no economics expert position. Nor, for that matter, is there a position at any Modified Table of Organization and Equipment (MTOE) for an economist. Consequently, the only way a commander may or may not have an economics expert on his staff is if by pure happenstance, one of his staff officers has civilian academic training in economics at the bachelors or masters level. Normally, the solution in the Army is to

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<sup>32</sup> U.S. Army, *Field Manual 3-07 Stability Operations*, (Washington DC: United States Department of Defense, 2008), 3-14-3-15.

<sup>33</sup> Multi-National Corps Iraq, *MNC-I CJ8 SOP: Money As A Weapon System (MAAWS)*(Washington, D.C.: US Department of Defense, 2009), B-11.

create an additional skill identifier and ensure that an MTOE requires an officer with this particular skill set. This, however, is not the case with economics.

The branch most closely aligned with the economics field is the Civil Affairs Branch, which is often tasked with assuming the lead in stability operations. However, there is no requirement for economics training for a CA officer nor is it in the Civil Affairs core curriculum. Even if that were the case, there are not MTOE positions for a CA officer in a BCT. The lowest level under current Army MTOEs containing assigned CA Officers is the Division level. Additionally, there is neither a Military Occupational Specialty (MOS) nor Army officer branch for economic development. Furthermore, there is no Additional Skill Identifier (ASI) for these areas.

Simply put, there is nothing in the Army personnel system that identifies economics experts nor is there anything on an Army MTOE that calls for someone with an economics background to serve in a particular organization. This is important to note in a brigade combat team or a division planning staff, which will develop operational objectives along an economic line of effort in a stability operation. Where will they get their expertise? Who is instructing these planners?

## **Officer Education**

The current Officer Education System (OES) does not emphasize economic principles as a part of its curriculum. The Maneuver Captains Career Course (MCCC) at Fort Benning, Georgia which trains leaders in the armor and infantry branches who ultimately spend the most time engaging local leaders in deployed environments, has nothing in its curriculum to teach economic principles.<sup>34</sup> This is important to note because no matter what principles are developed

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<sup>34</sup> U.S. Army, "Maneuver Captains Career Course Material. 09 20, 2011," <https://www.benning.army.mil/mcoe/dot/mc3/coursematerial.htm> (accessed December 1, 2011), This lays

at higher echelons, company grade officers will ultimately be the ones who execute the plan at the tactical level. TRADOC understands this and consequently added counterinsurgency (COIN) and stability courses to the course load at the Maneuver Captains Career Course. The lack of an economically-focused course is an example of how little emphasis the U.S. Army puts on economic issues in a COIN or stability operations environment.

## **Part Two – Current Practitioners**

Though current systems are lacking, a number of practitioners in the field have developed best practices through trial and error in the COIN fights in Iraq and Afghanistan. Now, two of these men, COL Michael Meese and COL Jeffery Peterson, are instructors at the United States Military Academy at West Point.

### **Colonel Michael Meese**

COL Michael Meese is a 1981 West Point graduate. He has been an instructor there since 1995. Prior to this posting, COL Meese received his PhD in Economics from Princeton University in 1993. He has been the Director of Economics at West Point since 1996. In his time there, he has been afforded a number of opportunities to apply economic theory in the field as an expert advisor. He has, in this capacity, been deployed to a number of post-conflict environments: 3 four month tours to Iraq, twelve months in Afghanistan, and seven months in Bosnia. During these experiences, COL Meese has had a great deal of opportunity to observe U.S. Army efforts at stabilization. As a result, he believes that the expeditionary economics approach is a worthy way to achieve stabilization in conflict zones. In fact, he is the man who originally suggested the term to Dr. Schramm.<sup>35</sup>

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out the entire course for maneuver captains. This covers tactics, planning, and leadership at the battalion and company levels.

<sup>35</sup> COL Michael Meese, interview by Nathaniel Miller, phone interview, 13 December, 2011, Kansas City, Missouri.

COL Meese worked with then MG David Petraeus in Mosul, Iraq in the immediate aftermath of the Iraq invasion in 2003. During this time COL Meese observed that there was a gap between the time that the Army finished its mission and the time in which USAID was able to effectively begin economic development operations in there. He argues that “USAID simply has a different mindset than what is needed in post-conflict areas.” This is a gap that must be filled somewhere and the U.S. Army is the only entity in position to meet these needs. Meese is careful to differentiate the difference between stability and development. He argues that the national objective in a post-conflict environment is not development as much as it is stability. USAID, as the President reiterated, is responsible for development. However, Meese and others argue that the national objective in Iraq is not development, but stability. Development is a later objective for another time. In a post-conflict environment, the need for stability trumps all else.<sup>36</sup>

With this idea, Meese echoes MacDonald in his arguments for the sequencing of events. Meese asserts that, “security is job one.” After security, the focus should be rule of law. Rule of law is a necessary prerequisite for large-scale economic governance. This leads to a middle class, which is the foundation to true democratic governance. Toward this end, Meese argues for three phases to addressing post-conflict economic conditions. First, the military must restore normalcy as soon as possible. This means that there must be a heavy focus on employment programs. Second, the military must employ experts who have an expeditionary mindset. This means that the short-term stability goals may not be in line with longer-term development goals. For example, a factory with that is extremely efficient may make the most sense from a purely economic standpoint. But an efficient factory will not employ as many people as a slightly less efficient one. This is an example of a clash between stability and development goals. Meese argues that economic planners must employ the “expeditionary” mindset that sets stability above development as a goal. Third Meese argues that these experts must be empowered on their plan

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<sup>36</sup> Ibid.

for development. This means getting rid of as much government as possible and allowing the private sector to take the lead in addressing problems in a market oriented way. However, Meese does concede, “you can’t privatize everything,” and that “getting rid of a state owned enterprise is not necessarily a good thing.”<sup>37</sup>

By taking the government out of the equation as much as possible, the goal is to shepherd the economy to a self-sufficiency it would not attain otherwise. For example, Meese gives the example of inefficient government employment programs in Iraq such as trash removal. When coalition money, through the government, was used to fund trash removal efforts, it incentivized trash creation in an area of operations. After all, if there was no trash, the money would go away as well. As Meese puts it, “trash was a cash crop.” Therefore, he argues that stability focused economics should focus on employing males in a way that supports long-term growth, long-term productivity, and that leads to self-reliance. This is the only way to properly stabilize an area of operations without creating a system that is artificially dependent on external support.<sup>38</sup>

This is not to say that the military is not involved in injecting money into the system. On the contrary, the military must focus on creating economic growth through large-scale infrastructure development. Finally, Meese argues for partnering with private firms to aid in the development of the private sector. As it stands now, very few U.S. private sector companies are involved Iraq and Afghanistan; this is a resource that could be leveraged much more effectively than is currently the case.<sup>39</sup>

Like Schramm, Meese also argues for a development of distinct economic doctrine for the army. This doctrine must describe how and when to employ different types of economic operations since each situation is unique. However, Meese believes that the best, most important

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<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

changes to the Army could come in the form of its organization. He believes that the Civil Affairs branch has not been as useful or effective as it should be in these situations. “We in the active army have not emphasized nor held them to the right training or background.” He says, “They have the capacity, but have not stepped up.” He asserts that there should be more specialized training for those officers in these areas. He argues that one should not be an economics officer unless you have a background in economics or have run a business. Consequently, he argues that perhaps this capability should come out of the Army reserve.<sup>40</sup>

As for the active component, he argues for an Additional Skill Identifier (ASI), similar to a strategist. This ASI, like many others, could be offered to Majors at the Command and General Staff College (CGSC) as they complete Intermediate Level Education (ILE.) This ASI could be authorized on Division Level MTOEs in the G5 or G3 shops in order to help develop a coherent economic concept. At this level, division planners could develop a coherent economic plan that would provide guidelines for subordinate brigades to further develop. This would theoretically ensure a unity of effort throughout a division along this particular line of operation.<sup>41</sup>

Additionally, Meese argues for economic education to be implemented at the CGSC level for Majors. These officers need not be economic experts, but be at least conversant in basic economic theory in order to implement economic guidance at the Brigade and Battalion levels. Regarding a School of Military Government, Meese believes that is a “useful second best solution.” (He actually argues for a cabinet level post to promote overseas development.) Likewise, he is in favor of the military economic analysis institute for which Schramm argues.<sup>42</sup>

As for the larger strategic context, Meese does not see any conflict here between USAID and the U.S. military since their goals are fundamentally different. He argues that USAID should

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<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

always be used where economic development is an important goal. The notable exception, however, is in a pre- or post- conflict scenario where security is a problem.<sup>43</sup>

### **Colonel Jeffrey Peterson**

COL Jeffrey Peterson is the Academy Professor of Economics at the United States Military Academy. He holds an M.B.A. from the MIT Sloan School of Management and a Ph.D. in policy analysis from the RAND Graduate School.<sup>44</sup> He served as the Squadron Commander for 1/4 Cavalry in 3<sup>rd</sup> BCT, 2<sup>nd</sup> Infantry Division in Baghdad, Iraq from July 2006-September 2007. While there, Peterson was confronted with raging sectarian violence between the Shia and Sunni in his AO. Peterson soon assessed that the root of the problem he faced contained a strong economic component; the Shia majority were excluding the Sunni from governance and as a result from the development investment in the region. As a consequence, the Sunni had little choice but to fight for their best interest. Peterson says that counterinsurgency operations are “about removing incentives to fight.” He therefore set about this, in part, using CERP funds to boost employment and start development. This, along with accountability measures aimed at ensuring equity, brought about a modicum of stability within his AO. In his estimation, these efforts were very successful. However, due to a variety of factors, these efforts were not continued by follow on units so the successes were not sustained.<sup>45</sup>

Based on these experiences, COL Peterson is well positioned to offer lessons learned when discussing economic operations in a post-conflict environment. Like COL Meese, COL Peterson points to the perverse incentives that many CERP projects create (such as the trash

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<sup>43</sup> Ibid.

<sup>44</sup> The Milken Institute, “COL Jeffrey Peterson Bio,” <http://www.milkeninstitute.org/events/gcprogram.taf?function=bio&EventID=GC10&SPID=4626> (accessed 13, Feb 2012).

<sup>45</sup> COL Jeffrey Peterson, interview by Nathaniel Miller, phone interview, 20 December, 2011, Kansas City, Missouri.

example) as a major obstacle to sustained growth. Peterson does, however, offer an example of a CERP project with proper incentives. He offered to a businessman in Iraq enough CERP funding to make a one-time purchase of an electricity generator and gas. This man was a known community leader and entrepreneur. In exchange for the advance of CERP money, he agreed to set up a business by which he provided electricity to the neighborhood. He got no further gas or repair parts from COL Peterson. Instead, he set up a fee schedule with locals and became independent of third party money.<sup>46</sup>

Peterson strongly emphasizes the fundamental difference between economic development and stabilization. He believes that this problem of defining terms is at the heart of the resistance to expeditionary economics. “The development community is against the idea.” He says, “There is this misconception that the Army wants to take over development. But there are times when the battlefield is dangerous and the only people around are part of the Army.” He also distinguishes large scale, long-term economic development from stability-creating jobs and businesses. “At the tactical level, a platoon leader doesn’t need to concern himself with economic development. But business development is a problem he can get his arms around.”<sup>47</sup>

As for doctrine, Peterson believes that the lack of a coherent philosophy is problematic. “We don’t have an agreed upon theory or policy for economic growth.” This leads to an uneven and inconsistent application of economic principle. He therefore argues for a new annex to FM 3-24 *Counterinsurgency* to specifically address these concerns and codify terms.<sup>48</sup>

Regarding economic education, Peterson advocates a more comprehensive approach than Meese. First, he believes that every officer should take a semester of economics as a part of his pre-commissioning requirements. Second, all captains should take a course in business formation

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<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

at their respective Captains Career Courses. Third, ILE should focus on infrastructure and rule of law as the necessary condition setters for economic growth. Fourth, he argues that senior service colleges should educate on fiscal and monetary policy as well as regional economics.<sup>49</sup>

From an organizational point of view, Peterson is also an advocate of developing an ASI for an economic planner. However, he believes they would be best utilized at the BCT level rather than the Division. He furthermore believes that this is not a Civil Affairs function and the two should be separate. To the degree that they intersect, Peterson believes that the Army should restructure the S9 to facilitate unity of effort between the two.<sup>50</sup>

## Part Three – Case Study: Post World War II Japan

### Strategic Context

In 1945, the economic situation in Japan was extremely dire. Industrial output by the end of the war was 10 percent of the pre-war level. In 1946, 13 million were unemployed. Nearly 40 percent of Japan's urban areas were destroyed and 9 million people were homeless.<sup>51</sup> Japan had also lost 41.5% of its national wealth.<sup>52</sup> As a result, a successful rebuild of the Japanese economy was far from assumed.

There were, however, many strengths and assets remaining in Japan. First, the people were relatively well educated. Prior to WWII, the Japanese economy was responsible for a full 4% of global economic output,<sup>53</sup> which was an impressive figure given their relative newness to the global economy. This meant that a massive initial investment in education was not

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<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Fiji Takamae, *Inside GHQ: The Allied Occupation of Japan and its Legacy*, (New York: Continuum, 2002), 76.

<sup>52</sup> Louis A. Dimarco, "The Occupation and Economic Policy in Japan," *Proceedings from the Summit on Entrepreneurship and Expeditionary Economics* (2010): 22.

<sup>53</sup> Donnell McGriff, "Japan's Once Powerful Industries are now Crumbling" <http://www.zimbabwemetro.com/32783/japans-once-powerful-industries-are-now-crumbling/> (accessed 13 Feb, 2011).

necessary.<sup>54</sup> Second, there was a strong state control apparatus in place. This was a carryover from pre-war Japan; police state apparatus was developed during the Meiji era.<sup>55</sup> This system was built upon by the General headquarters (GHQ) rather than torn apart and rebuilt. This ensured a smooth path for reform efforts. Lastly, there had been a growing discontent of a number of academics with Japan's oppressive, centrally controlled economy. These individuals served as the creative backbone for many fundamental reforms during this era.

Working with the GHQ, the Japanese government was able to set itself on a path toward economic prosperity on par with any other state in the world. In fact, by 1981, Japan was the second largest economy in the world and, more importantly to this topic, has not undertaken an aggressive military action since WWII. This is, in part, due to the well planned and executed post-conflict operation undertaken by the Allies. Initially, they focused on reforming the Japanese economic system's monopolistic, centrally planned structure. However, due to the significant issues the Japanese people were facing, these reforms were soon marginalized in favor of meeting the more immediate needs of the people.<sup>56</sup> These included a wheat supply crisis and famine leading to food shortages.

After these initial storms began to subside, the allies turned their attention to three reforms: land, labor, and monopoly. These three issues intertwined to stifle Japanese growth and led to an unnecessarily narrow economy that focused on a robust military industrial complex. Since the GHQ had dual goals of pacifism for Japan as well as growth and stability, these economic goals was an important place to start. Obviously, the problem was extremely complex, but it is very telling that they chose from the very beginning to tackle economic issues.

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<sup>54</sup> Takamae, 291.

<sup>55</sup> Ibid., 295.

<sup>56</sup> Takamae, 173.

## Doctrine

The Army's office of the Provost Marshall prepared a significant body of work designed to codify a common body of knowledge from which the Army could reference in the field. Many of these manuals are very specific as to the Areas of Operation in which they would be applied. This body of doctrine included Bank Accounting and Operations in Japan, Government Finance, and Field Protection of Objects of Art and Archives.<sup>57</sup>

The Civil Affairs Handbook on Japan alone served as an excellent primer on the country. As one can see from figure 1-1, it is comprehensive.

Section 1. Geographical and social background. --  
Section 1A. Population statistics. --  
Section 2-2A. Government and administration. --Section 2B. Government and administration, local government. --  
Section 3. Legal affairs. --  
Section 3A. The commercial code of Japan. --  
Section 4. Government finance. --  
Section 5. Money and banking. --  
Section 6. Natural resources. --  
Section 7-7A. Agriculture. --  
Section 8A. Industry. --  
Section 8B. Commerce. --  
Section 9. Labor. --  
Section 10A. Administration of the electric power industry. --  
Section 11. Transportation systems. --  
Section 12. Communications. --  
Section 13. Public health and sanitation. Dec. 18, 1943; Feb. 10, 1945. --  
Section 14. Public safety. --  
Section 15. Education. --  
Section 16. Public welfare. --  
Section 17-17A. Cultural institutions. --  
Section 17S. Special maps. --  
Section 18A- . Japanese administration over occupied areas: 18A. Burma. 18B. Malaya. 18C. Philippine Islands. 18E. Thailand.

Figure 1: Japan Civil Affairs Handbook Table of Contents<sup>58</sup>

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<sup>57</sup> Patterson, 10.

<sup>58</sup> WorldCat, "Civil Affairs Handbook: Japan," <http://www.worldcat.org/title/civil-affairs-handbook-japan/oclc/032119736> (accessed 12 January, 2012).

## Personnel and Organization

As World War II began to conclude, General of the Army Douglas MacArthur took a number of steps to prepare Japan's post-war challenges. First, he correctly concluded that a normal G-5 Civil Affairs section would be inadequate to manage the massive requirements for post-war governance. Therefore, he developed the Military Government Section (MGS) of the General Headquarters American Forces Pacific Command (GHQ/AFPAC). Inside the MGS were sections for Administration, Economics, Finance, Operations, Personnel, Public Affairs, Public Health and Welfare, Publications, and Supply.<sup>59</sup> After V-J Day this office was disbanded and its functions transferred to the GHQ of the Supreme Commander of the Allied Powers (SCAP). The SCAP was MacArthur and the GHQ was his headquarters.<sup>60</sup>

Once on the island of Japan, MacArthur had to decide how to administer its governance. The U.S. Army presence was massive (430,000 soldiers),<sup>61</sup> but not quite large enough to rule the island effectively. As a result, MacArthur made the important decision to administer the governance indirectly through Japanese intermediaries.<sup>62</sup> This was only possible, however due to the administrative competence the Japanese people already possessed.<sup>63</sup>

Thus, the Allies had chosen to work through the existing Japanese apparatus to govern. This relatively rigid structure allowed for a strong unity of effort up and down the chain of command. Since the rule was indirect, the Japanese people actually interfaced with Japanese Government Agencies. These government agencies reported to the staff sections of the GHQ.

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<sup>59</sup> Takamae, 48.

<sup>60</sup> Ibid., 49.

<sup>61</sup> Ibid., 65.

<sup>62</sup> Ibid., 64.

<sup>63</sup> Ibid., 64.

Specially trained Military Government Teams were responsible for ensuring that the Japanese government officials were in compliance with the directives of the GHQ.<sup>64</sup>

Economic Policies were administered in the Economic and Scientific Staff Section (ESS). This section was the largest of all in the GHQ; in February 1949, it had 1,189 employees including 33 military officers and 599 civilians.<sup>65</sup> Ishibashi Tanzan was named the finance minister in 1946. Tanzan was a Keynesian and thus established the Reconstruction Finance Bank to pool investment funds. This bank was funded through the sale of RFB bonds.<sup>66</sup>

Tanzan also implemented the Priority Production Plan, which targeted the development of key industries such as coal and steel. This, along with the Economic Stabilization Board (ESB), which helped target economic financing, served as the central plan for the new Japanese economy. The thirty-three military officers in the ESS came from a variety of education backgrounds. The first head of the ESS, COL Raymond C. Kramer, was a former department store executive. He was soon replaced by MG William F. Marquat, who had little experience in economics of business and therefore deferred to his subordinates' expertise on many of these matters. However, the staffers (both military and civilian) on the ESS were well prepared for this job. The Anti-Trust and Cartels division was headed by J. Mac Henderson, who had headed the U.S. Department of Justice's West Coast Anti-Trust Division and Edward C. Walsh, who had written a PhD dissertation on trust dissolution and monopolies.

The first head of the Labor Division was MAJ William Karpinsky, who was an electrical engineer by education but had worked for the Labor Department and the New Jersey Mediation Service before the war. Everyone, the military officers in particular, who was chosen for this post

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<sup>64</sup> Ibid., 104.

<sup>65</sup> Ibid., 172-173.

<sup>66</sup> Ibid., 310.

was assigned there because of a background in economics or business, either practical or educational, that made them a useful and important contributing member to the effort.

## **Training**

Many U.S. officers in the ESS were trained at the School of Military Government (SOMG). This school was established in 1942 to prepare for the planned occupation of both Germany and Japan, and ultimately grew to 10 universities that graduated 18 classes.<sup>67</sup> The more than one thousand graduates of this program were key cogs in the administration of post-conflict environments. The training they received there was instrumental in their future success, however, the training would have been useless unless the right individuals were selected for the program.

Officers in the program were required to have served in a former military government or in a federal, state, county, or city government. Exceptions could be provided for former residents of the country with a background in law, medicine, or civil engineering. This prerequisite was so important, in fact, that the original class was nearly all civilians who received direct commissions.<sup>68</sup> In other words, the military viewed the governance expertise as the primary qualifier for this position and military knowledge was a distant second. The curriculum at the school focused on macro level administration, legal affairs, government finance, money and banking, natural resources, agriculture, industry and commerce, labor, public works and utilities, transportation systems, communications, public health and sanitation, public safety, education, and public welfare.<sup>69</sup>

In addition to SOMG, the Army developed Civil Affairs Training Schools (CATS). These schools focused on micro-level governance issues at the village or town level. A CATS graduate

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<sup>67</sup> Patterson, 5.

<sup>68</sup> Ibid., 7.

<sup>69</sup> Ibid., 7.

would often be a junior ranking officer who would go on to deal with local population as opposed to a SOMG graduate who was more responsible for staff level work. In other words, a CATS graduate would operate at the platoon or company levels while a SOMG graduate would find himself at the battalion level or higher.

## **Education**

As mentioned before, personnel on the ESS were selected for their practical or educational background in either economics or business. One can therefore assume that experience and education in these fields was vitally important to the effort. Additionally, one can see this rationale applied in the screening criteria for students at the SOMG. The right education amongst these officers was so important that it superseded tactical competence in more traditional Army roles. In other words, these officers were selected not because of past performance on the battlefield, but due to their education, either formally in a university setting or informally as a business professional.

## **Part Four – Case Study: Nangarhar Province Afghanistan, Summer 2008**

### **Overview**

The U.S. Army is currently conducting stability operations in Afghanistan. Here again, military planners are faced with stability operations in a post-conflict context. There are a number of lessons one can glean from the Japanese model, but Afghanistan is a very different place. The situation presents military planners with a particularly difficult problem set since there are few direct parallels between this situation and the previous case study in Japan.

The first and most important difference between Afghanistan and Japan is in the level of economic development before the countries' respective wars. While Japan in 1941 was an

industrialized power, Afghanistan in 2011 was the 13<sup>th</sup> poorest country in the world.<sup>70</sup> In addition to lacking infrastructure development and capital for business, Afghanistan is also landlocked and has been in the midst of a crippling power struggle since the 1970s. As a result, Afghanistan's development start point is significantly different than Japan's and therefore, this must be taken into account when comparing the two countries.

Secondly, the education level in Afghanistan is abysmal. As of 2001, 88.6% of Afghans were illiterate.<sup>71</sup> On the other hand, Japan had a literacy rate as high as 99% in some areas after World War II.<sup>72</sup> This made everything easier. Most importantly, it made elevating Japanese civil servants into local governance a palatable option. After all, in addition to having credibility amongst their fellow Japanese, they were also legitimately skilled bureaucrats. In Afghanistan, the locals are far less skilled and consequently require much more assistance from coalition forces.

Third, there is a significant mistrust amongst the Afghan population toward the coalition government. There is a powerful competing narrative by the Taliban forces operating amongst the population that makes efforts such as anti-corruption initiatives or labor organization practically futile. This makes large-scale change very difficult.

With that being said, there are instructive parallels between the two case studies. In this instance, Nangarhar Inc, an economic development plan developed by the 173<sup>rd</sup> IBCT in Nangarhar Province is an example of modern day economic development by the U.S. Army in a post conflict stability operations scenario. The plan was developed from the lower levels and then

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<sup>70</sup> The CIA World Fact Book, "Afghanistan" <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html?countryName=Afghanistan&countryCode=af&regionCode=sas&rank=212#af> (accessed 13 Feb, 2012).

<sup>71</sup> U.S. Library of Congress, "Country Studies: Afghanistan" <http://countrystudies.us/afghanistan/72.htm>, (accessed 13 Feb, 2012).

<sup>72</sup> Language Log, "Japanese Literacy: Back to the Future Again?" <http://itre.cis.upenn.edu/~myl/languagelog/archives/003962.html> (accessed 13 Feb, 2012).

subsequently presented to higher for approval. This alone presents a stark contrast to the Japan model where the economic plan was developed for years and then given to subordinate soldiers to implement.

The 173<sup>rd</sup> IBC was assigned to conduct stability operations in Nangarhar Province from the summer of 2007 until the summer of 2008.<sup>73</sup> The leadership of the BCT acknowledged three things upon arriving at the Area of Operations (AO): 1.) That the insurgent efforts can only be stymied by cultivating economic growth within the AO; 2.) That there was no existing plan to achieve this economic growth; and 3.) That Nangarhar provided a unique opportunity for growth given its numerous advantages in terms of natural resources and geographic location.<sup>74</sup> As MAJ David Spencer recalls:

What happened was the Afghan Reconstruction Group, which was a small part of the embassy, came to Jalalabad in December 2007 and did that analysis of strengths, weaknesses, opportunities, and threats and what they found was, in a 12-month period, in 2007, 38 businesses had started and had failed due to electricity. Now, these businesses were across the range, from banking to all different types, and some of the possibilities included a group of mountains that border the southern border of Nangarhar where there was a lot of marble. However, the tools, the training, and the electricity, all that was not available to harness that. They would just dynamite it out of the side of the cliff and they would get these little small chunks of marble instead of huge pieces of marble. Then, in agriculture, they just didn't have large damming systems to help with, I will say, erosion or water control. Basically, comprehensive watershed management is a huge thing needed to help harness the agricultural potential because Nangarhar is an agricultural basin and what happens is, due to the lack of comprehensive watershed management and cold storage available there, up to 30 percent of the crops just rot in the fields. So, what happens is the farmers will sell their crops over the nearby border into Pakistan, where they have cold storage and they have electricity and they have all this infrastructure set up; the Pakistanis will then package it and put it in cold storage; and, then, they will sell it back over the border in Afghanistan for up to 10 times the original price just because the farmers don't have the infrastructure set up to leverage the crops and everything that is available. Those are just a couple of examples because there are certainly plenty. So, again, Nangarhar Inc was designed to leverage the huge economic potential that existed in the Nangarhar Province but wasn't being leveraged, basically.<sup>75</sup>

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<sup>73</sup> MAJ David Spencer, interview by Mr. Ross Steele, Personal Interview, 23 April, 2009, Fort Leavenworth, KS.

<sup>74</sup> David K. Spencer, "Afghanistan's Nangarhar Inc.: A Model for Interagency Success," *Military Review* (July-August 2009): 34-40.

<sup>75</sup> MAJ David Spencer, interview by Mr. Ross Steele, Personal Interview, 23 April, 2009, Fort Leavenworth, KS.

One of the major problems for this is a fundamental lack of current development of economic doctrine. There is no equivalent of the Civil Affairs handbook utilized in Japan to be used for Afghanistan today.

The initial plan at the Task Force Bayonet level, because we didn't see anyone else trying to do anything to help harness the huge potential in Nangarhar, was to come up with something and we didn't know it would be called Nangarhar Inc. It was just to come up with a plan. Maybe it was a marketing plan that somebody would latch onto, whether it was the Department of State or USAID or somebody, and they would take that plan, realize the potential, and then they would run with it. One of the agencies that is actually in the business to do this type of thing would take it and they would run with it and it would just be our plan to start out with. So, Nangarhar Inc, at the brigade level, before the plan was written, was intended to be just a marketing plan on what was available in Nangarhar. So, we actually started work on that in the initial stages and it ended up being so much more.<sup>76</sup>

As noted before, there is no MTOE-coded position at any level for an economics expert nor is there a skill identifier to label an officer as such. There is also no branch or functional area that specializes in economics. BCTs and higher headquarters must make due with the personnel with whom they are assigned. This provides an interesting contrast to the Japanese example where the GHQ economics officers were selected specifically for their background in economics. Moreover, the leaders at lower levels, like Brigade, were trained at the SOMG.

**Spencer:** This plan was written in large part by U.S. Army officers, though they had assistance from other government agencies such as USAID and the Department of State.

What happened was, after we had that meeting with the ambassador, we flew back to Jalalabad, we gathered together the people that we would need, and nine of us flew back up to Kabul to start work over the next ten days. We basically locked ourselves in the basement and worked for the next 10 days, 14 to 16-hour days, working on this plan. So, it was green suiters who were actually sitting there typing the different portions of it out and working on it, between the brigade staff and the Provincial Reconstruction Team, and we had our public affairs officer there and different representations. Now, some people have criticized the plan as being written by the Department of Defense; whereas, it actually wasn't. We were just there doing the yeoman's work of typing it out and we actually received input from the different agencies there at the embassy. So, we had a State Department representative that we were working heavily with and at different points during the writing of the plan he would take what we had and send it out to USAID, send it out to various members in the Department of State, and send it out to the Bureau of International Narcotics and Law Enforcement Affairs there, different agencies within the embassy, to solicit their feedback. So, we received a lot of feedback and we used that in the base plan. So, it is truly an interagency document and it is not just a Department of Defense or U.S. Army plan. It is a U.S. Government interagency

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<sup>76</sup> Ibid.

document.

**Interviewer:** And how many Army personnel were at this 10-day writing of it, initial writing of it?

**Spencer:** We had nine of us there.

**Interviewer:** Nine Army personnel?

**Spencer:** Correct. Well, one of the guys was Air Force, actually. So, that was why I said Department of Defense. [Captain] Paul Frantz was from the PRT and he was an Air Force guy.

**Interviewer:** Okay.

**Spencer:** So, we had two members from the Provincial Reconstruction Team in Nangarhar and the remaining seven were from the brigade staff, including myself.<sup>77</sup>

According to Spencer, Nangarhar Inc differed from many development plans in its focus and scope.

**Spencer:** We were trying to harness the economic potential and the business potential in Nangarhar and not necessarily just provide a general reconstruction plan that would benefit everyone in Afghanistan, so to speak. For example, there was a dam system. One of the projects was there was a dam and this dam had a potential of 11.55 megawatts and it was operating at only six to nine megawatts daily. So, one of the projects was to improve the dam, the Darunta Dam, to operate at maximum capacity. Well, that same dam was listed in the Provincial Development Plan of Nangarhar; but, the purposes of the projects were different. In the Provincial Development Plan of Nangarhar, the idea was to provide power for everybody to use; whereas, the Nangarhar Inc purpose was to provide power for business use, the idea being that once businesses started taking off and led to full employment and started harnessing economic growth, then that would eventually affect all the Afghans later on as the infrastructure got in place and economic potential was being harnessed. So, that was one of the differences between Nangarhar Inc and a regular reconstruction plan and I think some of the confusion in the early parts of it was with different agencies that we hadn't had a chance to talk to yet on what we were trying to do with Nangarhar Inc because then it was just another reconstruction plan. So, while there already were reconstruction plans that were there, we had to show how it [Nangarhar Inc] fit in with those reconstruction plans.<sup>78</sup>

The resulting plan was quite good. The vision statement is broad in scope and ambitious.

Among other things, it called for the development of a Nangarhar Regional Development Association (NRDA) to oversee economic development. It was to be laid out as follows:

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<sup>77</sup> Ibid.

<sup>78</sup> Ibid.

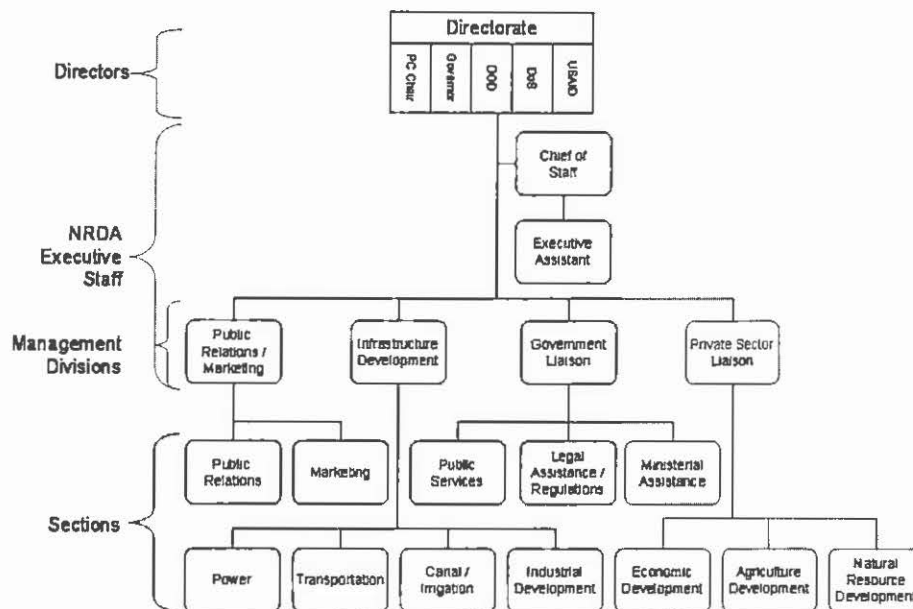


Figure 1 – Organizational Structure of the Nangarhar Regional Development Agency

Figure 2: NRDA Structure<sup>79</sup>

One major problem with this process, however, was the lack of involvement by Afghans.

Once again, this is an interesting difference between the Afghan and Japanese examples. The

GHQ integrated the Japanese into their staffs and made them the lead planners and executers.

One of the biggest criticisms that we had was that this was a plan for the Afghans, to help the Afghans, but it was created by a team of U.S. Government individuals in the basement of the U.S. Embassy in Kabul. So, whether you called it a U.S. interagency plan or a U.S. Army plan, which it wasn't, of course, it had U.S. written all over it and there were no Afghans involved in the making of the plan and we were criticized by various agencies because of that and we acknowledged that. What we realized up front though was the majority of the Afghan representatives in Nangarhar wouldn't have the capacity to help develop a plan like that at the time that we got the mandate from the ambassador. Plus, there would have been a lot of logistical issues in trying to get them up to the embassy, as opposed to, "Here are nine people, let's get them on a helicopter and get them up to the embassy, and let's get this cranked out." The intent kind of was to create a model that could be used in other areas, in other provinces. So, it was a U.S. Government model and there were no Afghans involved in the writing of the original business plan; but, the Afghans were briefed on it later on and they bought into it and they said they were excited about it. And Afghans are a critical part of Nangarhar Inc in the future as they move through the different stages of it and, even more than that, since it is to be a model for economic development to be used, hopefully, in other areas, U.S. operated areas but also for the rest of the international community. So, as these different

<sup>79</sup> U.S. Army, *Nangarhar Regional Development Plan: Bridging a Rich Past with a Bright Future* (U.S. Army, 2008), 13.

models start taking off in other areas in Afghanistan, as they possibly will, the Afghans will definitely be heavily integrated in future iterations of this.

The command structure in Afghanistan today is far less unified than the command structure was in Japan. This is due to a much larger bureaucracy in Washington overlooking the war efforts with multiple cabinets involved in order to achieve a “whole of government” approach. This leads to competing priorities with little official means to coordinate or prioritize efforts. As a result, there is a significant risk of effort duplication with differing desired outcomes.

**Spencer:** We created the plan in a resource unconstrained environment. A lot of times, that is how we plan in the military. So, we created it, basically, between us and our State Department mentor, and said, “Let’s not worry too much about how much stuff is going to cost. Let’s figure out what we need, what is needed here, and then we will figure out the cost and where we are going to get the money from later.” And we didn’t go into it blind so much because we were told by the State Department that there was funding available. It would take some doing; but, they would work on the funding and we weren’t to worry so much about trying to reduce prices or trying to create solutions based on cost. So, over the next six to eight months, I would say, as the embassy continued to work on it, some funding started to come in from USAID and other sources. But, as far as like a single specific day that all the funding came in, no. We were basically trying to fund projects in the quick impact initially and then work on the other ones later because some of the later projects cost close to a billion dollars and that funding had not been set aside for that specifically. For instance, there is a set of dams in the Konar River Basin that could cost one billion dollars plus and that is a long term project and it has a huge possibility to impact the electrical power solutions in Afghanistan; but, there is no funding that has been allocated to it yet. So, everything hasn’t been funded.

Ultimately, the plan was finished and presented up the chain of command where it was well received by the 101<sup>st</sup> Infantry and the ambassador.<sup>80</sup> However, since the plan was generated from lower levels to higher. It did not have enough institutional support to be fully implemented. According to Robert Kemp, a representative for the U.S. Department of State, “During a temporary assignment to Afghanistan in early 2010, I asked civilian and military U.S. officials about the status of Nangarhar Inc. While parts of the plan had been adopted, particularly short-term projects, the overall strategy and long-term planning appeared to have been superseded by new initiatives.”<sup>81</sup>

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<sup>80</sup> Robert Kemp, “Counterinsurgency in Nangarhar Province Inc, Eastern Afghanistan, 2004-2008”, *Military Review* (November-December 2010): 41.

<sup>81</sup> *Ibid.*, 41.

This case study provides a number of examples of inefficiencies created by our current framework for addressing economic issues within an AO. First, to the degree that there is an economic development plan from higher echelons, there is no sense of unifying or coordinating efforts across the interagency to ensure that these goals are met. As a result, BCTs within Afghanistan are forced to plan “in a bubble” and “unconstrained.” As a result, when a plan is completed, it may or may not have monetary support in terms of funding from higher.

Second, the qualification in place by the nine military officers who wrote this economic plan is simply that they were there. There were no criteria in place to ensure that the individuals crafting the plan had any understanding of economics whatsoever. This is also true of the State and USAID representatives in the process; they were not necessarily knowledgeable in economics.

Third, the plan was redundant to other efforts by other agencies within the AO. There was no mechanism to adjudicate the efforts and decisions of subordinate commands. As a result, both USAID and the BCT were planning on going forward with the dam project, but for different reasons. The Army efforts were aimed at business development and maximum employment. USAID was aiming at long-term economic development goals.

Fourth, the plan was developed “in a vacuum” and then fed upwards. As Spencer acknowledges in another article, “Nevertheless, the future for Nangarhar Inc. as a model for success is not a certain one. The combined and coordinated efforts of the U.S. Government interagency must lead the effort in the early stages and emplace critical infrastructure to attract large- scale foreign capital investment. Unfortunately, uncoordinated development is ubiquitous in Afghanistan.”<sup>82</sup>

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<sup>82</sup> David K. Spencer, “Afghanistan's Nangarhar Inc.: A Model for Interagency Success,” *Military Review* (July-August, 2009): 38.

As a result, the efforts by the 173<sup>rd</sup> IBCT were at best inefficient. At worst, a lack of expertise, coordinating vision, and clearly defined macro goals made these efforts completely wasted.

## **Part Five – Recommendations**

### **Strategic Context**

The lack of clear lines between the Department of Defense, the Department of State, and USAID contributes to the confusion and frustration on the part of all involved in a post conflict environment. COL Meese and COL Peterson argue for a firmer differentiation of roles and responsibilities between the agencies. A unified command situation, such as one finds in the post-WWII Japan example, is an unrealistic expectation. Therefore, it is necessary to explicitly acknowledge both this friction point and when and where the DOD and USAID diverge in an area of operations. This alone would likely mitigate against perceptions by both sides of “mission creep” on the part of the DOD.

### **Doctrine**

The Army produced an impressive catalogue of doctrine in World War II to give a common language to those conducting stabilization efforts. Today, U.S. Army Training and Doctrine Command (TRADOC) is responsible for all Army doctrine. Many of the prescriptions offered by the economics experts cited here would be costly and labor intensive. Writing an economics manual would be neither. Consequently, developing a doctrine for a tactical level commander is a simple, common sense solution that could become an important basis for common knowledge across the force. COL Meese argues for this, but COL Peterson suggests that updating current doctrine, such as FM 3-24 *Counterinsurgency* and FM 3-07 *Stability* would suffice.

## **Personnel and Organization**

Creating an Additional Skill Identifier would be relatively easy, particularly at the Command and General Staff College where Majors are already instructed on a number of ASIs. It would be more difficult, however, to code an MTOE for these ASIs. The process to update the allocation for an officer on a BCT staff would likely take years and could possibly be irrelevant in a future conflict. That being said, this process would also likely be very low cost in the long-term to add this capability to the staff. Therefore, it should be done. A BCT S9, S5 or S3 section would be the right place to add this capability unless a permanent effects staff section is developed in which case this would be a good place.

## **Training**

Adding either a School of Military Government or an Economic Policy Institute inside the U.S. Army are both great ideas. Providing a permanent institution to train Army officers for their roles in a post-conflict governance situation would be fantastic and potentially applicable in the current operating environment. However, both of these undertakings would be hugely expensive and could very well be irrelevant unless a prolonged occupation situation arises. Therefore, building new institutions would not be an efficient use of time or resources given the significant budget shortages expected over the near to medium term.

Training such as this, however, could be conducted within the Army Reserves utilizing expertise that already resides there amongst the reserve population. Additionally, the Civil Affairs Branch (which boasts a large percentage of reservists) would be an ideal place to put some of these concepts into practice.

## **Education**

COL Peterson's suggestion for education is feasible and sufficient, particularly combined with new doctrine. He suggests making an economics course a pre-commissioning requirement

for all officers. Then at the Captains Career Course level he suggests a block of instruction on business creation. Majors would learn about infrastructure, and rule of law while senior service colleges would focus on fiscal and monetary policy as well as regional economics. This suggestion would effectively raise the level of knowledge within the force about economics and economic principles.

## **Conclusion**

A Counterinsurgency is a complex problem. Contained within the chaos of the system are cultural factions, governance issues, security problems, ideology, personal ambitions and, perhaps most importantly, economic issues. The U.S. Army, for its part, has for the past decade sought to equip its leaders with the tools necessary to understand and address most elements of this chaos. However, the institution has failed to do so with economics.

This is due to a number of reasons. First, they cannot settle on a theory to guide them. The field of economics is split between Keynesians and free market types who hold divergent and diametrically opposed viewpoints on how economic development should work. Keynesians tend to favor large amounts of government investment aimed at raising employment and therefore demand. The rise in demand will then spur development and growth.

This theory animates many of the approaches tried by the U.S. Army in COIN environments, most notably the use of CERP funds in remote areas to employ military aged males. The use of CERP has a mixed record of success because the effects are not linear and can be affected by a number of things in the system. A free market approach is also problematic since the goals of stability, like employment, run counter at times to the goals of pure economics, like efficiency. If the Army had a unified theory driving its economic planning, they would be better able to anticipate and respond to changes as the economy develops.

The second problem with economic applications in counterinsurgency is a lack of clearly defined roles between the military, other government agencies like the state department and

USAID, and non-governmental organizations. The military, partially due to its lack of knowledge, defers to USAID, who is the agency statutorily empowered to drive economic development in foreign countries. The problem, however, is that USAID is not usually present during the immediate cessation of hostilities in a war torn region. This is a critical time when someone needs to fill the void. Additionally, USAID may have a different goal than the military. A project aimed at long-term development over a ten-year period may be incompatible with a project that will employ a large number of people immediately. As a consequence, a USAID plan may be counterproductive to the immediate stability goals that a smaller employment project may address.

Thirdly, the Army does not have the doctrine, training, education, or personnel systems in place to train, and then assign an officer with competence in economics to tactical units. A very small percentage of officers study economics during undergraduate studies and there is no system in place in the officer education system to cultivate the proper vocabulary in economic issues. Even if these officers were identified, there is no ASI or MTOE slot for these officers to fill. As a consequence, a unit in a counterinsurgency environment will only have an officer who knows economics assigned to it by sheer chance.

Consequently, the Army's ability to successfully conduct operations that make solid economic progress has been limited. This is partially due to the bottom up approach to counter insurgency the Army currently employs. Brigade Combat Teams in Iraq and Afghanistan are left to build economic plans from the ground up unmoored by an overarching economic Line of Operation that lays out objectives to be met. They do so using officers who do their very best to solve a complex problem but who lack the training and experience to do so. Programs like Nangarhar Inc. are a testament to excellent officers who show great initiative in trying to solve these problems. However, these efforts are ultimately wasted because the systemic problems within the military conspire to undermine these efforts.

Japan after World War II presents a different example of economic development employed by the U.S. Army. Officers governing Japan after the war were trained specifically for the job at the School of Military Government. They were specifically recruited because of their backgrounds in business, government, or both. They were given doctrine that provided a concrete theoretical framework from which they could work. As a result, Japan emerged from the post-war period as a major world economic power. It is true that Japan had major institutional advantages such as an educated populace, excellent infrastructure, and a motivation to adopt Western ways. But they were certainly aided by the expert implementation of a well thought out plan by MacArthur's GHQ.

Today, Carl Schramm and others are advocating for the Army to develop a field called Expeditionary Economics. This will, in theory, give military leaders a vocabulary and means to solve immediate economic problems that bear on stability in a post conflict environment. Advocates of EE, such as COL Michael Meese, and COL Jeffrey Peterson do not envision the military assuming a role that USAID already addresses. Rather, they argue for giving the Army the ability to competently fill the void that currently exists and holistically addresses the stability issues that are often tied to complex economic problems.

What would this look like practically? The Army should address their doctrine, personnel and organization, training, and education to create practitioners in the force that can competently address an economic line of operations. Advocates like Schramm and Patterson argue for a more grandiose vision such as an economic think tank that can generate stability focused economic ideas or a modern day school of military government. These ideas have great merit but are simply not realistic in an era of declining budgets and public distaste for counter insurgency operations. However, this is the best time to take permanent steps to build economic language and knowledge into the force. This can be done at a relatively low cost and would pay its dividends in spades should the Army find itself in another stability focused operation in the coming decades.

One can argue for a number of competencies in an officer corps that would be hugely beneficial in a stability environment. The U.S. Army officer corps has a large number of these competencies. Economics, however, is a glaring weakness in the force at the lowest levels. This can be addressed at a modest cost and would pay huge dividends to future generations of military leaders.

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