# **From Soldier to Contractor: Economics Behind the Pay Gap**

How does human capital affect salary?

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| **IMPORTANT:** You can have several activities in 1 lesson. If you identify a resource (URL, File, Ed Tech Tool) in the procedure section, be sure to name the file or URL name within the Materials and Preparation section the same name as seen in the Activities section. Otherwise, we will not understand where the file or URL needs to be linked/uploaded. If we do not understand what you would like us to do, we will send the lesson plan back for clarification. |

### **Objectives**

Students will be able to:

* Describe the trade-offs of investing in human capital
* Explain why some jobs bring higher wages than others

### **Time**

*45-60 minutes*

### **National Standards in Economics or Personal Finance**

[Standard 13:](https://fte.org/teacher-resources/voluntary-national-content-standards-in-economics/standards-11-15#13) Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

[Standard 2:](https://fte.org/teacher-resources/voluntary-national-content-standards-in-economics/standards-1-5#2) Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.

### **Materials and Preparation**

* Visual 6.1- Introduction
* Computers/iPads – 1 per student
* Handout 6.1 – Salaries in Iraq article **(Optional)**
* Handout 6.2 – Webquest Worksheet
* Webquest Worksheet Key (Teacher Copy)

### **Activities**

1. Ask the students:

* Who would like to have a high paying career?
* What opportunity costs do you think you would face when working towards a high paying job? (*years of schooling, long hours)*
* What kinds of jobs have high pay? (*Doctors, Lawyers, Engineers, Business people)*
* Why are these high paying occupations? (*They are important, in high demand, stressful, difficult fields to get into, require many years of training, must be very skilled)*
* How important is the training prior to entering these fields? Why? (*Extremely important in order to master complex tasks that carry a high degree of risk.)*

1. Have the students read the article on U.S. salaries in Iraq (Handout 6.1) **(Optional: If the students have not already read the article from a previous lesson or assigned as homework)**
2. Ask the students:

* Why do contractors get paid so much more than soldiers? *(Possible answers: They protect important people, are well trained)*
* Most contractors are former special operations personnel, so why is their training so valuable? *(Possible answers: Highly skilled, unique skill set)*
* Does increased training usually translate into higher pay in the civilian workforce? (*Ex: nurse vs. doctors)*
* If the opportunity for high pay is available, why don’t more people just complete the required training and make more money? (*Many trade-offs, difficulty, financial cost, time requirements, lack of interest)*

1. Show the class the first 5-10 minutes of “[Buds Class 234 – Hell Week](https://www.youtube.com/watch?v=S6Rzd6fDxBM&list=PLXbIIfsEU4X5eaALhN2wM_7sosCaLusIj&index=4)”
2. Give each student a copy of the Webquest Worksheet (Handout 6.2) to complete.

* The students will Go to the Bureau of Labor Statistics’ *Occupational Outlook Handbook* [*http://www.bls.gov/ooh/*](http://www.bls.gov/ooh/)
* They will research each of occupations listed on the worksheet to find the annual salary, expected job growth, and education & training requirements.
* Next, the students will go to the website for the University of Minnesota-Duluth (UMD) (or a local university that your students are familiar with) and browse the undergraduate majors <https://umd.catalog.prod.coursedog.com/>
* The students will research the degree programs for civil engineering, computer science, and teaching social studies to compare the number of credits and types of courses required in each program.

1. Ask the students:

* When a business invests in physical capital, like factories or machines, they spend money up-front with the expectation of producing more profits in the future. How is investing in your own human capital like an investment in physical capital? (*Both require resources in the short-run. The business that invests in physical capital expects higher profits, while the individual that invests in human capital, like education, generally expects to earn a higher salary. )*
* Have the students write down their answers. Collect their responses as an exit ticket.

### **Assessment**

The students will complete the webquest worksheet as well as the exit ticket question.

Introduction

**Specialization - Human Capital**

Personal security contractors in Iraq and Afghanistan face danger every day, and they are paid well for the risks. But so do the men and women of the military, and their pay pales in comparison. How could this be?

The average personal security contractor in Iraq or Afghanistan will make somewhere between $12,000 and $21,000 per month, while the average E-7 soldier will make around $5000 in that time. That is a big difference for what seems to be similar dangers. We will have to compare the jobs and then compare the people to see if there are differences that justify such a compensation gap.

First, we will examine the job requirements of both contractors and soldiers in a combat zone. To make the comparison more accurate we will only look at combat infantry soldiers. Personal security contractors are hired by private companies to provide protection for U.S. government personnel. They typically work from 6-9 month per year. While in country, contractors usually live in nicer housing, work fewer hours, and are generally more comfortable. Their mission is also less dangerous. An infantry squad’s job during combat operations is to seek out the enemy and engage them. This is obviously very dangerous! The primary mission of a security contractor is to protect the client, which means avoiding the enemy at all costs. Although both jobs are stressful and dangerous, the soldier faces a more demanding task.

Now let’s look at the people and the skills required to work in each position. The requirements for becoming an infantry soldier are relatively simple; basically, if you qualify for the Army, you qualify for the infantry. Since the government values its diplomats’ safety to such a great degree, it requires that those who protect them are well qualified. Most of the contractors working on the higher paying jobs come from Special Operations or the Marine Recon/Sniper communities. This is a very small pool of people to choose from. As of 2001, only 1.3 percent of the military was made up of Special Operations personnel (Kozaryn).

To fill the number of positions required to protect all of our government personnel in two combat theatres with highly trained operators was challenging for the private security companies. Most special operators have been in the military for more than one enlistment, so the long-term benefits of staying in the military outweighed the short-term benefits of a higher salary. Not for all though. The military was forced to offer up to $150,000 reenlistment bonuses for some Special Operations personnel to compete with the private contractors (Burgess).

What makes these people so valuable? The training.

The training that special operations personnel go through is grueling. It’s also expensive. It costs the government up to $500,000 to basically train one Navy SEAL (Gaskell). It’s also expensive for the sailor, soldier, or seaman, although not in the financial sense. Special operations candidates pay with pain and discomfort, and lots of it. The purpose is to ensure that anyone who enters this field is mentally, emotionally and physically strong enough to endure any hardship, because hardship is a way of life for Special Ops.

Personal security contractors are paid so much because they have a skill set that is in high demand and there is a small supply of people with those skills. As with any other high paying career, people face trade-offs when building the skill sets necessary for that line of work. For most civilian jobs the opportunity cost is time and foregone wages; for special operators its comfort. Pain is a very salient cost and one that is too much for most candidates to bear. For those that make it into the Special Operations community, they are met with world-class training. It is this investment that makes these warriors so valuable.

Furthermore, the private companies don’t have to pay to train these operators; the military has already done that, so they can offer higher salaries to entice these operators to leave their military job that they paid so dearly to achieve.

HANDOUT 6.1

[U. S. Salaries in Iraq: Soldiers vs. Private Contractors](http://www.sanvicentemedia.com/online-journalist-online-journalism/)

On November 27, 2010, in [online journalism](http://www.sanvicentemedia.com/category/online-journalism/), by admin

*“U.S. Salaries in Iraq”*

There are over 25,000 private contractors in Iraq. These contractors make up the third largest international force in the war-torn country, behind US and UK troops. For this reason, private contractors are often called the “shadow army in Iraq.”

Many jobs that were traditionally performed by the military – truck driving, security, laundry and food services – have been farmed out to private contractors. The idea is if these military jobs are “outsourced” to contractors, then U.S. soldiers are freed up for armed conflict.

These positions in Iraq, such as truck drivers, certainly pay more than the average salary in the U.S. for the same job. According to our [PayScale salary survey](http://www.payscale.com/), the average salary for a truck driver in Illinois is $43,000.

If that same trucker works for a private contractor in Iraq , he will be pulling down in the six figure salary range. According to news reports, truckers have a starting salary of $100,000; but are the dangers worth it?

Wearing only a flak jacket, truck drivers face ambushes, machine gun fire and the deadly IEDs that line the road. Many truckers have complained that KBR, a subsidiary of Halliburton, does not adequately fit its trucks with armor, adding more risk to this high salary range position.

What if you or a family is killed, while on the job in Iraq ? Do you have legal or financial redress? Probably not. A lawsuit against Halliburton brought by survivors of contractors killed when a fuel convoy was attacked near Baghdad in April 2004 was thrown out.

In the ruling, U.S. District Judge Gray H. Miller said the U.S. military played a major role in sending the convoy and that it was not the courts’ place to second-guess the Army’s decision. “The contracts show that the Army, not the defendants, was responsible for the security of the convoys,” Judge Miller wrote.

However, some convoys are not guarded by the U.S. military, but rather by private contractors such as Blackwater, a security firm started by a former U.S. Navy SEALs, located in a 6,000 acre site in rural North Carolina .

How do private security guards fare in average salary vs. US military enlisted? It pays far better to work for a private company than Uncle Sam.

An enlisted U.S. serviceman makes almost 30K , while a private security officer could easily make in six figure salary range. Chris Boyd of Kroll-Crucible Security says, “It pays quite well. There’s a lot of contracts that pay anywhere from $350 a day to $1,500 a day.”

Of course, the risks are extremely high, who can forget the grisly killings of four U.S. Blackwater security contractors in Fallujah?

No one knows the exact risk because private contracting companies do not release numbers of employees killed, nor does the Pentagon.

In fact, CNN reported that “the Pentagon is urging contracting companies not to speak to the media about the dangers in Iraq , claiming that it makes things more dangerous for their workers who are willing to take the risk.”

But some news reports say that deaths among contractors are actually higher than U.S. military forces.

Another downside is that there is no overtime pay in Iraq for private contractors.

In a class action lawsuit against Halliburton for overtime, workers claimed they were working more than 100 hours a week and not receiving overtime wages, even though a Pentagon contract called for overtime wages to be paid in Iraq .

However, U.S. District Court Judge Melinda Harmon ruled that Halliburton does not have to pay millions in overtime wages because U.S. laws governing military contracts allow only workers employed inside the United States to be eligible for overtime wages.

Handout 6.2

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Directions: Go to the Bureau of Labor Statistics’ *Occupational Outlook Handbook* [*http://www.bls.gov/ooh/*](http://www.bls.gov/ooh/)

Complete the table below using information found on the page for each occupation. One is completed for you.

|  |  |  |  |
| --- | --- | --- | --- |
| Occupation | Yearly Salary | Expected Job Growth | Education & Training Requirements |
| Physicians & Surgeons |  |  |  |
| Software Developer |  |  |  |
| Civil Engineer |  |  |  |
| High School Teacher |  |  |  |
| Electrician |  |  |  |
| Welder | $51,000 | 2% | H.S. Diploma; Moderate OJT |
| Cosmetologist |  |  |  |
| Construction Laborer |  |  |  |
|  |  |  |  |

Go to the website for the University of Minnesota-Duluth (UMD) and browse the undergraduate majors <http://www.d.umn.edu/catalogs/programs/>

You will be researching the three occupations that require a 4-year degree; high school teacher, civil engineer, and software developer to try to determine if there are differences in the academic programs that may explain some of the wage differential.

Answer the following questions using the information you find on UMD’s website.

1. Compare the course requirements for the Civil Engineering, Computer Science B.S. and Teaching Social Studies programs.

What kinds of courses are required for each degree?

How many credits are required for each degree?

1. What degree program looks the easiest to you? Why?
2. What degree program looks the most difficult to you? Why?
3. Are the opportunity costs greater for the more difficult program than the less difficult? Could this be a factor in the wage disparity?

Name\_\_\_\_\_\_\_\_\_\_KEY\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Directions: Go to the Bureau of Labor Statistics’ *Occupational Outlook Handbook* [*http://www.bls.gov/ooh/*](http://www.bls.gov/ooh/)

Complete the table below using information found on the page for each occupation. One is completed for you.

|  |  |  |  |
| --- | --- | --- | --- |
| Occupation | Yearly Salary | Expected Job Growth | Education & Training Requirements |
| Physicians & Surgeons | $239,200 | 4% | Doctoral degree & 3- 8 yr Residency |
| Software Developer | $131,450 | 17% | 4-yr degree |
| Civil Engineer | $99,590 | 6% | 4-yr degree |
| High School Teacher | $64,580 | -1% | 4-yr degree & student teaching |
| Electrician | $62,350 | 11% | H.S. Diploma & Apprenticeship |
| Welder | $51,000 | 2% | H.S. Diploma; Moderate OJT |
| Construction Laborer | $46,050 | 7% | H.S. Diploma & short OJT |
| Cosmetologist | $35,420 | 7% | State approved cosmetology program |
|  |  |  |  |

KEY

Three of the occupations that you researched required a Bachelor’s (4-year) Degree. Go to the website for the University of Minnesota-Duluth (UMD) and browse the undergraduate majors <http://www.d.umn.edu/catalogs/programs/>

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Answer the following questions using the information you find on UMD’s website.

1. Compare the course requirements for the Civil Engineering, Computer Science B.S. and Teaching Social Studies programs.

What kinds of courses are required for each degree?

*Civil Engineering – Math & Science classes*

*Computer Science – Computer & Math classes*

*Teaching Social Studies – Social Science classes: history, geography, etc*

How many credits are required for each degree?

*Civil Engineering – 137*

*Computer Science – 120*

*Teaching Social Studies – 123*

1. What degree program looks the easiest to you? Why?

*Answers vary. Common response: Teaching Social Studies looks easies because there are no math classes. –or- Computer Science looks easiest because I like playing on computers and most of the classes have something to do with computers.*

1. What degree program looks the most difficult to you? Why?

*Answers vary. Common response: Civil Engineering because there is so much math.*

1. Are the opportunity costs greater for the more difficult program than the less difficult? Could this be a factor in the wage disparity?

*The Civil Engineering program requires more credits so it will take longer and cost more. The math classes may also require a larger time commitment for homework.* *With these additional costs, it is possible that fewer students elect this program which reduces the supply of potential engineers, increasing the wages.*