



DRMI Newsletter

Defense Resources Management Institute, Naval Postgraduate School, Monterey, California

Issue 13

www.nps.navy.mil/drmi/

July 14, 2005

DRMI Activities

Honduras MIDMC, by Larry Vaughan, Senior Lecturer

DRMI presented a Mobile International Defense Management Course (MIDMC) in Tegucigalpa, Honduras from 18-29 April 2005. The faculty team consisted of Jim Airola, Jim Blandin, Alan Laverson, Luis Morales, Larry Vaughan and Kent Wall. Eighteen military participants came from the three Armed Forces and Ministry of Defense. Seventeen civilian participants represented three civilian ministries, two political parties, the Congressional staff, the Criminal Investigative Service, and included two



Participants and faculty of MIDMC 05-6 stand on the steps of the National Defense College in Tegucigalpa, Honduras

medical doctors and two people from the private sector. The course was held at the Colegio de Defensa Nacional (National Defense College) and was the fourteenth time in fifteen courses that DRMI has presented the Resources Management module. The course was opened by the Deputy Chief of the Joint Staff, Brigadier General Vazquez Velasquez and closed by the Rector of the National Defense College, Colonel Murillo Arteaga. During the course, several faculty members visited a working farm for Honduran orphans where one of the course interpreters, Lena Zuñiga, is an office director.

Colombia MIDMC, by LTC Luis Morales

DRMI presented a Mobile International Defense

Management Course (MIDMC) in Bogotá, Colombia from 7-18 March 2005. The faculty team consisted of Jim Airola, Don Bonsper, John Enns, Luis Morales, Larry Vaughan and Kent Wall. The class consisted of twenty nine (29) military and civilian officials representing various public and private sectors, broken down as follows: sixteen (16) military participants from the three Armed Services and the Ministry of Defense; five (5) participants from



Senior Lecturer Larry Vaughan explains the TEMPO Military Planning Game to some of the Colombian participants

the National Police; six (6) civilian participants from the Ministry of Defense; and two (2) civilian participants from the private sector. The mix of participants strongly leveraged the benefits of small group discussions and greatly enhanced the exchange of views, ideas, and network building among this group of potential future senior government officials and leaders. The course was held at the Tramonti Convention Center and was the sixth mobile course held in Colombia. The course was opened by Lieutenant Colonel William Tamayo on behalf of the Minister of Defense of Colombia and closed by Mr. Alejandro Vargas Turiago, Private Secretary to the Minister of Defense.

Bangladesh MIDMC by Stephen Hurst, Senior Lecturer

Chief of the General Staff, Maj Gen Moeen U Ahmed, and Commandant of BIPSOT, Brig Gen M Najeeb Hasan (a graduate of DRMI's Senior International Defense Management Course) opened the course. Also attending the opening

were the U.S. Defense Attaché, LTC Brian Hedrick, and Lt Col Jeffrey Sherwood, ODC Chief.

The course supported the efforts of the ODC to bring together military and civilian agency personnel to improve the defense planning and budgeting efforts throughout the Ministry of Defense, Ministry of Finance and the services, and to improve cooperation among the military services and ministries of Bangladesh. DRMI's presentation of key economic concepts and analytical tools combined with various lectures and exercises on public budgeting offered a foundation for these efforts. It was noted that the Bangladesh military has in place an



The Bangladesh Institute for Peace Support Operations Training (BIPSOT)

extensive professional military education program.

DRMI's objective of providing an environment for the exchange of ideas was an overwhelming success. Discussions were frequent and often heated as the various ministries presented their perspective. Having the faculty and participants housed at the same facility provided a unique opportunity to extend the discussion on relevant issues well beyond the end of the daily course schedule.

Brig Gen Najeeb and the staff of BIPSOT were excellent hosts. The teaching facilities at BIPSOT were outstanding. They represented some of the finest, most technologically advanced classrooms ever made available to the DRMI faculty for a mobile course.

Indonesia MIDMC by Dr. Robert McNab

The Defense Resources Management Institute conducted an EIMET course in Jakarta,

Indonesia from 6-17 June 2005. The course marked the return of DOD-sponsored education to Indonesia in close to a decade. The two-week mobile course was timely because of the ongoing evolution of the national security institutions in Indonesia and the need for the Indonesian Military of Defense to engage in multi-year planning and budgeting. Discussions during the course focused on the concepts of the economic allocation of resources, efficient and effective planning, and risk management. A total of 40 participants (24 military, 16 civilian) graduated from the course representing the Ministry of Defense, the Army, Navy, and Air Force of Indonesia, Universitas Pembangunan



One of four syndicates discussing a Drmecia case study

Nasional (UPN) "Veteran" (Jakarta), UPN "Veteran" (Yogyakarta), UPN "Veteran" (Surabaya), Politeknik ITV, and the Strategic Studies Institute. Team members were Professor LaCivita, Assistant Professor McNab, Dr. Satterthwaite, and Senior Lecturer Hurst.

Papua New Guinea MIDMC by Phillip Costain, Senior Lecturer

DRMI conducted a course from 23 May to 3 June 2005 in Port Moresby, Papua New Guinea. The team members were: Phillip A. Costain, Course Coordinator, John H. Enns, Kevin Maher, Robert M. McNab, and George Satterthwaite. The course was conducted at the Crowne Plaza Hotel in Port Moresby. This was the second mobile course held in PNG. The



The six women of the PNG class, representing several DoD agencies, during a coffee break

previous course was conducted in 1998. Additionally PNG has participated in two regional mobile courses, in Brisbane (1996) & in Vanuatu (2002) increasing the number of officials from PNG who have participated in DRMI mobile courses to 91. From 1982 to 2003 a total of 18 participants have been in SIDMCs or IDMCs at DRMI in Monterey. Another regional MIDMC is anticipated in 2006.

The class was presented to 42 Papua New Guinea participants, a mix of 36 men and six women, representing 31 military and 11 civilians. The military represented all three services, 22 from the Army, eight from Maritime and one from the Air Force. Civilian officials were primarily from the Department of Defence, two from Policy Development, two from International Policy, three from Corporate Affairs, and one from each of Finance, Public Relations and Intelligence. One participant was from another government agency, the National Catalog Bureau. This mix of participants created an excellent forum for the military and civilian participants to interact and understand their different responsibilities.

High-level interest and support for the course was evident by the enthusiasm and support provided by the American Embassy, Australian advisors, and other dignitaries of Papua New Guinea (PNG) at the opening and closing ceremonies and visits during the two week course. The course was opened by Mr. Sebulon Tovaira, 1st Assistant Secretary for Policy, and a graduate of the first MIDMC to Port Moresby in 1998. He appealed to the class to make good use of what would be presented in the course and expressed strong words of encouragement to the participants noting the future of PNG was,

in part, dependant on the abilities and efforts of the class participants. Mr. Randolph Albrecht, an Australian advisor to the PNG DoD Finance Staff attended portions of the course in preparation for an immediate follow-on course on budgeting issues in PNG for selected members of the class.

The Chief of Staff of the PNG Defense Force addressed the class at the end of the last week providing encouragement, advice and an excellent encapsulation of what we were attempting to do. At that time he acknowledged the outstanding support Litsu Rehak had provided to the PNG Defense Force and presented her with a plaque for her service to their country.

The Chief of Staff also attended and spoke at the closing ceremony along with the US Ambassador, The Honorable Robert Fitts, who did the formal closing. LTCOL Rick Moor, Training Coordinator from Australia, stationed in Port Moresby with the PNG Defense Force, also spoke and assisted with the others in presenting graduation certificates.

Several members of the faculty made a side trip over the first weekend for a little snorkeling at the Island Resort of Loloata, a beautiful diving location.

Participant News

Colonel Rolf Erik Bjerk of Norway was appointed Brigadier General and ordered to fill the position as Deputy Chief, Section for Economy and Administration in the Ministry of Defense. Brig Gen Bjerk attended the Defense Resource Management Course 00-2 in 2000.

As of 1 April, Mr. **Davor Cutic** was appointed as Head of International Defense Cooperation Department in Croatian MOD. He attended IDMC 97-2.

Uruguay appointed **Vice Admiral Tabaré Yamandú Daners Eyras**, a graduate of the 2000 SIDMC, as Chief of Naval Operations of Uruguay. For more on his appointment (in Spanish), see http://www.armada.gub.uy/Comar/curriculum_comar_va_daners.htm

Major General Trond Ragnarson Karlsen was appointed to the position as Chief, Norwegian Defense Logistics Organization (NDLO). In January 2005 he was appointed Major General.

The NDLO delivers logistics according to military needs. This includes procurement, investment, support, supply and maintenance of all weapon systems and military materiel in times of peace, crises and war. The NDLO is also responsible for managing communication- and computer systems. Common to all of the NDLO's business, is that the organization supports the training and equipment of forces: The Army, The Navy, The Air force and The Home Guard.

Major General Karlsen attended the Defense Resource Management Course 91-4 in 1991.

DRMC 05-2 began 25 April with 41 participants from 13 countries and was completed 19 May. **DRMC 05-3** began 23 May with 25 participants from 7 countries and was completed 17 June.

SIDMC 05 began 27 June ending on 22 July with 48 participants from 33 countries. Returning participants are COMDR Mohammad Emdadul ISLAM who attended IDMC 95-2, VADM Guillermo BARRERA-Hutado who is an NPS Alumni, COL Jan Bures from the Czech Republic who attended IDMC 03-1, RADM Lars Kragelund from Denmark who attended DRMC 98-4, LT Jaan Silvet from Estonia who attended IDMC 01-1, COL Nazri Abu Bakar from Malaysia who attended MIDMC 03-9, MG Espen AMUNDSEN from Norway who is an NPS Alumni, and COMDR Lars Fleisje from Norway who attended DRMC 92-1

Curriculum Developments and Teaching News

Dr. Diana Angelis stepped down from the Academic Associate position at DRMI in June. She held the position for nearly four years and made a great contribution to DRMI's many curricula and course materials. Thank you, Diana!

Dr. Jim Blandin took over the job of Academic Associate in June. **Commander Ron Hughes** is assisting him with scheduling and other duties of the job. Thanks to Jim and Ron for "stepping up to the plate!"

At the request of the Office of The Secretary of Defense (OSD-PA&E), **Professors Jim Blandin**

and CJ LaCivita presented a three-day seminar on Performance Planning in Washington DC to a group of 13 participants from U.S. Defense Agencies and OSD.

Drs. Peter Frederiksen and Robert McNab of DRMI, and Dr. Robert Looney of NSA, have accepted an invitation to serve as co-editors for a special edition of *Review of Financial Economics* to be published in 2007.

Dr. Francois Melese was invited to make a presentation at the annual ASMC (American Society of Military Comptrollers) PDI (Professional Development Institute) that took place in Salt Lake City the first week of June. A few hundred of the approximately 3000 members attracted to the meeting, attended his presentation. The presentation was entitled "A New Management Model for Government." It was based on a paper he published last year in the International Public Management Review (IPMR), with Jim Blandin and Sean O'Keefe, which integrates TQM, ABC and the Balanced Scorecard with PPBES. Dr. Melese's presentation was one of the few chosen for taping, where members could later access them for professional development credit (which should be available to view at their website www.asmcconline.org.)

Dr. Melese was just invited by NATO and Marshall Center to participate as a moderator of the session on Public-Private Partnerships in their jointly sponsored Defense Economics meetings September 12-15 where Robert Zoellick will be the keynote speaker. The meetings will be attended by around 150 participants from the EAPC, the Mediterranean Dialogue countries, the Istanbul Cooperation Initiative countries, Serbia and Montenegro, Bosnia-Herzegovina, Afghanistan, Mongolia, International Organizations, and NGO's.

In the past quarter, **Dr. Robert McNab** served as a referee for *Public Finance Review* as well as *Public Finance and Management*.

In May 2005 he traveled to Bosnia as part of the Leadership Development and Education for Sustained Peace. He provided analysis of the Iraqi economy and insurgency to the Bosnian Ministry of Defense, General Staff, and members of the Bosnian detachment deploying to Iraq in the summer of 2005. During the spring 2005 quarter, he taught NS 3042, Economics of

Security Building, in the National Security Affairs department. The class focused on the economics of development in post-conflict societies and the economic incentives underlying the Iraqi insurgency.

At the request of Indonesia Air Vice Marshal Koesnady, Dr. Robert McNab discussed the U.S. National Security Act and Institutions in Jakarta on 15 June 2005. Attendees included members of the parliament, ministry of defense civilian personnel, and general officers from the Indonesia Army, Navy, and Air Force. He also reviewed and commented on the proposed curriculum for a Master's degree in Defense Management, at the request of Indonesian Air Vice Marshal Koesnady and Professor Juwono Sudarsono, DEPHAN, Universitas Pembangunan Nasional.

For the International Studies Program of the Andrew Young School of Policy Studies of Georgia State University, he reviewed and commented on the curriculum for the annual summer training program on public budgeting and fiscal management.

Dr. Eva Regnier was elected Junior VP of meetings for the Institute for Operations Research and the Management Sciences (INFORMS) Forum for Women in OR/MS. In addition, she is co-chairing the 2005 student paper competition for the Decision Analysis Society of INFORMS.

Dr. Natalie Webb continues to support Navy executive education by acting as academic advisor to the Navy's Executive Learning Office, Vice Adm (ret.) Philip Quast. In this role, Dr. Webb provides curriculum information and support to flag offers, SES, and senior enlisted who attend executive business courses and who request additional information during or after courses are completed.

Drs. Natalie Webb and Diana Angelis presented a prototype distributed learning (DL) module on activity-based costing to Vice Admiral Kevin Moran, Vice Admiral (ret.) Philip Quast, and NPS President, Rear Admiral Patrick Dunne.

Staff and Faculty News



Ms. Sue Dooley, DRMI's Admin Officer/IMS0 for the past 15 months, has accepted a promotion at NPS as the Director of Admissions. Though she is excited about the move and new job, she will miss the contact with the DRMI participants. Sue has spent six of the last nine years at the Naval Postgraduate School, first as student from 1996-1998, then as military faculty and staff (2001-2005); this is just the next step in her career progression at NPS. In her new job, she will be responsible for the admissions requirements for all US military and civilian applicants to NPS. We will miss her and wish her all the best in her new position!



LtCol William (Bill) Johnson retired and recently accepted a financial management position with the Department of Energy in Washington DC. His office is in the Forrestal building across the street from the Smithsonian "castle." He starts work on July 11th, and is thrilled with his new position.



LTC Wayne Wojda has left DRMI and is now a civilian working for the U.S. Government in the Department of Health and Human Services. He is a Financial Management Specialist for the Centers for Medicare and Medicaid Services in Phoenix, Arizona.

After his two years at the Naval Postgraduate School, he is now looking forward to many new adventures in the civilian world. After spending the last 11 years in uniform, acquiring a new wardrobe has become his latest challenge.

Dee and Wayne have purchased their new home in an age-restricted adult community. It is in the NW corner of the "Valley of the Sun" where over 90% of the days are sunny and warm (sometimes very hot!).

He says "I have been honored to have been able to meet and interact with so many intelligent and fun people from all over the world. I treasure the time I spent at DRMI and hope to see you all again one day soon!"

Conference Presentations, Research and Publications

Dr. Jim Airola presented "Labor Supply and Consumption in Response to Remittance Income: The Case of Mexico" at the Society of Labor Economists meetings in San Francisco, June 4. A big part of the immigration story, remittances are the funds sent home by individuals working abroad. This study analyzes the ways in which remittance income is spent at the household level. It is found that remittances are more likely to be invested, rather than consumed, than ordinary forms of household income.

Dr. Jomana Amara will present a paper titled, "Evaluating NATO Long Run Defense Burdens using Unit Root Tests," at the Western Economics Association annual meeting, July 5-8, 2005.

Labor Market Flexibility: Lessons from Home and Abroad

By Dr Jim Airola



When they are well-designed and implemented, rules governing the relationship between employees and employers establish and maintain fairness. However, sometimes the rules can be too rigid and have significant costs. Minimum wages, for example, raise wages for some workers while taking away jobs from others, incurring a cost on society of higher unemployment. Strict rules regarding hiring and firing help the worker, but impede the employer's ability to cope with changing demand or technology, meaning that the goods produced cost more than they would otherwise. As the costs associated with labor market rules become large, the need for flexibility arises. It is this need for flexibility that is driving changes within countries around the world as well as changes within the Department of Defense.

In general, labor market regulations are determined by local and national laws or by collective bargaining agreements. Examples are minimum wage laws, grievance processes, mandatory severance payments, vacation pay, and mandated benefits. These regulations often provide benefits to employees that they otherwise may not receive. But all benefits come with some cost, and in the case of labor market regulations, the costs are often difficult to measure. A couple of examples illustrate the ways in which this occurs.

Recent research has focused on the effect of labor market regulation, especially in developing countries. For example, Latin American (until recently) labor markets were more regulated than most other countries' including the United States. In most of Latin America, various labor codes restrict the types of employment contracts, lengths of trial periods, conditions of part-time work, minimum wages, mandatory severance payments, mandatory vacation, bonus, and holiday pay. In Colombia, severance pay was required regardless of cause or party that initiated the separation to equal one month's pay for each year the person was employed, based on the pay at the time of separation.

An additional law required that the employee could request advance payments against their future severance benefits. These advance payments were then subtracted from severance pay due at the end of the employment in *nominal* terms as of the date of separation. In an environment of high inflation, the employee's incentive was to receive all severance payments as far in advance as possible; the employer's incentive was to terminate the employee as soon as she received her entitled advance! This made both the costs and benefits of employment difficult to calculate for both parties and resulted in distorted outcomes in the labor market.

The consensus of findings in Latin America is that inflexible rules in the labor market, especially those that cover broad categories of workers, impose a large cost on the economy and provoke significant unintended consequences. Partly because of the relative inflexibility of labor markets in Latin America, economic growth was slow or stagnant in much of the region in the 1970's and 1980's. These regulations, whether at the national level or the firm level, ostensibly protect workers and prevent them from being unfairly exploited by

management. Yet they impose costs in the form of high unemployment and low productivity growth. In the case of the countries of Latin America, which have recently enacted many reforms to liberalize their labor markets, the cost to the economy had become overwhelmingly apparent.

Another interesting case regarding the effect of labor market rules comes from an unlikely source. It concerns a group of minimum wage earners who receive very little public sympathy—professional (American) football players. The lack of sympathy is due to the fact that even the minimum salary exceeds \$200,000 per year. In a labor market where the average player earns 1.3 million dollars a year, the minimum salary mandated by the players' collective bargaining agreement is \$230,000 for a rookie, \$305,000 for a player with one prior year of experience, escalating to \$540,000 for a player in his fifth year. The escalating minimum wage resulted from a good-faith effort on behalf of union officials to ensure that players are rewarded for their experience, but it creates the incentive for owners to replace veteran players with rookies, with the exception of star players earning more than the minimum. Because of the salary structure, a non-star, even if he works hard and contributes, will likely not last three years before being replaced by a rookie. As a recent study points out, the reason that the average NFL career is less than four years is due less to injuries and more to inflexible labor contracts!

The lesson of labor market research whether across economic systems or within specific industries is that incentives matter. Labor market flexibility increases dynamism and improves efficiency, productivity, and ultimately wages. Labor market rigidity often does the opposite. Typically regulations are meant to protect current jobholders without consideration of the associated loss in total efficiency and output. It is these types of labor market rigidities that are the driving force behind Department of Defense (DoD) attempts at reform, known as the National Security Personnel System (NSPS). Within the current system, DoD managers claim that many of the current rules regarding hiring, terminating, and especially promotion of workers inhibit their freedom to manage the civilian workforce in a way that produces efficient outcomes. The NSPS will generally liberalize the federal labor market, making it more flexible and competitive. It will encourage pay increases based on merit

rather than strictly on longevity. Most importantly, it will allow defense resource managers greater flexibility in pursuing economic and efficient ways of getting the job done, exactly the sort of thing taught at DRMI.

In the same way that many countries have found that their strict labor market rules damaged their overall economy, the DoD has realized that too many strict rules governing the relationship of all employees across a wide variety of skills and occupations has been an impediment to efficiency and productivity. The lesson learned is that managers at all levels should work to ensure that labor market rules strike the right balance between ensuring fairness as well as flexibility.

References:

Heckman, J & Pagés, C. (2005) Law and Employment - Lessons from Latin America and the Caribbean, National Bureau of Economic Research.

Bronars, S. (2005) "Minimum Wages, Employment Losses, and Labor Unions: The Case of Professional Football," Working Paper

DRMI Course Catalog and Brochure

The 2005 course catalog and the Defense Resources Management Course brochure is now available. If you would like copies, please contact the Admin Office at 831-656-2104 (DSN 756) or send e-mail to DrmiAdmin@nps.navy.mil

Future Resident Courses

Defense Resources Management Course (four-week DRMC):

DRMC 05-4	25 Jul - 18 Aug 2005
DRMC 05-5	22 Aug - 16 Sep 2005
DRMC 06-1	9 Jan - 3 Feb 2006
DRMC 06-2	6 Feb - 19 Apr 2006

Please contact Mary Cabanilla at (831) 656-2104 or DrmiAdmin@nps.navy.mil for quota and enrollment information.

**International Defense Management Course
(eleven-week IDMC):**

IDMC 05-2 26 Sep - 9 Dec 2005
IDMC 06-1 6 Feb - 19 Apr 2006

**36th annual Senior International Defense
Management Course (four-week SIDMC)**

SIDMC 2006 26 Jun - 21 Jul 2005

For additional information on any of our resident courses please contact Mary Cabanilla at (831) 656-2104 or e-mail DrmiAdmin@nps.navy.mil



The DRMI Newsletter is published quarterly by the Defense Resources Management Institute. Questions regarding content or the submission of proposed articles should be directed to the Newsletter Editor, DRMI 64We, 699 Dyer Rd, Monterey, CA 93943.