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The Importance of Economic Freedom

Prof. Brian Brenberg, The King's College

Crisis in Europe dominates economic headlines. As I write, Spaniards clash with riot police over wage cuts and tax increases. Unable to reach agreement on solutions and facing growing resistance to austerity measures, political leaders have resorted to a series of short-term fixes. But as disaster prevention eventually gives way to long-term rebuilding, what principles should guide economic policy? For 15 years, The Fraser Institute, a Canadian think-tank, has made a data-driven case for economic freedom.

Fraser identifies five dimensions of economic freedom: size of government, legal structure and property rights, access to sound money, international trade, and regulation of credit, labor, and business. Countries with a small government relative to GDP, strong rule of law, clear property rights, stable money, openness to trade, and minimal regulation get a high economic freedom score. Each year, Fraser scores and ranks every country in the world (for which data is available) according to these five dimensions. The results have told a consistent and compelling story.

According to Fraser's findings, countries with the

highest economic freedom scores enjoy average incomes eight times higher than countries with the lowest economic freedom scores. Even the poorest 10% of people in economically free countries earn eight times more than their counterparts in the least free countries. In the economically freest countries, infant mortality is significantly lower, life expectancy is longer, civil liberties are more robust, and the environment is healthier. To see the data, visit www.freetheworld.org.

Correlation is not causation, but the relationship between economic freedom and higher living standards is hard to ignore. Unfortunately, that's exactly what policymakers in many of today's most troubled economies have done in recent decades. Skyrocketing government spending and increased regulation have drastically reduced economic freedom in many European countries. For example, in 1980 Greece was ranked the 32nd freest economy in the world. By 2010, it had fallen to 75th. Spain and Portugal were, respectively, the 25th and 31st freest economies in 1980. Today, they

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have fallen to 50th and 52nd. Over the past 30 years, Italy's economic freedom ranking has dropped 14 places.

If economic freedom is, indeed, a key determinant of prosperity, then Europe's recent economic woes should not surprise us. The good news is that, thanks to Fraser's research, the path back to prosperity is also a bit clearer. Reform will not be easy in societies accustomed to overspending, lavish entitlements, and tight labor market restrictions. But if European political leaders seek a recovery that is built to last, they would do well to begin on a foundation of economic freedom.

Education and Development

Prof. Lynn Davies, Centre for International Education and Research, University of Birmingham

While there is agreement that education plays a key role in development, debates continue on exactly how this is played out – particularly in contexts of fragility or conflict. It is slowly being accepted that after emergencies, whether conflict or natural disaster, the focus should not just be on humanitarian aid, but also on education as part of early reconstruction. Schools provide a sense of normalcy and security, and they also begin the process of learning for livelihoods. At the same time, dilemmas remain in education and development.

The first tension is between quantity and quality: with 67 million children still out of school, there is an obvious drive towards Education for All and particularly a push to reduce the gender gap in access to schooling. But is this pressure for numbers and targets at the expense of what children experience when they get to a school with overcrowded classrooms, the inevitable authoritarian teaching, and competitive pressure on every level?

The second issue is the recognition that education is not always an unalloyed good for a country. An education system divided by ethnicity or religion, or with a curriculum or language of instruction that excludes certain groups, can make conflict worse and reproduce social inequality at best.

A third and related debate – which is not confined to developing countries – is whether to focus on vocational or academic study. It would seem obvious that schooling for work should be a key emphasis in a country with high unemployment; yet if there are no jobs available, an expensive vocational training simply makes the youth more frustrated and possibly

likely to join gangs or militant groups in order to earn money and gain status.

A fourth dilemma arises in promoting education: in some countries, a rights-based approach may be seen as a 'Western' imposition; elsewhere, demands for minority rights in terms of mother tongue teaching or cultural distinctiveness may disadvantage such groups when they try to access education in majority, dominant, or global languages. In addition, religious 'rights' sometimes prevent essential learning around HIV/AIDS or reproductive health.

There is no one-size-fits-all answer in terms of resolving such dilemmas. Some of the solutions revolve around working at the community level to build resilience to fragility – everything from parents helping construct schools to negotiating with the Taliban in Afghanistan to keep girls schools open. Improving teacher quality on a local level also seems to work well, as it creates networks or clusters of schools to share ideas and give mutual support rather than send teachers or principals away for expensive training. On the other hand, for vocational education to work at all, this has to be done at multiple levels, with coherent structures across Ministries of Education and Employment, working with the private sector, doing market analyses of job opportunities, and ensuring apprenticeships or sustained follow up of vocational graduates so they have the physical materials for self-employment. Otherwise, general preparation for livelihoods may be preferable, one that stresses literacy, IT, and communication skills so that young people can find jobs in an ever-changing employment field. Finally, a rights-based approach remains the fundamental underpinning to education. Rather than focusing on cultural or religious fights that can perpetuate separation, this should emphasize common rights – to a child-friendly, non-violent and inclusive schooling for all.



Photo Credit: PGlobal

Project Spotlight: Curriculum Reform

PGlobal

PGlobal, leading a consortium comprising CIER [Centre for International Education and Research at Birmingham University, UK], Gazi University [Ankara, Turkey] and The Turkish Association of Curriculum and Instruction (EPÖDER) [Ankara, Turkey], recently completed the project entitled “A Research into Assessment of the Beneficiaries of the Curriculum Reform of the Secondary Education Project” launched by the Turkish Government in 2006 under a loan agreement with the World Bank.

The study, aimed at assessing the secondary education curricula in Turkey, was conducted in two stages. The first stage was a qualitative study (an analysis and comparison of the existing and previous curricula within the scope of document analysis). The second stage was a field survey consisting of three sub-stages. The population for the first and second sub-stages was comprised of students, graduates, parents, teachers, and principals of general and vocational-technical secondary education institutions in Turkey, as well as employer representatives. A stratified sampling method was used in a random design. The population, 380 schools out of 4781 schools (3334 general and 1447 vocational-technical secondary education institutions), was identified as the sample group and a survey was carried out on 375 principals, 2895 teachers, 2212 students, 2161 parents, 98 employer representatives, and 313 graduates of these schools. Lastly, in the field survey, the third sub-stage, beneficiary opinions were gathered in 18 secondary education schools by means of a case study, using a qualitative design where data was collected from 230 stakeholders.

A 600 page Final Report was submitted to the Ministry of National Education of Turkish Republic (MoNE) and the World Bank, comprising findings from Document Analysis and Field Survey and their comparison thereof, as well as strategic and impact analyses.

A workshop, organized under the auspices of MoNE, took place in Ankara on 27-28 April, 2012, with the participation of regional directors of MoNE, where a presentation was made by PGlobal.

Other Projects Recently Completed by PGlobal

- Feasibility Study on the Reconstruction and Modernization of Turkmenistan’s Airports
- Establishment of Investment Fund in Bosnia and Herzegovina
- Feasibility Study for the Procurement of High Speed Trains in Turkey
- Study of Transport Corridors in OIC Member Countries
- Assessment of the Demand in the Mobile Calling Market

About PGlobal

PGlobal is one of Turkey's leading international advisory houses and has completed financial, economic, and management consultancy assignments in Turkey, Turkmenistan, France, Saudi Arabia, N. Cyprus, Bosnia and Herzegovina, Malaysia, and Azerbaijan. PGlobal's team has a combined international experience of over 100 years. PGlobal's experience in event concept design and management includes national and international summits, meetings and training sessions.

On Small Business

Prof. Dawn Fotopulos, The Levin Institute

President Obama claims that those who run successful businesses didn't get there on their own. I agree. They didn't get there on their own.

They got there because they built a loyal clientele who chose to buy from them instead of their competition. It's because they had staff members who went above and beyond the call of duty to service customers in the middle of strikes, economic downturns, events like 9/11, and the New York City blackout.

Small business owners are successful because friends and family members were willing to put up with the empty seat at the dinner table during the holiday seasons, the sleepless nights, and the seven-day work weeks.

Norm Brodsky, the former CEO of Citistorage in Brooklyn, New York, once built a gorgeous, glass-enclosed executive office building attached to the large warehouse right on the water front in Williamsburg, Brooklyn. A friend of his came to see the glorious views from Norm's new office and said, "How easy for you to have all this." Norm was furious. He had every right to be.

Most individuals only see the fruit of the blood and sweat. Even our policy makers never acknowledge the sacrifices and the risks it takes to make money in the U.S. as a small business owner.

Norm wisely responded, "Where were you when the pipes burst in the warehouse at 4AM and

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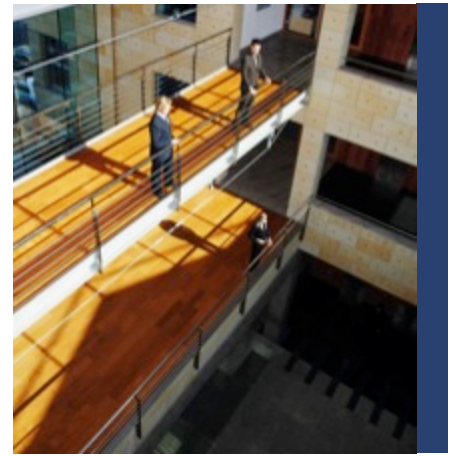


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Europe's Debt Crisis and the Politics of Austerity

Dr. Dimitris Tsarouhas, Bilkent University

The sovereign debt crisis of the Eurozone has become grave enough to not only slow down global economic growth but to threaten the viability of the EU project itself. Time is running out for Europe to deal with the problem decisively, as more and more member states are forced to make use of its bailout mechanisms (the EFSF now and soon the ESM). Caught in a debt trap introduced by the Berlin-sponsored politics of extreme austerity, Eurozone states need to act swiftly to avert a looming catastrophe. The potential dissolution of the Eurozone, even if dressed up in the language of economic rationality, will have grave consequences for Europe's project of cooperative integration, which has been the best guarantee for peace and prosperity in the Continent for over 60 years.

Making the ECB a lender of last resort, mutualising debt in one form or another (with guarantees in place to avoid moral hazard), and introducing sanctions for non-compliance with sensible economic targets centrally introduced and adjusted to each member state's conditions are prerequisites to weather the current storm and gain time. The politics of extreme austerity that are vigorously pursued by Berlin have failed and socio-economic unrest is spreading like wildfire throughout Southern Europe and beyond. The EU needs to reverse course and combine sensible belt-tightening where necessary with counter-cyclical demand boosting policies to spur growth and exit the debt trap. Spreads will only start falling once economic recovery is in sight.

This is an issue goes way beyond economic growth figures. With youth unemployment hovering between 25-50% in most EU member states, the politics of austerity is condemning a generation of young people to unemployment and is leading to falling life standards and expectations in one of the world's most prosperous regions. Intra-generational solidarity is collapsing and the radicalization of politics is poisoning relations between and across our diverse communities in Europe.

The danger therefore is not merely one of a fall in economic output. It goes to the heart of our democratic societies and threatens to unravel years of progress towards better inter-state relations in a Continent marred by conflict. The dangerous increase in bias, prejudice, and misconceptions from 'south' to 'north' and vice-versa is a worrying sign. It is within the capacity of politics to stop its spread. There was never a better moment to display political leadership.

we almost lost the business? Where were you when my bookkeeper, whom I treated like family, stole large sums of money from the business? Where were you when the transit strike required that I drive a truck to make deliveries and sleep on the floor of my old office in the warehouse for weeks on end? Where were you when my old office overlooked boxes for twenty years without any natural light or windows? Where were you when the drug gangs were dealing outside my doors and I had to hire security twenty four seven just to keep my staff members safe?"

Every small business owner survives by his/her wits and perseverance. They receive no bailouts and don't want any. No one but another small business owner recognizes those businesses that thrive do so because the owners put forth a Herculean effort to solve the problems, inspire the staff, and take food out of their mouths to make payroll in the lean years.

Mr. President, you could never have built the roads, schools, airports, sewage treatment plants, police forces, and yes, bloated government unless the millions of Norm Brodskys were willing to make the lifetime of sacrifice required to pay their taxes and to be successful.

Isn't it about time you came clean and admitted that?

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The views expressed in these articles are solely the author's opinion.

A Negative Outlook on the U.S. Economy

Anthony Randazzo, Reason Foundation

There are many challenges facing the U.S. economy today, but one of the least understood is privately held debt. Household debt in America grew to record highs during the last decade, as the promise of forever rising housing prices, a bull market in equities, and low interest rates for several years made the costs of borrowing seem inconsequential. Unfortunately, after the housing bubble burst, the large private debt level has prevented the private sector from rebounding, as many individuals and businesses are saddled with having to pay the bill for their decades of fun.

Recent data from the Federal Reserve provided some positive news, with reports showing that household debt service payments as a percentage of income have fallen about 20 percent from record highs in 2008 to levels not seen since the mid-1990s. However, the bad news is that total household debt remains unsustainably high. After declining sharply from \$2.56 trillion in July 2008 to \$2.39 in July 2010, household debt has been growing again to record highs, with a most recent reading of \$2.54 trillion in June 2012.

When it comes to considering debt's impact on the economy, overall levels are more important than just considering servicing payments. Increased levels of monthly paychecks going to pay off debt and interest certainly reduce consumption and subsequently are downward pressure on economic growth. However, it is more critical to consider that high aggregate debt levels lead to less investment

(particularly in small to medium sized enterprises), less demand for housing, less economic mobility, and depressed consumer sentiment.

The U.S. economy is not going to see real growth as long as entrepreneurship is stagnant. Nor can there be a robust recovery with the housing market still with at least three to five years left before toxic debt gets cleared out and housing prices bottom. Economic growth driven by consumption remains far off as well, as households feel the weight of historically high debt levels without a sense of rising wealth—incomes are stagnant, housing prices are not going up anytime soon, and most middle class households are not reaping the gains from America's current equity bubble.

The challenge America faces is that the only way a sustained recovery can take hold is through private sector household deleveraging, which is going to keep downward pressure on economic growth for the next several years. The deleveraging process started in 2008 but stalled in 2010 when there was hope for a recovery that turned out to just be a mirage.

American households could try to leverage their way out of economic malaise, using record low interest rates to doubling down on the debt-fueled economic growth strategy of the bubble years. But that would only perpetuate the bubble-bust "Doom Loop" of cheap financing leading to excessive debt growth followed by busts, bailouts, and more cheap credit to continue the cycle. When considering a long-term outlook for the U.S. economy, either America has to go through a depressed period of deleveraging, or it is going to rebound on an unstable foundation and repeat the cycle all over again.