



CHAPTER 1

Leadership and Politics: A Perspective from the Commission on Growth and Development

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The Role of Leadership in Growth and Development

In May 2008, the Commission on Growth and Development (the Growth Commission) issued its report entitled *The Growth Report*. In it the Commission attempted to distill what had been learned in the past two decades, from experience and academic and policy research, about strategies and policies that produced sustained high growth in developing countries. It became clear in the course of the work that politics, leadership, and political economy (the interaction of economic and political forces and choices) were centrally important ingredients in the story. Dealing with the politics and the interaction of political and economic forces is a work in progress in research—an important one.

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In this chapter we do not try to present any general theory. Rather we have tried to illustrate with cases that there is a potentially important political analogue to the sort of economic policy formation and adaptation that supports sustained growth and development. These cases are far from representative. They come from Asian countries that have achieved sustained high growth over an extended period of time. Our hope is that by understanding the details in these cases, the process of developing a more general theory that integrates economic and political inputs to growth and development will be advanced. One can think of the cases as suggesting hypotheses that can be embodied in a more general theory and ultimately tested.

An analysis of the components of successful sustained economic growth and development strategies and dynamics appears to require inclusion of three components: (1) an economic component dealing with the issue of which models of growth and development work best and what kinds of policies tend to support sustained growth models, (2) an institutional component dealing with the question of which institutions enhance and facilitate economic growth and development and how those institutions come into existence and become stronger, and, finally, (3) a component that deals with the politics of growth featuring the ways in which countries deal with the issues created by growth, such as inequality. Each of these three components has complexities and problems associated with it, ranging from measurement and causation to particularism. Our knowledge in all three areas is considerable and improving all the time based on experience and careful scholarly work, but it is still incomplete. It seems clear that all three are necessary for there to be a reasonably complete description of growth and development.

Based on the experience of growth in a range of countries (with varying degrees of success in achieving and sustaining high growth) and on research on growth and development, a rough description of the right mix of economics, institutions, and politics supporting growth and development is something like the following:

1. An open-economy growth strategy that leverages both global demand and knowledge. Competition is allowed to work and produces the structural change that forms the microeconomic dynamic underpinning of high growth. While there is much more to it, including high levels of public and private sector investment and savings, these seem to be at the heart of sustained high-growth cases.¹
2. Institutions characterized by openness, rule of law or some considerable degree of predictability, competent bureaucracy, and incentive structures that keep politicians focused on citizens' long-term well-being.

1 The Growth Report identifies 13 countries that grew at an average rate of 7 percent or more for a period of 25 years or more. This is very hard to do. These cases have many idiosyncratic features, but all exhibit the open-economy approach (leveraging global knowledge and demand), and all have mobile resources and change the structural composition of the economy rapidly, using dynamic market forces of competition. The subtler policy judgments have to do with opening the economy up in such a way as to maintain balance between new job creation and job destruction and to avoid excessive volatility.

3. A set of political interactions and structures where there is sufficient stability early on for the right model to work in terms of sustained investment and, later on, where rotation in power and adaptation to the endogenous rise of important interest groups (a growing middle class, for example) is possible and peaceful.

At any specific point in time, a given country may be at any point in the three-dimensional space defined roughly by the degree of development in these three dimensions. Progress and likely future growth would be defined as being on a track toward the relevant zone where a supportive economic policy environment and adaptive political system are achieved. Maintaining such a trajectory and support for it can be thought of as one of the primary functions of political leadership.

Beyond the essential features, there is considerable allowable variance around the choice of an economic model and the institutions and politics that embrace growth and development.

There is not, therefore, and should not be a recommendation for a single path in any of these three dimensions. Indeed, the Growth Commission's work and the 13 high-growth cases show us that there is no single path or formula for sustained growth.

The 13 sustained high-growth cases in the postwar period are shown in Table 1.1. In addition, the Growth Commission believed that the structural

Table 1.1. 13 Success Stories of Sustained, High Growth

Economy	Period of High Growth ^b	Per Capita Income ^c	
		At the Start of the High-Growth Period	2005
Botswana	1960–2005	210	3,800
Brazil	1950–80	960	4,000
China	1961–2005	105	1,400
Hong Kong, China ^a	1960–97	3,100	29,900
Indonesia	1966–97	200	900
Japan ^a	1950–83	3,500	39,600
Korea, Republic of ^a	1960–2001	1,100	13,200
Malaysia	1967–97	790	4,400
Malta ^a	1963–94	1,100	9,600
Oman	1960–99	950	9,000
Singapore ^a	1967–2002	2,200	25,400
Taiwan, China ^a	1965–2002	1,500	16,400
Thailand	1960–97	330	2,400

Source: Commission on Growth and Development 2008; based on data from World Bank, World Development Indicators and Penn World Table (<http://pwt.econ.upenn.edu>).

a. Economies that have reached industrialized countries' per capita income levels.

b. Period in which GDP growth was 7 percent per year or more.

c. In constant U.S. dollars of 2000.

conditions were in place for India and Vietnam to be on track to achieve this kind of performance with a little more time, given a later and/or slower start.

In some very general sense, making the right choices over this set of components is what leaders in the high-growth economies have done. *The Growth Report* identifies 13 economies that have achieved sustained, high growth, specified as 7 percent or higher for 25 years or more, during the postwar period. Over time, the leaders in these 13 countries (and those in others, such as India and Vietnam, which appear to be on sustained, high-growth paths but at an earlier stage) chose some variant of a successful growth strategy or approach, put together coalitions of business, agriculture, labor, and other political segments that were sufficiently stable to allow the economic choices a chance to attain sustainable growth. Moreover, over time leadership in these countries managed the transition from rural to urban, from relatively closed to more open institutions and, in several cases, the change from autocratic to more democratic government. Thus, it seems clear that leadership plays a role in generating sustained growth. It has the primary task of making basic choices and building consensus without which the economic dynamics cannot get off the ground.

There is no one style of leadership that covers all the high-growth economies. Nor is leadership the only input. At best one can venture that effective leadership involves seizing opportunities created by the political-economy dynamics to institute change in strategy, structure, and direction. Opportunity can be created by a crisis, or the unanticipated discovery of natural-resource wealth, for example, but there needs to be a catalyst that turns change, adversity, and opportunity into a new direction with some degree of coherence and shared understanding of the direction.

Although leadership seems an obvious component of growth to some, the academic literature has not, until recently, been able to demonstrate the importance of the role of leaders in growth economies. Recent work on leadership has begun to demonstrate what seems obvious to the business, government, and interest groups who have witnessed the economic growth of the 13 countries. The problem for social scientists is that there is more than a little endogeneity with respect to leaders and economic growth. Thus, how does one know if the leader really makes a difference in causing growth, or to put it slightly baldly, that growth just looks good when it happens?

In a careful empirical study, Jones and Olken (2005) look across all post-Second World War economies and find 57 cases in which the country's leader suddenly dies or resigns, for example, thus allowing them to use the natural experiment change in leadership for exogenous reasons to solve the endogeneity problem. That is, the unexpected death of a leader gives us a chance to measure the leader's effect on growth. Of course, the change can be positive or negative. They found that the change of national leaders is related to economic growth. The effects were strongest (both positive and negative) in autocratic settings where one or a few leaders have centralized authority. In democratic settings, there were no significant findings. This may be a result of the fact that consensus building is a lengthier and more

complex process in some democratic settings. The long time lags make it difficult to pick up the effects in cross-sectional regressions. For example, the reforms that began in India in the late 1980s and that accelerated in response to a crisis in the early 1990s are only now showing up in terms of a pattern of high growth.

In addition, they found that “individual leaders can play crucial roles in shaping the growth of nations” (Jones and Olken 2005: 835). Moreover, they found that a leader’s effect on policy outcomes is most significant in monetary policy. This last result is interesting not only because of the use of natural experiments but also because they find that when there are more or stronger institutions (probably financial and governmental) present, the effect of individuals is lessened or harder to measure. This is not surprising. One of the functions of well-built institutions is to pool expertise and to apply brakes to poor policy choices, including those of the leadership group. It is, of course, harder to study the effect of leaders within institutions and the institutions’ subsequent effect on economic growth. The endogeneity problem, combined with the measurement problems, makes the task exceedingly difficult.

That does not, of course, mean that leadership (defined to be the making of fundamental choices about strategy, consensus building, and adapting the political institutions to support economic and social objectives) does not make a difference, only that for a variety of reasons we cannot yet accurately measure the effect of such leadership. In this chapter, we assume that practitioners and observers and a wide range of scholars are right in believing that, at least at times, leadership makes a difference in terms of altering the trajectory of a developing economy, while acknowledging that the support for this view is not airtight or universal.

Given these constraints, our approach has been to separate the development process into different periods and to analyze leaders’ roles at the various stages. The obvious first stage is where the leadership chooses an economic model or strategy, a general overall approach to development and growth, and then builds coalitions, institutions, or both, capable of sustaining a politics that allows the plan time to bring dividends in terms of growth. The second stage is in some sense not delimited in time because it concerns how leaders adjust strategies and choices to changing circumstances—economic and political. These adjustments can be responses to shocks or unanticipated external events, but they also occur in response to the endogenous evolution of characteristics of the economy in the course of growth. These latter challenges can and do range from rising income inequality, a rising middle class, competitive pressures from the global economy, rising incomes and wages causing shifting comparative advantage, and institutions not adapted to the evolving characteristics and state of development economy.

In all these cases, there is the element of problem solving within a specific institutional context that itself may or may not be changing. Thus, in none of the adjustment phases of economic growth will we be able to specify

exactly what choices leaders should make over growth strategies, coalitions, and institutions. That tends to be very context specific. It would be nice to imagine a general theory or framework for doing this, but given our current knowledge, that is out of reach. Rather, we attempt with examples to draw what generalizations we can in regard to leadership and economic growth.

Founding or Shifting to Sustained High Growth

The general dimensions of leadership in growing and developing economies are characterized over time, first, by a founding or creating process where an economic model is chosen and implemented, and then by adjustments that either ensure growth or prevent other interests from subverting growth. The founding can be thought of as a period in which a leader or leaders choose the correct model—normally export-driven growth models—while simultaneously building a political consensus to support the model. Note that a leader or leadership group can choose a model that will not work (economically), or they can have, as Mao Tse-tung and Nehru did, other goals besides economic growth. Since we are trying to identify leadership's role in creating and sustaining development, our focus is on cases where leaders made the right decision and built a consensus for their choice.

We normally think of consensus as a negotiation. But it can and usually does include trust. History does to some extent tell citizens and interest groups something about the objectives of leaders. If the behavior gives evidence of concern for the present and future well-being of the citizens, then that can count for a lot. It is a form of intangible capital that makes the consensus-building process easier. In general, inclusiveness, by intent and historical experience, is a powerful underpinning of consensus building. It gives the leadership and the government time to implement the strategy and to wait for results to emerge.

Choosing the right model has generally meant relying on global demand, inbound knowledge and technology transfer, and high levels of investment and savings. For a fuller description of the critical policy ingredients and choices associated with sustained high growth, interested readers should see *The Growth Report*.

The choice of a correct model and subsequent adjustments have led 13 countries to sustained economic growth, with India and Vietnam set to follow. There are, therefore, many other countries that have not achieved this pattern of sustained high growth. The obvious question is, Why is the pattern of sustained high growth so limited? We believe that at least some of the explanation of the lower growth patterns lies with leaders who have chosen economic models that have not led to sustained growth.²

2 There are, of course, other problems. One is the political economy of self-interest and theft and the related corruption of the democratic process. A second is a failure on the economic side to get public-sector investment up to the level that will support private-sector investment and sustain high growth.

Part of the answer may have to do with opportunity. In many of the 13 high-growth cases plus India and Vietnam with which we are familiar, the choice of a correct model and the political machinations necessary to convince those who share power with the chooser to follow the model are associated with a crisis. The Japanese after the Second World War, the Koreans in 1961, the Chinese after the Cultural Revolution, the Taiwanese-Chinese in 1949, and Singapore after separating from Malaysia were all facing dire economic and political conditions. The crises gave leaders from Deng Xiaoping to President Park an opportunity to change course with a reduced level of resistance. In some cases, the crises are fiscal, and in some they are political, ranging from losing the Second World War to protests on the streets, as in Seoul in the mid-1980s.

Crises in India in 1991 and Turkey in 2001 were financial crises and are more recent examples of leaders having more room to choose new economic plans and policies. In both India and Turkey, the leadership responded by making major structural changes in the economy, which resulted in future economic growth. Kemal Derviş used the crisis as an opportunity to get legislation through the Turkish parliament, which probably could not have been passed under normal circumstances. The 19 major reforms that were passed during and immediately after the crisis have helped Turkey grow its economy. Since the average per capita income of the 13 countries at the start of their growth was less than \$1,000, widespread poverty itself may have been the basis for an enhanced willingness to contemplate major change. Telecommunications technology, which increasingly makes “the alternative” much more visible than it was in the past, may help create a political environment more conducive to change. This appears to be particularly true when proximity is added and citizens can see that other countries are doing better, as in the case of East and West Germany. It is widely believed within and outside India that China’s growth, size, and proximity enhanced the incentives for reform and change of strategy in India. Deng Xiaoping’s understanding of alternative strategies and possibilities was strongly influenced by visits to Singapore and New York in the 1970s before the adoption of a market-oriented system. More broadly, demonstration effects seem very real and more powerful as a result of information and communications technology and the increasing availability of information, through television, the Internet, travel, and other channels.

The crisis conditions, whether financial, political, poverty, or, as is most often the case, a combination of the three, have occurred more frequently and over many countries where wrong choices were made. The evidence does not support the conclusion that those crises drive right choices. Rather, the more modest hypothesis is that crises create conditions where leaders have fewer constraints on their choice over both economic policy and structural and institutional reform. Occasionally the relaxing of political constraints results in a new dynamic. The Japanese after the Second World War faced a major crisis, as did President Park in the Republic of Korea in 1961. The

Cultural Revolution in China was a disaster for the economy, of course, and, in each case, the leadership chose economic models that met most of the conditions specified above.

However, it does seem likely that there is a positive kind of contagion. The Japanese success after the Second World War induced other Asian countries to choose export-driven growth plans, including, in some cases, creating similar institutions. Examples and cases appear to have powerful effects.

The notion that crises create conditions for economic and political change is not limited to the founding period but also applies to crises generated by the very success of the economic plan. Ten to 20 years of economic growth generates winners, relative losers, and increased income and wealth inequalities. That creates new problems to resolve. It may be the case that, after per capita income has risen sufficiently, there are more limits (explicit and implicit) in general on decision makers because the society is more complicated. However, even then crises give leaders an opportunity to change structures and institutions.

Choosing the right economic model is only one part of the first phase of sustaining economic growth. Building support for these economic choices requires, as a *sine qua non*, enough political stability for the economic plan to work. In theory, a purely autocratic, one-person, absolute rule in some sense provides the greatest political stability—only one person to consult, convince, decide. No country has such a system, but there is evidence from Jones and Olken (2005) that economic growth is associated with autocracy in a subset of autocratic systems. However, there are fully functional democracies among the high-growth cases. Perhaps more important, there are many catastrophically poorly performing autocracies, and there are a number of failing democratic structures as well.³ Jones and Olken (2005) further show that the effects of leaders (positive and negative) are very strong in autocratic settings, but much less so in the presence of democratic institutions. Their study was not confined to the 13 growth economies, but it is plausible that political stability and the absence of effective dissent allow the time necessary for economic choices to bear fruit. The idea is that in an autocratic country, a leader or a small group of leaders have greater latitude with respect to economic policy choices in the early stages when there is no track record to rely on. They can choose an export strategy, an import substitution policy, an isolationist policy (as in the Democratic People's Republic of Korea or Myanmar), and so on. Given that this authority does not guarantee the right choice, it surely says they will have more effect on growth independent of their decision. That is, a bad choice leads to slow or no growth, while a good choice leads to growth. An unexpected change in leadership is more likely to change growth.

3 Recent research in political economy and development is shedding new light on the endogenous economic and political forces that give rise to both superior and inferior economic performance. Acemoglu and Robinson (2006) is particularly good.

Examples from Growth Commission Countries

There are various ways to build political stability, from military takeover, to building one-party states, to consent over economic policies between the leading political parties. Many of the growth economies on our list formed or tried to form one-party or dominant-party structures—China; Hong Kong, China (where the British served as a single party and as the rule maker); Japan; Korea; Singapore; and Taiwan, China. The idea of a one-party state in Japan (the first high-growth economy along with Brazil) meant combining the Liberal and Democratic Parties in 1955 when the Socialist or Left Parties threatened to win majority status in parliament. The combination of these parties provided stability for the Japanese economic model to work. Combining the two conservative parties into a single power that continuously won reelection entailed specific electoral rules, malapportionment, accepting new faction leaders and new factions, and forming and reforming new interest groups. The Kwomingdong in Taiwan, China, maintained a similar feature in their electoral system, as did the Koreans (Groffman et al. 1999, especially pp. 383–85).

The key ingredients in the dominant party systems were multimember districts with a single, nontransferable vote. That had the effect of enhancing the seats in parliament of national parties. The Singaporean electoral system also facilitated single-party rule. Suffice it to say that, in our view, aligning stable political majorities enhances the time available to governments to allow their plan to work and makes it harder for short-term political movements to shift policy. We explain later the link between the voting structures and the staying power of the dominant party.

Any economic plan will have short-term winners and losers. If politicians have an incentive to appeal to those interests in order to win power, they will do so. In the single-party system, the arrangements make it harder for politicians to organize short-term losers into majorities. Over time, as the growth economies' wealth is increased and widely shared, the majority party will be able to sustain majorities more easily. The most important time for political stability is in the early years of a model's implementation. If after three to five years the plan is not working, the political stability may persist, as in India under the Congress Party, but ultimately the lack of economic growth and development will cause strategy and policy shifts and sometimes regime change.

Ultimately, a dominant single-party system changes the incentives, in that ambitious politicians tend to concentrate in the dominant party, since seats tied to power are more valuable than seats in the minority party. In successful cases, since the dominant party favors a growth-oriented strategy, more ambitious politicians see their ultimate success tied to whether or not the economy grows; thus, they support "the plan." In multiparty systems, as in Latin America, many more ambitious politicians do not have an incentive to support "the plan," since their fate is not tied to it. In the short run, generating growth dramatically shifts the status quo. In many cases, a majority or near majority are asked to make sacrifices (with the

benefits more distant in time), and they are, relatively speaking, worse off. Politicians appeal to the majority or near majority by criticizing “the plan.” This scenario differs by country. In the Taiwanese case, the legislative Yuan majority was relatively permanent. In Japan, by contrast, the Liberal Democratic Party was close to losing its majority status to the Progressive parties. Nevertheless, building a single dominant party gets the incentives for politicians more in line with the economic plan (choice model) than is the case for multiparty systems.

There are various ways to design an electoral system in which, with roughly one-third to 40 percent electoral support, a party can control the legislative body and the government. The most obvious way is to create districts unequal in size and to over-represent dominant party voters. During the transition from an agricultural to an industrial economy, rural interests are usually subsidized and overrepresented at the expense of urban districts. The highly subsidized farmers in Japan, Korea, and Taiwan, China, are proof of the merits of the strategy, at least from the dominant-party perspective. These differences are often quite extreme, with some rural districts having 10 times or more the voting strength of urban residents. These rural-urban differences persist even at present after electoral reforms in Japan, Korea, and Taiwan, China. In the present Korean National Assembly, the five largest Korean cities have about 50 percent of the population, but only about 35 percent of the seats. The nine provinces with 50 percent of the population get 65 percent of the seats. In Japan, during the early period of growth, the degree of malapportionment was 2 to 1, rural to urban, and in the later period of development the ratio was still 1.6 to 1 (Hata 1990).

Another way to maintain single-party dominance is to structure the electoral system to the advantage of the dominant party. The most common of these mechanisms in Asia has been to combine the single nontransferable vote (SNTV) with multimember districts (seat magnitude). In this system the voter has one and only one vote in a district that elects from two to five members to the government, which creates coordination problems for political parties competing nationwide. In a series of articles Cox and Niou (1994) and Cox (1996) showed that in both Japan and Taiwan, China, the system benefits the governing party in “that two governing parties (the LDP of Japan, the Kuomintang of Taiwan, China) have been significantly more efficient at securing as many seats as possible out of a given number of winnable seats than have their respective oppositions.” The reason is that dominant parties can more easily overcome their collective-action problems by allocating government resources to reward supporters and decrease opposition strength. The Korean electoral system prior to the late 1980s reforms had both SNTV and multimember districts, which resulted in advantages to the dominant party (Brady and Mo 1992).

One might have assumed in the cases of Japan, Korea, and Taiwan, China, that when the one-party rule ended, the growth would slow. In Japan, the major changes to the electoral system (district magnitude) occurred post-growth; however, in both Korea and Taiwan, China, the major electoral

reforms occurred well before the end of the high-growth period and did not affect the growth rate. Thus, it seems that economic success can lead to change in the democratic structures without necessarily affecting economic growth, because Korea, Singapore, and to a certain extent Taiwan, China, have democratized without losing 7 percent a year growth. Some caution is needed here. Advanced economies cannot grow at rates like 7 percent. Therefore the high-growth economies will eventually slow down as the per capita income levels rise. Depending on how that inevitable slowdown compares with the evolution of the political structures, it may be hard to disentangle the two effects.

Another example of growth led by a different kind of single party is China. In 1950, the per capita income in China was \$439, not at the bottom of the list but much lower than that of many developing countries. China was, in short, a very poor country. In the 1960s, Mao Zedong's strategy of "four modernizations" essentially involved the introduction of high-accumulation, low-consumption policies; giving priority to the development of heavy industry; adopting capital-intensive guidelines; and setting highly protective import substitution policies. In Justin Lin's terms, China adopted a comparative-advantage-defying strategy and (as elsewhere) it largely failed.⁴ The Cultural Revolution did further damage to the economy and to the accumulation of important intangible assets such as human capital.

Deng Xiaoping (having been banished during the Cultural Revolution) returned to the dominant party hierarchy. Inherited from the pre-reform period were important tangible and intangible assets: widespread basic education, land reform of a certain type, the abolition of officially sanctioned caste and class distinctions, and some important rural infrastructure. Building on that, Deng and his fellow reformers introduced a new and successful three-step development plan:

1. The Chinese leadership adopted the market system of incentives and resource allocation by introducing, with regional variation, market mechanisms in the agricultural sector where 82 percent of the population resided. Many of the early gains in productivity and income in the five to seven years after 1978 were due to these reforms.
2. The country made use of its comparative advantage in labor resources and pursued an opening-up policy.
3. China used the world economy to stimulate export growth and realized liberalization of trade and investment, and, perhaps most important, started a process of importing knowledge and technology from the global economy. Over time, the reforms developed to include various forms of private ownership, led by Wan Li from Anhui Province. Reforms in education, science, and technology increased the human capital in China. The new Wenzhou model (local economy formed mainly by private businesses) lived side by side with state-owned enterprises or, in the words of Deng Xiaoping, "one country, two systems."

4 Justin Lin, the Marshall Lectures, University of Cambridge, October 31 to November 1, 2007.

In many ways China illustrates both the upside and the downside of autocratic systems. In the period from 1949 to 1978, economic policy led to poor economic performance (in large part because the leadership got some but not all—and not enough—of the pieces of the strategy right), and there were few if any constraints on the policy choices that led to these results. Over time, the success of the Chinese economy was achieved under a one-party system where political stability provided a backdrop against which the new export-driven market forces could drive growth in China. The role of Deng Xiaoping as a leader in China's economic growth took place within the confines of the Chinese Communist Party (CCP). In the prevailing ideology, there was deep distrust of market systems and capitalism. Even today, political legitimacy and support depend on sustained inclusive economic growth. The eleventh Five-Year Economic Plan shows that the current one-party leaders understand that their future depends on both increasing growth and redistributing wealth and services.

In sum, each of the 13 growth states eventually chose an economic growth model (frequently after prior failed experiments) but established a stable political environment, which allowed persistence in the policies and time for their economic choices to allow the economy to grow. Thus, leadership entailed not only making correct choices over the economy but also building coalitions and creating a stable political environment where their choices had time to bear economic fruit.

Adjustments Induced and Required by Sustained Growth

A country that sustains growth of over 7 percent a year for a decade dramatically changes the structures of the economy, society, culture, and often the institutions of government. Growth in Botswana, China, Indonesia, Japan, Korea, Singapore, and other countries over several decades generated new patterns of ownership, new interest groups, a sizeable middle class, and a class of the very wealthy. These changes led invariably to new challenges. Among the most familiar are large increases in inequality, middle-class demands for a political democracy comparable to the freedoms established by the marketplace, and the pressure to accommodate new forces and individuals within the existing system. In addition to these problems, leaders face the problem of economic change. Economies that grow cannot always be based on abundant cheap labor. The rising price of labor causes comparative advantage to shift. Successful formulas for growth need to be abandoned. Thus leaders need to shift priorities, policies, and investments in a variety of ways to support the structural evolution of the economy and its changing role in the global economy. It is natural for both governments and citizens to resist this kind of change because it is hard to abandon a successful formula even after it has outlived its usefulness. The policy shifts tend to be toward horizontal policies to encourage information technology,

education, and a human-capital-intensive economic structure. These economic adjustments are often accompanied by or tied to demands for political change. For example, the success of the economies of Japan, Korea, and Taiwan, China, generated intense pressure for democratic reforms ranging from redistricting, to more open, fair elections and a decline in the effects of money on politics. An example from the Japanese or Korean cases might demonstrate the complexity of the problems.

In Japan, the economic growth generated the rise of efficient large-store retail outlets at the expense of small mom and pop retailers. Pressured by competition from the new large retailers, mom and pop storeowners formed local organizations and were, by the late 1960s, voting for the Japanese Socialist Party. The dominant growth party, the Liberal Democratic Party (LDP), had been losing seats in the Diet and was faced with the prospect of a loss of control to a combination of Progressive parties that were anti-free trade, against Japan's special relationship with the United States, and for empowering unions and redistributing wealth (Hancock 1993; Baron 2005: 649–51). The successful post-Second World War leadership of the LDP was therefore faced with accommodating the new interests and winning elections. The party chose for the 1972 elections to be led by Mr. Tanaka, who was not part of the elite, Todai-educated, LDP post-Second World War leadership group. Indeed, Tanaka had not gone to college at all and had formed his new faction of the LDP against opposition. Nevertheless, the party made Tanaka the prime minister, thus accommodating some of the new interests generated by economic growth. Tanaka, as prime minister, made a deal with small retailer organizations and passed the Large Store Retail Act, which allowed local mom and pop organizations to delay, obstruct, and, in some cases, deny large retailers the store space necessary to capture economies of scale. The mom and pops voted LDP again, and the party dominated for another decade. A similar deal was struck between the LDP and farm organizations, which kept foreign agriculture products out of the country (Bouissou 2001). The Japanese, as a result, had, relative to the other developed economies, disproportionately high numbers of both farmers and small businesses. It is an example of how political leaders have to trade off accommodating new groups, setting growth policies, and ensuring that antigrowth coalitions do not stop economic development. The concessions to agriculture and small business interests were not economically efficient, however. The choices made were second best from a narrowly economic point of view. While sacrificing efficiency and productivity, they protected the long-range growth for at least a decade on the assumption that the success of the Japanese Socialist Party would have hurt economic growth.

The success of the Korean economy generated an increasing middle class and allowed a large number of Korean youth to attend college. By the mid-1980s, increasing numbers of college students, the middle class, and union members were protesting in the streets over the autocratic nature of the political system and elements of corruption that went with it. The Korean system had relied in part on an electoral college that guaranteed a

victory for the candidate of the dominant Democratic Justice Party (DJP). That institution became the focal point of protest for those seeking political freedoms consistent with the economic freedoms. The presidential-designee of the DJP was the former General Roh Tae Woo. The problem he faced was how to get the protest out of the street and into the electoral system, which meant he had to agree to eliminate the electoral college and change the method of election to the National Assembly (Brady and Mo 1992).

Roh agreed to a “real” presidential election, betting that his two primary challengers, Kim Young Sam and Kim Dae-jung, could not agree on which one of them should run. The electoral result in the three-man race was a narrow victory for Roh Tae Woo and the preservation of Korea’s export-driven, education-rich economic plan. The reforms of the National Assembly included changing the system from a single nontransferable vote in multimember districts to a U.S.-style single-member, first-past-the-post system with 75 proportional representative seats tacked on. The effect was to reduce the ability of the dominant party to leverage a minority voter support position into a larger parliamentary majority (Brady and Mo 1992).

The first election under the new system resulted in the loss of majority status for the DJP. In short, the reforms resulted first in divided government and ultimately in a multiparty, competitive party system where parties of the left often have control. Again, we have an example of economic growth generating change, which leaders have to deal with. In this case, the institutional changes took protest off the street, institutionalizing it in the electoral system, creating a genuine multiparty democracy where powers and interest rotate in government, which accommodates pressure for change from newly created interests.

These two examples are certainly not exhaustive, nor perhaps even representative, given the diversity of the 13 growth cases. But they do illustrate an important dimension of the political economy of growth. The success of an economy in terms of sustained growth over decades generates impressive and important changes in the society, the culture, the politics and the behavior and preferences of citizens. Leaders, particularly political leaders, need to respond to these changes such that economic growth is not thwarted and the new problems are dealt with successfully. Leaders who achieve this end have, among other things, learned to listen to the business and financial leaders who must compete under changing conditions in world markets.

Successful choices often do not fit the simple economic model of “stabilize, privatize, and liberalize.” Leaders often have to make second-best decisions, as in the case of subsidizing farmers and small businesses in Japan, and China’s operation of state-owned factories, or Mexico’s continued ownership of Pemex. The small steps taken by actual leaders across high-growth economies clearly indicate the truth of Sir Arthur Lewis’s well-known observation that “governments may fail because they do too little, or because they do too much.”

The start-up period where sustained growth begins may be a less constraining environment and may be conducive for leaders to make good choices. The decision in China to allow farmers to raise crops above the quota and to sell the surplus on the market increased productivity, enriched farmers, and gave Chinese consumers more choices; in sum, for the most part win-win. There was some protest from the urban sector that had to pay somewhat higher prices for food than previously, but food was more plentiful. As growth increases wealth, it makes society more complex in terms of interest groups with significant potential power. Economic policy involves increasingly complex trade-offs between competing interests. When the average income is below \$500 per year and 90 percent of a people are in agriculture, the diversity of interests is lower and the economic institutions are less complicated than when per capita income is \$8,000 and only 30 percent are in agriculture. This does not mean that leaders cannot make bad decisions in the early stages. Robert Bates (1981), for example, has shown how a coalition of labor and urbanites in East Africa can sustain a political equilibrium, which hurts economic growth. Our claim is that as economies grow, decisions about how to maintain growth become ever more complex because they entail changing, or establishing, political institutions that can meet the challenges generated by growth, and that these political and policy choices are an important part of the growth and development dynamic.

The changes wrought by economic growth lead naturally to another question: after the strong leader, what kind of institutions give a country and its leaders the best chance to grow and develop an economy? The founding or choosing period, associated as they often are with crises, in many cases opens up opportunities for leaders to choose a better model and enhances prospects for convincing others to go along with a new direction. Over time, it appears that leaders have learned that strategies based on leveraging the global economy's knowledge work better than the alternatives. Once the plan is chosen, stability is crucial for it to have a chance to work, and many leaders seek stability by building a dominant party. In China and Taiwan, China, a stable party system already existed and did not need to be built.

The Political Economy of Growth and Development

The challenges for leaders, policy makers, and analysts are formidable. Along the lines of the discussion above, sustained growth appears to require a choice of a viable open growth model. It also requires time to work, persistence, and coherence, and hence a reasonable amount of stability in the policy-making process. How that is achieved (or not) in a variety of kinds of political structure is an important element in the growing body of research in political economy and development. But stability and persistence are not enough. The endogenous dynamics produce the need for continuous economic and structural change in the economy and for similar change in the supporting policies and investments. The argument here is that this need

for continuous adaptation appears in case studies to extend to the political system and the evolution of political interests and power. Accomplishing these adaptations without disrupting the growth dynamics is a huge challenge. It falls mainly to political leaders using a combination of insight, experience, and political skill in finding compromises and second-best choices that are least damaging to the growth process.

Reasons for opening up the political and policy-setting processes are many. The old elite might open up institutions and politics to prevent violence (Acemoglu, Johnson, and Robinson 2005: 564–66) to ensure that decision making is not on the streets but within the institutions and political arrangements. Or business input is required in policy setting so that the business sector can compete effectively in the global economy and in the world marketplace. The most striking protests that occur are either violent or near violent and are associated with the downsizing of farm populations and the movement of people to urban areas. Likewise, rising middle classes sometimes take to the streets in favor of opening up the political system, as was the case as Korea and Taiwan, China, moved to two-party systems.

Opening up, in this view, includes transparency, rule of law, and either allowing new elites into dominant party systems or alternating political parties because, in each case, it signals that the regime is changing to accommodate diverse interests generated by the increasing complexity of the growing economy. The mix of factors that determine the countries' growth will also influence the interests that need to be accommodated. That is, a country with initially higher foreign direct investment (FDI) will develop differently than Korea, which relied far less on FDI than other countries.

Various forms of democracy are often held to be preferable because, in general, they accommodate more interests and let different combinations guide economic development at various points. In a democracy, one party or a coalition prefers (because of citizen preferences) less globalization and more protections, while the other party or coalition of parties prefers globalization, and, as they alternate power, policy shifts slightly, and politics is ballots not bullets or the street. However, it is not at all clear that Western-style democracies will be the right institution-politics mix for all countries or all stages of growth. There appears a fine line between opening and accommodating evolving economic and political interests, and the maintenance of some degree of stability, coherence, and persistence in policy space.

There would seem to be some basic institutional shifts that are *de minimis*. Among these would be the opening of the dominant party to the new interests (think of the CCP and the number of technocrats in the elite over time), or a shift from a single dominant party to a two-party system (Korea and Taiwan, China). Another necessary shift would seem to be the creation of a bureaucracy educated to understand global economic competition and competent enough to carry out regulatory and coordinating activities and the creation of a political process (wherever centered) that factors in diffuse interests, both domestic and international, into its decision process.

Leadership, in this view, has the crucial role of deciding where the fine line referred to above is. That means balancing the accommodation of emerging interests while maintaining the essential elements of a growth strategy. Relative to pure economic policy choices, these are most often second-best choices. In a sense, the challenge is to accommodate the distributional issues because they emerge in the political process of building and maintaining a governing coalition of interests, without undercutting the economic dynamics of the growth process.

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