Preface

In this book, former policy makers and practitioners reflect on the role of leadership in economic growth. Citing many examples of leaders making decisions that contributed materially to accelerating and sustaining long-term growth, they do not doubt that leadership matters. The role of Deng Xiaoping in China is one concrete example in which a choice to allow farmers to grow crops in excess of quotas yielded economic growth. The decision in the early 1960s by President Park of the Republic of Korea to industrialize the country is another example of leaders playing an important catalyzing role in economic growth. Although practitioners emphasize the role of leaders in economic growth, the social sciences have been slow to measure and include leadership in their economic growth models, largely because of the endogeneity problem. That is, although one can claim that Deng and Park made decisions that led to economic growth in China and Korea, respectively, it is possible that whoever was in power in China and Korea would have made the same decision or a decision sufficiently similar to yield much the same result. In China, Deng's agricultural reform followed the failure of the Cultural Revolution. In Korea, the rural economy was slumping, protestors were in the streets, and martial law had been in place since the end of World War II. Both countries were facing serious economic and political problems, and change was both necessary and probable. If any other leader had made similar choices, how could we model or measure leadership? Since history does not repeat itself—we cannot substitute Zhou En-lai for Deng and rerun the time period—we are left with examples and the endogeneity problem.

The basic question of which wields more influence over events, the leader or the times, is an ancient one. The emphasis on one or the other waxes and wanes over the years. Thomas Carlyle's history (1841) emphasizing great men was dominant a century ago. Such theories have since waned, and those emphasizing exogenous factors have waxed. Jared Diamond's analysis of successful economies (1997) emphasizes external factors at the expense of decisions made by leaders. Recent work in economics, however, has shown that leaders can make a difference in countries' growth rates. Particularly important is Jones and Olken's (2005) careful study, which controls for endogeneity by examining the consequences of leaders dying in office, from either accidents or natural causes.

In this book, which is part of the work of the Commission on Growth and Development, we do not purport to solve this long-standing problem. We do not have a single study in which we measure and model leadership in some way so as to avoid the endogeneity problem. Rather, our approach has been to commission a series of chapters that cover countries, institutions, and policy decisions in an attempt to show how leaders' decisions affect economic growth and development.

Sometimes the leaders' actions are quite specific, set in a given country and dealing with a specific problem. In others, the leaders' roles evolve over time. Some chapters explore the general characteristics of policy choices across countries. In addition, we include chapters about the importance of leaders choosing the right institutional arrangements as well as the right policies. In short, we take an eclectic view toward the role of leaders in generating economic growth and development, the better to gain purchase on a difficult topic.

The book begins with an overview essay by the editors. The chapter by Brady and Spence draws on the Commission's findings, papers, and testimony to distill what is known about the role of leadership in economic growth. The principal claim is that political leaders' decisions matter and that at various stages in the process they appear to matter more. The choice of a growth model is especially important. It is crucial to adopt an approach that leverages the global economy, exploiting large international markets and the stock of foreign knowledge. The leader must also build a consensus in favor of the model, because any strategy needs sufficient time to succeed. Visible evidence of success builds over time and is far from instantaneous. If leaders succeed in generating rapid growth, they are also likely to encounter the concomitant challenges associated with such growth: middle-class demands, inequality, shifting emphasis from cheap to skilled labor, and so on. Successful leadership requires adaptation to the new problems. This can take the form of wise investments in education, the creation of new institutions, and, often, second-best political/economic compromises, which keep the politics stable and the growth rate positive.

The volume then features seven chapters dealing with a broad range of issues and countries. Given this breadth, one of the editors' roles is to focus the reader's attention on what we take to be common issues across these

chapters. In our view these common problems are fourfold: (1) promoting national unity, (2) building good, solid institutions, (3) choosing innovative and localized policies, and (4) creating political consensus for long-run policy implementation. All of the chapters focus on one or more of these themes in one or more countries. They also cover more than these four factors and should be read for the full set of their insights. Our hope is that these studies will stimulate further advances in the theory of the political economy of economic growth and development and of the role of leaders and political leadership at various stages in the process.

Making the right strategic choice (or better choices) for economic growth and development often entails overcoming local or sectional differences to bring about unity. In developing nations that were new to independence, nationhood, and sovereignty, leaders had to unite disparate interests to create a nation capable of economic growth. Tribal, ethnic, and racial differences often persist because the countries' borders were drawn by parties not interested in creating a unified country. Under this myriad of possible disunities, one of the leader's key responsibilities is to unite "the nation" so as to move toward common goals. In a sense, the challenge is to create a shared sense of identity as a foundation for making the intertemporal choices that are required for growth. Factionalism tends to focus the politics on the division of the pie rather than on increasing its size.

Three of this book's leadership chapters deal with the notion of national unification. Mkapa, in his chapter on Tanzania, argues that the success or failure of independence depended on the founding president. The first leader establishes the role(s) that the successors will play and forms an early set of institutions that the nation will be able to live with and amend over time. The leader should be seen as strong and decisive, competent and honest. Charismatic leadership, such as Gandhi in India or Mandela in South Africa, helps create unity because the people identify the country with the leader. Mandela's commitment to fairness without retribution after the years of apartheid yielded a government focused on shared progress, rather than one preoccupied with revenge, as many had predicted.

In Tanzania, Mkapa argues that President Nyerere's immediate move to create a sense of nationhood among the 126 tribes present in the new country was crucial to the unification of the country. The significance of a single-party system for nation building is discussed and analyzed, as is the danger of having a single-party system in place for too long. Mkapa makes the case that a one-party system was important for unifying the country under Nyerere. Across Africa, it was single parties such as Nyerere's, Nkrumah's in Ghana, and Kenyatta's in Kenya that were instrumental in ending colonial rule. These single-party systems under the leadership of the liberator carried over into the first national elections in Malawi, Mali, Senegal, and Tunisia, among other countries. Success in the first election carried over for about 20 years in Tanzania. Mkapa argues that as long as the single party is democratic within itself and ultimately leads to a multiparty system, the effect on unity and development is positive. In short, the one-party system

was sufficiently unifying, democratic, participatory, and inclusive to be a positive force in development.

It should be noted that this use of a single-party system bears some similarity to the one-party systems in Asia. Most important, it aligns incentives such that the governments' policies have time to work. A major difference is that in African countries the leaders had to create a country out of tribal differences, whereas in China and Japan, for example, the national culture had been created over a much longer period, allowing leaders to concentrate on economic development.

Rusuhuzwa Kigabo's piece on Rwanda emphasizes the lessons learned from the civil war and the 1994 genocide. Rwanda is a country with almost no natural resources and, thus, almost entirely dependent on human capital. The genocide in 1994 destroyed human capital and the economy, leaving Rwanda a divided and impoverished nation. Thomas argues that the will and clear vision of the post-1994 leadership were crucial for the subsequent good performance of the economy. The leaders united the country around the idea that "the key of development is within the Rwandans' hands." They also stressed that internal peace and economic and social development are inherently linked: without peace there is no development, and vice versa. The aftermath of the genocide had to be dealt with, and here the leadership urged reconciliation and established policies and institutions crucial to healing the divide. The national decentralization process is an example of a policy with working institutions that can lead to lasting solutions. The policy-making process included all relevant stakeholders, and the decentralization policy became the instrument for empowerment, reconciliation, integration, and economic growth. The specific institutions needed to solve Rwanda's problems were the National Commission for Reconciliation and the village assemblies, *gacaca,* that brought rural villagers' preferences to the attention of the government.

In their analysis of Singapore's economic development, Tan, Eng, and Robinson make the general argument that the absence of natural resources can be overcome by, among other things, effective leadership. Specifically, strong institutions and capable leaders can arrive at the right set of pro-growth policies and adapt such policies to changing circumstances. Sometimes this process involves making less than ideal choices and then correcting them. All of these steps are contingent on building a social consensus, which spans the various ethnic and economic interests, in favor of the pro-growth policy. The authors maintain the view that national unity encouraged people to put aside individual desires and work for the greater good. The state institutionalized this by providing scholarships to bright students who would then work for the government and by paying civil servants well, thus reducing the probability of bribery. Moreover, they argue that building national unity in an inclusive way lessens the likelihood of social unrest, which enhances the prospects for economic growth. The chapter emphasizes that the consensus is twofold: between different social groups and between the society and government. Because long-term growth generates short-term pain, people

must have confidence and trust in their leaders' honesty and integrity. Otherwise, the pain of change causes social unrest, and growth is lost.

The necessary consensus for economic growth is difficult to achieve because incentives have to be aligned over a broad range of interests, some of which will feel acutely the sacrifices of economic change. These essays show that there is no single road that leaders must follow; rather, they show that leaders decide and implement policies within specific historical, cultural, and economic contexts. Good leaders are, in a sense, home grown because they have to understand and balance all these factors. It is also clear that choosing the wrong economic policy affects unity in adverse ways. Pain for no discernible gain is not helpful. Creating unity across interests is a necessary but not sufficient condition for economic growth and development.

Economists have long argued that growth depends, to a large degree, on the institutions that a country creates. Indeed, the Commission itself states that "mature markets rely on deep institutional underpinnings, institutions that define property rights, enforce contracts, convey prices, and bridge informational gaps between buyers and sellers," among other things. The problem is that developing countries often lack these institutions. Growth can occur without them: these institutions co-evolve with the progress of the economy. However, we do not know in detail how these institutions are created and sustained. Therefore, the effect of policy shifts and reforms is harder to predict in developing economies. Given the importance of creating institutions compatible with economic growth, we are fortunate to have three essays that shed light on this problem.

Acemoglu and Robinson argue that the main differences in prosperity across countries reflect differences in economic institutions. The ability of leaders to change these economic institutions will determine the level of economic development achieved. The authors argue that such reforms are hard because the institutions are, in the final analysis, the end product of the political forces at play in a country. The distribution of political power in a country is often in a rough equilibrium, the settled result of a country's political culture and political institutions. Leaders trying to change the relevant economic institutions thus face the problem of changing the distribution of political power, which confounds the problem of institutional reform.

Acemoglu and Robinson provide several examples of the pitfalls of institutional reforms. They spell out that economic solutions are grounded in politics. Knowing the nature of the problem helps to specify the nature of the trade-offs necessary to move nations onto an appropriate reform path. Understanding these trade-offs is a sine qua non for leadership, as is the skill of determining the moment and condition under which change may be achieved.

Iyoha's chapter argues that in the Nigerian case, inconsistent leadership based on military coups has led to constant changes in institutions. This institutional upheaval has been associated with a poor record of long-term economic growth. From 1960 to 2000, per capita income grew

less than 0.5 percent per year. This poor economic performance is attributed to the dominance of military governance, as well as regional and ethno-religious conflict. Leaders, both military and civil, were motivated by factors leading to "adverse redistributions." They failed to reform the macroeconomy, strengthen governance institutions, or make necessary structural changes in the economy.

Iyoha argues that the leadership changes begun in 2001 and culminating in 2003 resulted in strong economic growth. The 2003 measures focused on macroeconomic reform, structural reform, governance and institutional reform, and public sector reform. These reforms, in combination with increased aid revenue, a new monetary policy, and better debt management, resulted in a growth rate of 7.1 percent per year from 2003 to 2006. These changes were the result of good elected leaders making good choices implemented in a rational fashion.

The broad-ranging chapter by Tan, Eng, and Robinson claims that a country's institutional base determines whether natural endowments enrich or impoverish a nation. Using measures of institutional quality such as prudence in spending and judicial independence, the authors show that sustained growth is tied to quality institutions, and that good governance ensures maintained quality.

These three papers clearly show that the creation of economic institutions capable of generating and sustaining economic growth is best seen as a political economy problem. That is, creating economic institutions that enhance efficiency and generate economic growth often entails changing the distribution of political power within a country or a region. Leaders must balance the economics and the politics to sustain both growth and political order. Countries that have generated sustained growth over 25 years have succeeded in this juggling act, at least for long stretches.

Economic development in the United States and Western Europe did not occur all at once across the whole country or entire continent; rather, it first occurred in certain regions and states. The pattern of localized industrial centers is not random. In the United States, states differed in their interests and cultures, and their economics differed accordingly. It is almost as though the states were laboratories for different economic experiments. In China, Europe, Japan, and Korea, various regions, prefectures, and states developed at different rates over time. Surely much of the differential rates of industrialization are attributable to the natural advantages that a region or state had, such as a river or harbor, or to an entrepreneur such as Gutenberg, who invented the printing press in a specific spot and thus began an industry in a specific place. Given the comparative advantage of certain areas over others for initial economic growth, it is possible for leaders to make bad choices about which regions should be industrialized. Decisions by nineteenth-century socialists in the United States to place agricultural collectives in New England rather than the more fertile Midwest is one such example. In short, to promote growth and development, policies must be selected based on their fit with the local environment.

A canny political leadership should appreciate that different areas will respond differently to its policies. Deng's innovative agricultural policies were not met with the same response in all regions, and, as Jean Oi (1999) has shown, the response of local party leaders to national policies in China had an important effect on growth rates. In choosing policies and implementing them, leaders must pay due respect to local conditions or at least allow local advantages to come to the fore and flourish. This principle is illustrated in the work of Rusuhuzwa Kigabo on Rwanda, Cardoso and Graeff on Brazil, and Tan, Eng, and Robinson on Singapore.

Rwanda adopted a national decentralization policy to achieve three main goals: good governance, pro-poor service delivery, and sustainable economic development. The decentralization helped solve ethnic/tribal problems, bad governance, and extreme poverty. In addition, the decentralization was viewed as an instrument for political empowerment of the people, reconciliation, and creating the basis for local social integration. One example of this localized policy was *ubedehe,* whereby local citizens participate in assessing needs and growth and work together with government support to address the identified issues.

Again, the general purpose chapter by Tan, Eng, and Robinson argues that growth comes from policies applied at the local level with an understanding of local context. The Singapore case shows the importance of implementing policies at the right time and reviewing those policies on a regular basis so that they can be adapted as required.

Further thoughts on this problem are offered by Cardoso and Graeff, two important participants in Brazil's progress toward consolidating democracy and generating sustained economic growth. The chapter begins from the dual premise that there is no "recipe" for development that opens the doors of globalization to all if only they do their homework, but that Latin Americans are not condemned forever to underdevelopment. In 1990 Brazil was characterized by economic stagnation, a foreign debt moratorium, hyperinflation, and a democracy slipping away because of a lack of governability. The chapter describes how the Real Plan (to deal with the inflation problem) was formed by an experienced and creative new team at the Finance Ministry, which submitted a short-term plan (a first step) to dissolve the relationship between inflation and the public purse. The broad approval for the plan convinced firms and citizens that such a policy had a chance to succeed. The next steps were to dismantle the wage and price indexation and end the debt moratorium.

The success of the program was illustrated when inflation dropped from 47 percent per month to less than 3 percent per month (in 30 days). It went on to decline further and has since remained in single digits per year. To capture these advantages and begin to sustain growth, it was necessary, according to the authors, to choose a role for the state somewhere between the state-run and the neoliberal minimalist models: "the necessary state." The new leaders proposed a series of amendments to the constitutional policies on state monopolies, social security and pensions, and public service,

among others. The passage of these reforms had long-lasting effects that occurred on several fronts. The authors show how political institutions can slow down, block, and shift economic policy solutions. Their analysis shows how a crisis or a series of crises can be useful in shifting policy through good choices to foster economic growth. The analysis of plebiscitary versus consensual democracy admirably lays out alternatives and the economic tradeoffs implicit in both, as the comparisons with Argentina and Chile make clear. The section "Opportunity, Passion, and Perspective" offers a unique overview and interpretation of the forces driving Brazil's recent economic success.

To succeed, a leader must both choose the right policies and create the political conditions necessary for them to work. In the wake of the genocide, the Rwandan leadership astutely combined peace and economic progress with a decentralization policy, allowing more local input and control. The Brazilian case is a classic example of the interaction between politics and economics within a specific cultural and institutional framework. Progress in political economy will need more case studies detailing the nature of these tradeoffs within specific locations.

Change from the status quo almost always entails some pain in the short run, whereas the benefits often take time before they are readily observed or felt by ordinary citizens. Precisely because the time horizon for gain is either unknown or of some lengthy duration, leaders must create stability for the economic reforms to take place. The leader may be trusted by the people to have their best interests at heart, thus earning time, or leaders may create a consensus around the plan sufficient for it to have the time to succeed. Whether the stability is created by trust, consensus, or institutions such as single-party dominance, it seems that stability is a necessary but not sufficient condition for economic growth.

This point is mentioned in many of the chapters in this book. Brady and Spence argue that good economic policies need time to have impact, and creating stability in the political system gives the policy a chance to succeed. In Asia a single dominant party system has, at times, aligned the incentives of the major economic and political actors in the initial phases of the plan. Over time, as the economic gains are realized and new interests created, either the dominant party adapts to the new economic reality, as in China, or a multiparty system develops where parties alternate in power.

The Cardoso and Graeff chapter emphasizes the president's role in creating a broad consensus across multiple political parties in support of specific policies, thus creating stability and time for the policies to take effect. The authors also emphasize the necessity of the leader being able to explain complicated economic choices to the general public. Without said explanations, neither support nor stability is present.

The chapter by Mahmud, Ahmed, and Mahajan on Bangladesh examines the pre- and post-1990 performance of the economy. The country emerged from the war of independence poor, overpopulated, and physically damaged. The development strategy in Bangladesh has undergone succes-

sive shifts often associated with regime change in government. The early years were dominated by state control and a socialist ideology. In 1975 General Ziaur Rahman took control and moved toward privatization, followed by a second period of divestment under General Ershad. The 1980s witnessed a period of market-oriented development strategy under the guidelines of the World Bank and the International Monetary Fund.

The transition to parliamentary democracy in the early 1990s was associated with the movement toward a more comprehensive program of economic reform featuring currency convertibility, reduced import duties, and removed controls on foreign private capital. The authors argue that the economic growth since the 1990s has been led by strong export growth, which provided a growth stimulus to other parts of the Bangladesh economy. The authors show how economic growth has greatly improved Bangladesh's record on human development indicators such as child mortality and female school enrollment. They also assess the country's record on governance and poverty reduction.

These four problems are not the only difficulties that leaders face in trying to generate economic growth, and our authors cover a variety of other problems. These chapters, we believe, represent an excellent first step toward understanding the role of leadership in generating economic growth, and we hope that they generate ideas and lead to new research on the problem of leadership in economic growth.

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