Leadership & the Limits of Government

By Kazumasa Kusaka

Most incumbent government leaders have been burdened by low approval ratings due to weak economic performance since the financial crisis began. Especially in democratic countries, if a leader is not reelected he or she will be turned out of office. Banboku Ohno, a postwar LDP leader, once said: "A monkey, even if it falls from the trees, remains a monkey, but an elected politician who suffers defeat becomes a man in the street."

This is the reason why unpopular policy prescriptions tend to be late in being decided and their implementation is delayed until the last minute.

A second-term president under a two-term rule is theoretically free from this fear, but in practice we have observed that his political capital also diminishes ahead of his exit.

The good news from Tokyo is that Prime Minister Shinzo Abe announced the implementation of the consumption tax hike as already legally stipulated. Former Prime Minister Yoshihiko Noda dared to sacrifice his office by clinching a bipartisan deal last year before calling a general election. Abe did not need to revisit the decision and could just implement the three-party agreement as a *fait accompli*, but he dared to reopen discussions on its impact on economic growth and negotiated a sugarcoated fiscal package to limit the possible negative impact of raising the tax in spite of opposition from fiscal conservatives in the LDP and the Ministry of Finance. But politically more important is that the prime minister has claimed "ownership" of the tax decision and by doing so he can communicate to the media and the public the necessity of the tax hike. His gamble has so far been rewarded with more than 50% public approval of the decision and an unaffected overall support rate.

With a clear mandate from the electorate over a particularly thorny issue, a leader gains the political capital and flexibility to modify what he or she said during the election campaign in order to govern effectively.

When we observe what is happening globally in the area of foreign policy, trade policy or fiscal policy, we see that recently decisions have not been in the hands of small political elites or establishment policymakers. Rather a broader range of stakeholders' voices are increasingly being heard in the process.

The question then is how apparently unpopular but essential prescriptions can be adopted. It is easy to say that a leader's role is to make a case and persuade people; otherwise a leader becomes just a follower of public opinion. But under this constraint, how a government moves to pursue "a better policy" — even though beauty is in the eye of the beholder — needs strategic thinking, wisdom and skill.

Back in the 1970s French President Giscard d'Estaing created a G5 meeting to tackle the economic difficulties of higher energy prices, higher rates of inflation, higher unemployment and lower growth, which we call stagflation. Changed circumstances required a new equilibrium and policies unpopular with the public. With an "international consensus" taken back to each capital, every leader's job of persuading his own constituency turned out to be much easier. Does the spirit of these original meetings still prevail in the G8 or G20?

The International Energy Agency's (IEA) country review process also aims to help the energy policy group of each member country fight against the resisting stakeholders, parliaments, budget offices or media in each country through "IEA recommendations" compiled by peer review.

For reformers, WTO accession negotiations are often the vehicle for modernizing a country and containing powerful stakeholders. The same applies to the Doha Development Agenda negotiations, FTA negotiations or EU accession negotiations in the context of structural reform and growth strategy.

In the late 1980s, the Structural Impediments Initiative meeting started between the United States and Japan. In negotiating the terms of reference we insisted on two points. One was two-way dialogues, meaning both sides could play offense and defense. Otherwise even good medicine cannot be swallowed if national pride stands in the way. The second point was the principle of "within reach of government". One cannot expect the US government to agree to deliver higher national savings in response to a Japanese request or the Japanese government to create a higher market share for some products in response to a US request. What a government could do if it wishes is to introduce policies with tax incentives and other measures that can influence economic players' behavior.

Even though an incumbent leader knows that with economic expansion he could be safely reelected, and even though his opponents point out "It's the economy, stupid", as in the case of the 1992 US presidential election, economic statistics proving latent economic growth need not appear before the public makes up its mind for the next election. We can only pursue policies but results are not guaranteed in an area where government agencies are not the sole player.

The same applies to global warming. Governments alone cannot deliver a reduction of CO_2 emissions based on numerical targets because that is the function of economic activities and energy use.

However, governments can adopt policy measures to influence the main players and when they find poor outcomes they can strengthen these measures or make the policies more creative and effective, such as by utilizing innovative technologies and new ideas in social systems.

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