Publisher's Note

The Role of the Economy in Elections & Lessons From the Past

By Kazumasa Kusaka

In countries where the leader is chosen through a general election, it is an indispensable prerequisite for a candidate to win the favor of the common people in order to assume or retain office. Because of this axiomatic truth, or in spite of it, democracy has long stood the test of time and been valued as a system enabling the transition of leaders and discovering talent suited to changes in circumstance, even though in the short run democracy cannot deliver the best solutions. So why do we now hear concerns surfacing over populism in some countries?

In the 1992 presidential campaign between Bill Clinton and incumbent George H. W. Bush, the former's slogan "It's the economy, stupid!" captured the mood of the times, and it has been recognized that deteriorating economic conditions translate into loss of support for incumbent leaders. Recently, the fallout from the global financial crisis has aggravated overall macroeconomic performance, in particular the unemployment rate among the younger generation. This has certainly given the public cause to look hard at incumbent leaders and other politicians regarded as being responsible for such a poor economic situation. Income disparity especially has visibly fueled the anger of the common people.

This might be nothing new. But new communication technologies have resulted in flattening the information hierarchy both with regard to accessing and disseminating data and news, paving the way for fast-track feedback on political activities. The politics of news-making is no longer monopolized by the established media. In addition to economic discontent, we know there are regions suffering from a failure to secure basic human needs or human security. In this area, as Japanese Prime Minister Shinzo Abe proposed at a UN General Assembly last fall, measures for refugees, for example, should not stop at borders but rather — like oriental herbal medicine — should address the underlying causes, i.e. help to introduce good governance and stabilize local economies in the home regions of refugees.

In this column, I would like to examine the role of the economy, which cannot be decoupled from politics and security in global governance.

At the end of May in Ise-Shima, Japan will host the G7 Summit where global governance of the economy will once again be highlighted, as was the case in the creation of the G5 to deal with the two oil crises in the 1970s. Policy consultations and coordination are needed if we are to learn the lessons from many failures and some successes. The force of markets has outgrown the policy measures of governments, and therefore governments, if their policies are fragmented and uncoordinated, are no match for the markets. This year with geopolitical risks constraining economic activities, it will be an uphill battle to muddle through the European, Chinese and other economic and financial challenges.

In regions where conflicts keep happening or may develop, it is critically important not to make "failing states". To achieve this goal, the arrangement of a safety net in security per se is not enough: the region needs effective assistance in economic fields, first with economic aid, but also through trade and investment. Trade and investment can make things happen, i.e. fostering small and medium-sized enterprises and accompanying job creation locally. Japanese philosophy in economic cooperation is not to give away surplus food but help teach the know-how suited to local conditions to successfully produce agricultural products, and thereby lead to a self-sustaining economy with ownership in the process.

Coming back to lessons from the past, in the 1970s, to reduce the political cost of adopting unpopular policies, the wisdom of an "international agreement adopted by the G7" was invented. Also, the creation of the International Energy Agency promoted oil stock-piling, development of alternative energy sources and conservation. With its success, in 1985 Saudi Arabia changed its oil pricing to protect its share, driving down crude oil prices from $30 to $9. The emergence of new non-OPEC suppliers and lower-than-expected demand due to efficiency improvements in response to high oil prices also contributed to this.

However, an important lesson was the after effect in which we saw much less investment occurring than needed, which then invited another price hike to $70 — this time together with a demand increase from China and emerging countries. In 2004 I personally called on business leaders and journalists who dealt with the crises in the 1970s to share their experiences and pass them on to the next generation. In order to be well prepared for such risks, we would need to be more knowledgeable about so-called "scenario approaches" that would provide us with more options in responding to these crises. These cases would vary, since developments in energy spill over into the macroeconomic landscape, as well as resulting in excessive energy investments.

The important question is how we can develop both emergency crisis management and sustainable mid-term policies to deal with a prolonged financial crisis syndrome. Learning from regions that have undergone trial and error in this field, we need to deepen discussions on the relationship between fiscal discipline and holistic economic recovery. We need to override the pursuit of partial optimization for segmentalized stakeholders by tackling optimization for all over the long term. But how can we do this? And under democracy!

Abe's government is no exception in facing this challenge. Internationally we learn from each other, and by revisiting past experiences and history. This should empower current political and business leaders.

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