The Diminishing Returns of Power

Leaders lose their effectiveness and goodwill if they hang around for a decade or more. In many emerging markets, premiers from Putin to Manmohan now face that risk

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At last, every hero becomes a bore. Writer Ralph Waldo Emerson's observation is lost on most politicians who often tend to overstay their welcome in office. This is particularly true in the developing world with young democracies, where term limits are either not widespread or where several incumbent leaders change the constitution at the peak of their popularity to extend their stay in office.

But in the long established democracies as well, the populace generally tires of rulers who hang around for more than one term and any goodwill generated in the first few years of their reign almost always dissipates rapidly if they remain in power for a decade or longer. This axiom is even more relevant in the current economic environment where growth and inflation dynamics are taking a turn for the worse across the globe.

Russia is a prime example of such trends. Prime Minister Vladimir Putin's ratings have steadily declined since mid-2008, when he decided to become prime minster following the two-limit term that ostensibly prevented him from seeking another presidential mandate. Back then, his approval ratings were at a record high 70% while Russia was in the midst of one of the most powerful domestic demand booms in the emerging market universe with economic growth having averaged 7% since he took over office in 2000. Putin's approval ratings have now dipped to 50%, close to their lowest levels in a decade and the fall has accelerated following his official announcement this September to stand for President again in 2012.

It is no coincidence that Russia's economy has of late been struggling to grow at even half the pre-2008 crisis levels. Had Putin decided to ride away into the sunset in 2008 after completing both his four-year terms as President, he could have gone down in history as possibly the most successful Russian leader since at least Nikita Khrushchev. Putin prevented the country from dismemberment when he assumed office and then created suitable conditions for its economic renaissance. In terms of timing, former Brazilian President Luiz Inacio Lula da Silva, for instance, seems to have got it right as he left office after eight years in power and is still viewed as a political rock star in his country.

Instead, Putin now runs the risk of joining the pantheon of leaders who have frittered away their goodwill by staying on for too long, with Russian economy struggling to regain its pre-2008 growth momentum. Several leaders in the former Soviet states, known as the Commonwealth of Independent States or CIS, have already gone down this misguided path by abolishing term limits or anointing themselves for life. Belarusian President Alyaksandr Lukashenkam revised the constitution to eliminate presidential term limits in 2004. Turkmenistan President Saparmurat Niyazov managed to secure for himself the option of remaining in power for life. Similarly, in Uzbekistan, Kazakhstan and Tajikistan, referendums have allowed their leaders to extend their terms.

The trend has caught on in parts of Latin America and Africa as well. In Bolivia socialist President Evo Morales won a nationwide referendum in June 2009 that allowed him to change the constitution and stay in power until 2014. In neighboring Ecuador, President Rafael Correa has won the right to be in office until 2017. And in Africa, 10 presidents since the 1990s have attempted constitutional amendments to remain in office beyond the two-term limit in place in many of the countries on the continent. While seven were successful in securing their posts — and went on to win subsequent elections, several premiers who failed to change the law resorted to indirect strategies to retain their influence; for instance, they handpicked a successor in the hope that they could control him given the hold on their respective political parties.

Leaders who seek to extend their hold on power don't realise that such a path is not just bad for the country, as their focus invariably shifts to protecting deeply vested interests rather than offering any new vision for development, but also for their own place in history. By the time the extended terms end, voters often are fed up with the ruler and their past good deeds are largely forgotten.

Even some of the most eminent leaders in history from Margaret Thatcher in the UK to Francois Mitterrand in France eventually lost their way. Both Thatcher and Mitterrand witnessed a major decline in their popularity after a decade in power. They either ran out of energy to manage the political process well (as was the case with Mitterrand) or took their ideology too far and started to implement unpopular measures such as the proposed poll tax in Britain that eventually led to Thatcher's downfall. Winston Churchill too was knocked out as the head of government in 1945 despite his widely hailed leadership during World War II as voters got tired of the Conservative Party's many years of rule and began to favour the Labour Party's more welfare-oriented policies following a long period of economic hardship.

> **There are exceptions to the rule, but history teaches us that the odds generally are that after a few years in power, most leaders become a bore**

While in genuine democracies, popular opinion will do the job of voting out leaders who have outstayed their welcome, in countries where the political systems are not yet well established, rulers will figure out ways to keep extending their stint in office only to see diminishing returns during the second decade of their rule.

A case in point is Mahathir Mohammed's tenure in Malaysia. After he became Prime Minister in 1983, Mahathir introduced several economic reforms including an important privatisation policy, as he understood the significance of the private sector's role in driving economic growth. Indeed, during Mahathir's first decade in power Malaysia's growth rate accelerated sharply — led by a surge in private sector investment. Prior to his term, the public sector had become more active and interventionist with state spending accounting for half of the country's total investment by the early 1980s.

As is often the case though, a strength carried too far becomes a weakness and by the mid-1990s, Malaysia was over-investing. Its investment as a share of the economy rose from just under 30% in the early 1980s to 45% in the mid-1990s, which was one of the highest rates of investment for any developing country in recorded history. That sowed the seeds of the investment bust during the 1997-98 Asian financial crisis. Mahathir turned increasingly defensive during the crisis, attacking the malicious conniving of foreign investors for the sharp downturn while his policy responses in that period were often motivated by to just protect the cronies in the system. Malaysia never quite regained is economic mojo following the crisis and its annual growth rate fell to below 5% post-1997 from nearly 8% in the preceding decade. By the time Mahathir left office in 2002, his legacy was badly tarnished.

Although Prime Minister Manmohan Singh has not yet spent a decade in power, it is quite apparent that had he stuck to being a one-term head he would have gone down as one of the most accomplished leaders in India's history, along the lines of the Italian economist and leader Calo Azeglio Ciampi, who held many public positions including those of the central bank governor, finance minister, prime minister and president of the country. Apart from his long stint as central bank governor from 1979 to 1993, Ciampi didn't remain in any of the other posts for more than one term. For every day that Singh stays on as the premier, his legacy diminishes, as like most other long-serving leaders he now seems enervated.

The lesson from history is that leaders are most effective in their first term of power and the goodwill they have erodes very quickly if they stay on in office up to a decade or longer. There are exceptions to the rule, such as Lee Kuan Yew in Singapore who after 30 years of rule was still widely admired. Those are very rare cases; the odds generally are that after a few years in power, most leaders become a bore.

(The author is head of emerging markets at Morgan Stanley Investment Management)

Letter From London | Sudeshna Sen

Sorry State of the Union

We're sitting around a buzzing restaurant table in Bergamo, somewhere in Northern Italy, and chatting about how full the flights into Italy are. So maybe, I say, Berlusconi wasn't wrong when he famously claimed that nothing could be wrong with Italy, because its cafes are full. The Italians at the table immediately throw up their hands. A rather animated dinner table conversation later, it seems that some Italians are as fed up of Berlusconi as Ms Merkel is. Not because of the Eurozone crisis, but because of his unending spate of sex and corruption scandals, which have finally, even for Italians, crossed the line. The only problem, they tell me, sounding like everyone else from America to UK to Greece to India, is that the opposition doesn't have any coherent agenda or leader either. So who are the Italians to vote for?

It seems they're no longer being given the choice. In the past week, Europe, the country that exported democracy to the rest of the world, has just seen the exit of two democratically elected governments — however peculiar — to be replaced by unelected, staid central bankers and European Commission executives, in Greece and Italy. Why anyone thinks that former EU officials will make better prime ministers, given the track record of Brussels mandarins all these days, is beyond me, but that's another matter. Markets have recovered. The Italian parliament swallowed its austerity bullet, and it looks as if the end of the world has been staved off, for now. You might think this is a good thing to have happened, because European leaders have dithered, and blathered, and been completely indecisive in dealing with the Eurozone crisis for over two years.

Last week was a case in point — first we had reports that the French and Germans were considering an "inner" core Europe and "outer" Europe. EU's president rubbished that, and Angela Merkel said Germany is committed to saving the Euro in its current form, a week after making threatening noises at Greece that it could leave the Eurozone altogether if the Greek people were given a voice.

Then we had a momentary panic in Paris, when a technical mistake apparently reduced France's triple A rating — something credit agencies denied, but the French are already finding it harder to borrow in markets than Germans are. Then President Obama read the riot act to Merkel and Sarkozy to act fast before all of Europe implodes, backed up David Cameron, Tim Geithner, and pretty much everyone else who is completely fed up of the Europeans. The rest of the world is losing patience with the Sarko and Merkel show.

The EU top brass reacted by leaning so heavily on Greece and Italy that Papandreou and Berlusconi had to go. The message is very clear, and while it might be a pleasing one for bond market traders, it's chilling for everyone else. The sanctity of the Euro, the rate of inflation in Germany, and the credit rating of France, it seems, is far more important than democracy. So you could say there's nothing else they could have done — which, as the Americans have been screaming about for ages, is not true. There's an answer to this, one that France, UK and US want the Eurozone to do. Let the ECB function like a real central banker, and either print money or act as a lender of last resort. The Germans fear this will free the dreaded beast of inflation and consistently veto the idea.

Between recession, job losses, a global economic crash and a couple of percentage points of inflation I know what I'd prefer, but apparently the Germans don't see it that way. They also don't see that their now jaded austerity and public sector cuts mantra has backfired, heavily, with increasingly dismal growth numbers rolling in from Europe quarter after quarter. By now, even the usually slow to react economists have pointed out that Germany just cannot have everything it seems to want — limit its contribution to bailing out peripherals, keep inflation low, and still have Euro to survive. For the first time since I've been tracking this sovereign debt crisis, it looks as if the Eurozone is looking seriously on the verge of a break up. Financially, markets have already started to distinguish between "good" Euros and "bad" Euros. Greece has been suffering from a long drawn out drain of capital as banks and investors move to safer havens. The good old days, when countries like Greece could borrow at the same cutprice rates as Germany, is gone for good.

SALA M

And I'm now beginning to wonder if Eurozone is worth saving at all, at least in its current form. Let's consider a hypothetical country, ruled by a hypothetical king with a lot of nobles, enslaved to nameless, faceless financiers. The King can't afford to go to a moneylender who charges more than his current one, he won't be able to pay his palace wages, so he decides to crack down on troublesome nobles who've upset his moneylender. He could use the royal treasury, but he doesn't want dip into his coffers. He strips them of their democratic rights, replaces them with palace courtiers, and condemns their people to decades of poverty and serfdom. Oh and he also needs to make his moneylender a bit less grouchy, so he tells the rest of his nobles they can't pay their palace wages and should let their serfs starve, so that people in the capital can eat cake. This hypothetical country, you'd say, is an evil anachronistic empire that desperately needs social, political and economic reform.

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Perspectives

How to Deal With Western Debt Mountain

The developed world must introduce a 'debt brake' to deal with a situation close to getting out of hand

KLAUS F ZIMMERMANN

Last week's G20 summit was unexpectedly dominated by Europe, due to Greece's surprise announcement to hold a referendum on the bailout package. Fortunately, the process of coordination among the G20 nations no longer depends on the annual summit meetings. With the global economy, not just the European economy remaining on the brink, the leaders assembled in Cannes are in constant touch with each other anyway.

While under the circumstances the idea of a "debt brake" couldn't rise to the prominence it deserves at the just concluded G20 summit in France, it is one of the most important policy tools to get fiscal policy under control. It must now rapidly move to the center of the global debate.

This is of great importance not just for the "old world." It includes not just Europe and Japan, but also the United States, whose debt level will soon enough dominate international headlines again. Emerging markets are also the most keenly interested in the topic.

These countries and their vast populations feel with good reason that this is their time at long last, and that a shadow that laid over them for centuries has been lifted. On most of these nations' minds, the past is closely associated with the legacy of colonialism.

Look at the debt issue from a historic perspective: If the former colonial powers — read: today's G7 nations, plus some countries like Spain and Portugal — now don't get their fiscal acts together, there is a very real danger of a new form of colonialism.

> **Over the past several decades, it was usually emerging market countries that, in various waves of debt crises, were forced to learn to live within their means. Now it is the West that has to take the tough medicine**

That new "colonialism" would manifest itself in the very serious growth tax that would be imposed on the developing nations.

That "tax" would take the form of a global economic collapse and a decline in development aid related to an unresolved Western debt overhang that may very soon prove just unsustainable.

Or it may take the form of high inflation, which would have the same effect on emerging market countries, which depend on macroeconomic stability in order to move out from under the shackles of centuries-long underdevelopment.

And unlike on the CO2 emissions issue, where the debate about responsibilities for past actions is far more complex, nobody can argue that the consequences of over-indebtedness are anything new. Unlike climate change science, the science of public finance is as old as the idea of nation states themselves.

To deal with the consequences of the debt mountain already accumulated, a continuation of wishful thinking isn't a policy choice. We need the introduction of a "debt brake." This measure would go a long way toward stabilising the long-term expectations in financial markets about the future fiscal path of rich countries' governments.

To be sure, an immediate imposition of the debt brake would be neither wise nor desirable, given current economic conditions. But the time is certainly right for agreeing on the launch at a fixed date in the not-too-distant future. In Germany, for example, the debt brake, approved by parliament in 2010, will take force in 2016.

To be effective, such a debt brake mechanism must meet three tests: First, it must be anchored in countries' constitutions, underscoring the hard-to-revoke character of the commitment.

Second, countries must undertake commitments mutually, as is now the case in countries in the eurozone from Spain and Portugal to Italy.

And third, in light of the past failure of effective monitoring and enforcement (whether the Maastricht criteria in the European Union or pay-go rules in the United States), there must be independent watchdog agencies, equipped with penalising powers in case of malperformance.

But it is not just past practice that makes us in the West accountable for our past actions in running up debt. Our future-oriented self-interest dictates no less. Perhaps the most important number ever generated by the IMF, an institution in the business of producing millions of numbers, is this: 441%.

That is the expected debt-to-GDP ratio that the G7 countries will arrive at on average by 2050 under present policies, if we continue business as usual. Concerned as we rightly are about debt levels approaching 100% for major G7 nations (other than the eternal culprits of Japan and Italy which are both way past that marker), some policymakers and policy analysts are still inclined to just wish that number away, believing in a magic healing function of the economy.

Since we are collectively on the road to 441%, not even the most fantastical economic and political minds can really be prepared to go on with business-as-usual.

The debt brake is a very useful instrument to achieve the turnaround. All its adoption signals are these:

First, we need to live within our means.

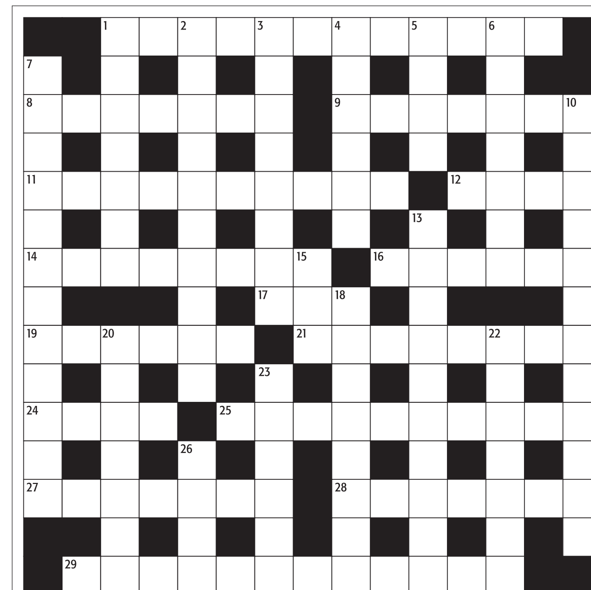
And second, we need to understand that the pre-crisis spending levels were the maximum level of public spending and that any future needs or desires can essentially only be financed by cutting other, already funded activities by an identical amount.

Over the past several decades, it was usually emerging market countries that, in various waves of debt crises, were forced to learn to live within their means, often at the behest of their Western creditors.

Now that situation has reversed itself. This time, it is the West that has to take the tough medicine.

(The author is Director of IZA (Institute for the Study of Labor), Bonn, Germany)

Crossword 4441



ACROSS
1 Cross on finding no connection (6,3,3)
8 Thinking of making Eve spin around (7)
9 Cards finally in a bit of a pickl (7)
11 Being certain of what's right when one's done wrong (10)
12 No-win has some attraction (4)
14 Doesn't indulge in rating marks (8)
16 One has to take care of the German after a short time (6)
17 Face return of something sticky (3)
19 Slight move away from being sunlit (6)
21 Preserve the old lady who won' hesitate to go to a dance (8)
24 Having no doubt made no request for enjoyment (4)
25 Not happy to see a fellow's had an accident (10)
27 Force out wording that doesn't start to be offensive (7)
28 Writes and dines out about it (7)
29 One taking cover from members of the flock (12)

DOWN
1 Crazy about fruit (7)
2 Car returning to put one on board without rival (10)
3 Salutation from tearful Scot (8)
4 Advice to the last to leave D go quietly (6)
5 Times when a Dutch scholar doesn't have to sum up (4)
6 Made known about not drinking with something on (7)
7 Unusual publication by particular children (7,5)
10 What Noel wrote starting to show shrinking quality (12)
13 One in the North may come down in superior surroundings (10)
15 Money needed to get halfway to the top (3)
18 Extra cover for pub in supplying drug (8)
20 Extend time inside (7)
22 Everyone plays the lead in such a show (3-4)
23 They turn to find the man inside killed to get a rise (6)
26 Saying nothing about time not put in (4)

Solution to 4440

ACROSS: 1 Popular. 5 Arnold. 9 Nearest. 10 Carnage. 11 Opt. 12 Abridgement. 13 Ascot. 14 Concerned. 16 Allocates. 17 Edith. 19 Crenellated. 22 Ion. 23 Pausing. 24 Another. 26 Stance. 27 Guarded.

DOWN: 1 Pandora. 2 Practical result. 3 Lee. 4 Rotor. 5 Accidents. 6 Nurse. 7 Leave unfinished. 8 Vested. 12 Attic. 14 Catalogue. 15 Emend. 16 Accept. 18 Hundred. 20 Evian. 21 Twang. 25 Ova.

The Daily Mail

Dilbert by S Adams