FOREIGN POLICY & DEFENSE

Dictator Regret

THE SOURCE: "The Costs of Relying on Aging Dictators" by Caroline Sevier, in ***Middle East Quarterly***, Summer 2008.

Egyptian president Hosni Mubarak turned 80 in May. Saudi king Abdullah will be 84 in August. Tunisian president Zine el-Abidine Ben Ali celebrated his 71st birthday last September, and Oman's sultan Qaboos is the youngster of the group at age 67. Official Washington counts these four Western-allied dictators as among the bulwarks of stability in the Middle East. None of them has a clear successor with popular support.

Egypt, home to one in three Arabs, has stifled both Islamic and secular alternatives to the Mubarak regime, writes Caroline Sevier, manager of foreign policy and defense studies at the American Enterprise Institute. Mubarak appears to be grooming his son, Gamal, as his successor, despite Gamal's lack of military and political support.

There are nearly 150 official candidates for the Saudi kingship, all descendants of the patriarch Ibn Saud, and any new king must be chosen by consensus of the roughly 7,000 members of the increasingly fractious royal family. In Tunisia, Ben Ali has suppressed opposition, along with almost all civil liberties, and prevented potential rivals from acquiring the skills, experience, and support that might allow them to step into the presidency. And Oman, bordering the vital oil corridor of the Strait of Hormuz, possesses a plan of succession decreed by Sultan Qaboos: Upon his death, his family will decide on a new sultan; if it deadlocks, he's left an envelope with his pick.

Simple biology makes it unlikely that the four leaders will govern for much longer, but there has been little contingency planning in Washington. The Bush administration once made it a priority to promote democracy in the Middle East, Sevier says, but soon retired the rhetoric in favor of promoting stability. Without more focus on the coming successions, that strategy will prove no more successful than the one it replaced.

ECONOMICS, LABOR & BUSINESS

The Rule of Slogans

THE SOURCE: "Order in the Jungle," in ***The Economist***, March 13, 2008.

Dani Rodrik, the star development economist at Harvard's John F. Kennedy School of Government, recently made a startling admission: He has been throwing around the latest big idea in economics—the rule of law—without a clear fix on what it means. The rule of law is the reigning motherhood-and-apple-pie issue of developmental economics, write the editors of *The Economist*. But although a national devotion to the rule of law seems to be an unalloyed blessing, it's a concept that eludes a universal definition, and it doesn't necessarily produce strong economic results.

Back in the 1980s, the "Washington consensus" was in vogue: Get the policies right—budgets, trade, regulation—and prosperity will surely follow. But the Asian economic crisis of 1997–98 eroded economists' confidence that they knew what the right policies actually were. It was also not clear whether macroeconomic tinkering made a smidgeon of difference if the rules of the game were a mess, *The Economist* says.

A new consensus quickly emerged. Adherence to the rule of law became the latest orthodoxy: National wealth will increase in countries that (a) establish political accountability, (b) improve the quality of the bureaucracy, and (c) follow the rule of law. Corruption should be battled. The judiciary should be reformed. Two economists even calculated a "300 percent dividend" that was supposed to accrue to a nation that significantly raised the quality of its "governance" in the long run. Sure enough, almost every rich country (with the "arguable exceptions" of Italy and Greece) scored well on the rule-of-law measures, and most poor countries did not.

Unfortunately, it wasn't obvious whether the rule of law preceded or followed economic growth. Moreover, *The Economist* points out, the rule of law has different definitions, which the writers call "thick" and "thin." Some thick-minded economists believe that the rule of law is joined at the hip with liberty and democracy. True adherence to a rule of law constrains state power, and guarantees freedom of speech and association, they say. Thin-oriented economists take a narrower view, defining the rule of law as guaranteed property rights, predictable transaction costs, and the efficient administration of justice. But in either case, why have parts of Southeast Asia and Russia grown steadily richer under the sway not of the stately rule of law, but of crony capitalism and Kremlin banditry?

Although reforms in the rule of law, whether codified as a broad right to democratic institutions or simple access to a security of property, are linked to improved economic status, the tie is weak. Improving the rule of law is desirable, *The Economist* says, but not a prerequisite for growth.

ECONOMICS, LABOR & BUSINESS

Worth Every Penny

THE SOURCE: "Why Has CEO Pay Increased So Much?" by Xavier Gabaix and Augustin Landier, in ***The Quarterly Journal of Economics***, Feb. 2008.

THE SIXFOLD RISE IN PAY FOR America's top executives over the past quarter-century has brought an outcry from populists. But economists Xavier Gabaix and Augustin Landier of New York University argue that CEO pay merely rose in lockstep with the market value of large corporations during this period. The average value of the nation's top thousand firms grew by more than 500 percent from 1980 to 2003. Average chief executive pay went up by the same relative amount.

Gabaix and Landier say that the difference in top talent is almost minuscule. The best CEO is statistically likely to increase earnings by .016 percent more than the 250th-best CEO. Even so, when that figure is applied to a $500 billion company, it amounts to an extra $80 million, hardly chump change. The astonishing pay raises for chief executives can turn out to be cost-effective.

> Executive pay raises may seem astonishing, but they reflect a corresponding rise in the market value of major corporations.

Executive salaries have not risen at the same astronomical rate in other countries, the authors say, in part because foreign firms have not increased in value at the same rate as those in the United States. But in at least one other country, Japan, where the rate of market capitalization has soared, executive pay has not kept pace. Comparing giant companies in the two countries, Gabaix and Landier found that the average compensation of Japanese CEOs was only one-third that of their American counterparts. Tokyo corporations, they say, are much more likely to groom their executives internally than to bid for CEO talent on the open market.

ECONOMICS, LABOR & BUSINESS

The Baby Penalty?

THE SOURCE: "Understanding the Returns to Delayed Childbearing for Working Women" by Kasey Buckles, and "Transitions: Career and Family Life Cycles of the Educational Elite" by Claudia Goldin and Lawrence F. Katz, in ***The American Economic Review***, May 2008.

WHY HAVE WOMEN NOT RISEN further and faster in business since pouring into the work force in the 1970s? It remains a great conundrum of the 21st century, and now two studies present new evidence on the familiar tension between family and work.

The wages of highly skilled women flatten out when they have their first child and never regain the same trajectory, according to Kasey Buckles, an economist at Notre Dame University. Although female fertility declines dramatically between the ages of 25 and 35, the typical American woman is increasingly putting off having her first baby. The first-time mother was almost two years older in 1999 than in 1982 (and since Buckles conducted her research, the mean age at first birth has risen further, to 25.2 years in 2005, the latest year for which figures are available). Each additional year of delay