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Endnotes

1. Mills and MacKinnon, p. 594.
2. Richardson, p.1.
3. Glaeser 2000, p.81.
4. Marshall, p.332.
5. Krugman.

The Quest for Prosperity: How Developing Economies Can Take Off. JUSTIN YIFU LIN. Princeton, N.J.: Princeton University Press, 2012. Pp. xvii, 322. $ 27.95.

Justin Yifu Lin's *The Quest for Prosperity: How Developing Economies Can Take Off* offers a well-written and accessible prescription for growth that is based on Neoclassical economic theory and an update of the Structuralist economics approach to development. Lin labels this blended approach as "New Structural Economics". It relies heavily on comparative advantage and market-led growth (that is, standard Neoclassical thinking) but posits that governments can play key roles in fostering growth ("old" Structuralist ideas). Although Lin makes a persuasive case for his hybrid approach to development, and while there is case study evidence that such an approach has succeeded, it is also quite possible that Lin's prescription for growth may be damaging, if unsuccessful, for a large portion of the world's population that lives in locales that are sorely lacking in terms of development.

Rooted in a neoliberal perspective, Lin's New Structural Economics prescription departs from a more passive role of government, in the form of encouraging growth via efforts to create market conditions and environments that are conducive to growth and development, to a more active role wherein governments, effectively, select winners (and losers) and then act to support their picks. Lin envisions a role for government that amounts to a form of economic planning. Lin refers to this as Growth

Identification and Facilitation (GIF). Therein lays the potential for great gains in the form of more rapid development and a corresponding potential for policy failure. The role of government, in Lin's prescription, is the linchpin: If government is both willing and able to act as some sort of benevolent Hobbesian Leviathan, then the proposed blend of Neoclassical doctrine and Structural Economics stands a much better chance of providing the desired outcomes than if governments and policy makers are either unwilling or unable to act with their constituents' best interests in mind.

Before describing the steps in the GIF process, it is important to explain Lin's rationale for government involvement in the GIF process. Lin posits that, because firms lack information about their countries' latent comparative advantages and, thus, which industries would be most likely to achieve success in international markets, government may play a guiding role through the collection and provision of such information. Here, the role of government is based on the notion that information collection is costly but that the marginal cost of dissemination is low; thus, information is akin to a public good. Additionally, government may be able to play a pro-development role by influencing the availability and quality of those factor inputs (for example, physical and human capital) that are necessary to exploit the countries' latent comparative advantage. This approach amounts to a pro-growth and development industrial policy that focuses on an active government role in i) the identification of those industries that are most likely to be successful in international markets and ii) in providing support for such industries.

The steps associated with Lin's GIF process are as follows. First, the government of a developing economy should identify similar economies, in terms of output composition and factor endowments, that have demonstrated success in exporting for at least two decades and that have GDP per capita values about two times the level in the developing economy. Second, the government should support domestic industries that are already active in the production of goods and services identified in step one. This support may involve reducing obstacles that limit quality upgrading or that lower any barriers that limit the entry of new firms. Third, if domestic producers are not already engaged in the production of the goods and services identified in the initial step, then the government should encourage inward investment from higher-income countries and domestic investment that supports such production. Fourth, the government should remain aware of domestic innovations that have the potential to augment the country's comparative advantage and must be willing to support associated firms and industries. For both the third and fourth steps, the government may need to facilitate the creation and expansion of new production through an incubation-type process. Fifth, the government should pursue the creation of industrial parks and/or export processing zones, especially if the hard and soft infrastructure needed to support production is lacking. Sixth, the government should offer incentives to firms and international investors that engage in the production of those products identified in step one to both encourage production and to compensate the producers for the knowledge spillovers generated by their activities.

While all six of the abovementioned steps require a heavy dose of government involvement, the underlying principle that guides production is comparative advantage. Here is where Lin's work seems most problematic. Lin's prescription relies, in part, on the time-tested, market-based principle of comparative advantage that tells us pursuit of self-interest yields an optimal outcome. That is, we are able to enhance our welfare by focusing our productive efforts on providing goods and services for which we are best suited, in a relative sense, and then trading for those products we are relatively poor at producing. This applies to individuals, firms and, in aggregate, to countries. The other aspect of Lin's prescription involves government engagement to facilitate the process of specialization and trade in accordance with comparative advantage but, contrary to comparative advantage, the behavior of government posited by Lin is inconsistent with policy makers or government necessarily acting in their self-interest. We are left with two actors – producers and government – with the latter somehow eschewing the pursuit of self-interest while the former wholeheartedly embraces this pursuit.

Because Lin served as the Chief Economist of the World Bank from 2008 through 2012, affords him, across certain circles, equal amounts of credibility and skepticism. In spite of the criticism offered here, Lin's work is nonetheless useful in that it may result in improvements in the lives of many, many individuals. Moreover, this book may prove beneficial even if it only accomplishes a movement of the discussion on what pro-development policies should be pursued from prescriptions rooted in theoretical dogma and towards a more pragmatic perspective that emphasizes whatever facilitates development.

The merits of comparative advantage are unassailable; however, the notion of effective governance in developing nations is, generally speaking, at odds with even casual observation. Far from wishing to appear disparaging when noting that good governance is lacking in the developing world, the Global Governance Indicators of the World Bank – where, again, Lin was the Chief Economist – clearly indicate this to be true. Yet Lin appears to assume the proverbial "can opener" when offering an otherwise solid and interesting path for policy makers to pursue.

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Banking on Democracy: Financial Markets and Elections in Emerging Countries. JAVIER SANTISO. Cambridge, MA: The MIT Press, 2013. Pp. xxxi, 317. $40.00

In this book the author employs emerging markets financial data, analyses of results from broad-based data sets and related empirical studies, historical accounts and references to address a key question: is there a democratic premium or preference for democratic regimes by financial markets? Although it makes reference to earlier times, the main focus is to provide a detailed picture of the ever-changing landscape of emerging economies with their diversity and elevated importance as places for worthy financial investments relative to developed economies. In the 2000s this importance is illustrated through the diverse nature of multinational activities within emerging economies, increasing share of international reserves belonging to emerging economies, the expanding community of financial experts devoted to emerging markets, and the development of money centers within emerging economies. These major shifts led to the emergence of the Group of Twenty (G20) as the primary focus of global economic coordination and the shifting of investment strategies by major global investors in favor of emerging markets. However, the main emphases of these shifts were the super-emerging economies of Brazil, Russia, India, and China in spite of recent considerations given to others such as Indonesia, South Africa, and emerging Europe.

One approach to the question involves a careful review of major emerging-market financial indices and their relation to observed