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

democracies in emerging economies. Detailed data analyses on the composition of major financial indices for emerging economies reveal a general preference for democracies, with the notable exception of China. However, the author cautions the reader in regard to the sometimes limited coverage of the indices. The book reveals a primary focus on only 35 emerging economies in most of the emerging-market financial indices and draws a conclusion of an incomplete cognitive world map relative to emerging economies even after considering recent expansions and rebalancing efforts. This preference for democracies is less apparent in the results of subsequent studies presented in the book.

The author emphasizes importance of Brazil in Latin America and as an emerging financial market. An entire section (*The Brazilian Confidence Game*) delves into a more detailed analysis of the political preference of global financial markets with a closer look at Brazil through the elections in 1994, 1998, 2002, and 2006. The author does a masterful job of explaining how the loss of confidence prior to the elections of 2002 illustrated the negative confidence multiplier effect that could have led to severe economic consequences for Brazil. The multiplier effect resulted from the perception that the possible election of a left-leaning candidate (Lula) may lead to economic policies that would be unfriendly to the global financial markets. The discussion provides detailed accounts of the government's efforts to boost confidence and calm the markets including a pre-election agreement with the International Monetary Fund (IMF). There was renewed confidence in Brazil as a place for future investments by the 2006 and 2010 elections because the policies of the government that were viewed positively by the major global financial players, the discovery of new oil fields and the global liquidity glut.

In order to determine whether the case for Brazil before 2006 and after was unique, the author integrates a larger database on emerging bond markets from the largest nine economies in Latin America and data on broker recommendations before the 2006 and subsequent elections. Similar conclusions are made for other Latin American countries in Fund Managers and Elections. There is still evidence that investment-bank recommendations are influenced by expectations about election results and the perception of the policy credentials of the candidates. However, due to the absence of major financial disruptions, there seems to be perceived reduction in uncertainty associated with election results and policy regimes that follow elections beyond 2006.

In subsequent sections the author uses similar approaches to investigate the behaviors of fund managers and bankers in relation to elections and the democratic premium. In *Fund Managers and Elections*, the author analyzes whether fund managers have political preferences in their asset allocation decisions. Using broader data sets on emerging equity and bond markets, and elections, the analysis generally suggests a relationship between elections and portfolio flows. As in previous sections the impact of elections on capital flows was not noticeable if the incumbent won the election. In *Bankers and Elections*, the author discusses the added dimension of investing due to ethical and sustainability issues in the 2000s including the adoption of Equator principles and guidelines by the International Finance Corporation. The author uses data on relatively large amounts of cross-border flows from Latin America and Eastern Europe to emphasize the primacy of political trends and risks. There is some evidence of preference for emerging democracies. The section also emphasizes that the preference was attributable to improved monetary policy and trade policies, privatization, and the expectations of accelerated growth. The value of impact-investing is not clear because the study demonstrates significant risk taking relative to China, in spite of evidence that investors and bankers were intent on making changes in regard to human rights.

In the section on *Political Business Cycles*, the book explores the reason why positive and negative tendencies of brokers and managers expect to be multiplied during election periods. The primary case is made for a relatively stronger link between political cycles and business cycles using evidence from Latin American emerging markets when compared with OECD countries. Through stylized facts and empirical investigation, the author shows that there was a more pronounced fiscal deterioration in Latin American emerging economies than in OECD economies prior to elections. This is not significantly different from the results of previous studies. Most observers of political and economic trends in emerging markets and developing economies would agree because there is the tendency for incumbent candidates to increase spending on projects that would directly impact the voters.

Throughout the book and discussion of different studies, it was apparent that global investors may not generally favor countries that are more democratic over those that are less democratic. However, the author makes a very strong case that elections can be critical junctures. Hence,

levels of uncertainty could rise significantly before elections depending on how the markets perceive the policy stances of the major candidates or parties and the presence or lack of a confidence anchor. Also, global financial markets and their participants are constantly learning and adjusting. Hence, policies following elections are important as they may be the cause of less or more financial disruptions in subsequent elections. A reflective discussion on the performance of the major emerging economies relative to the developed economies during the financial crisis of 2008 to 2012 makes a case for the improved fiscal resilience of emerging economies and a reconsideration of how global investors view overall risks due to macroeconomic disruptions in emerging economies. Although its main focus is Latin America, the book presents convincing country and regional accounts and discussion of the evidence regarding the political preferences of global investors and market uncertainty associated with elections in emerging economies.

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Giving Kids a Fair Chance: A Strategy That Works. JAMES E. HECKMAN. Cambridge, MA: Boston Review Book, The MIT Press, 2013. Pp. 137. $14.95.

In *Giving Kids a Chance*, James Heckman writes to a general audience about the importance of early childhood development of cognitive and non-cognitive skills and how effective childhood development leads to later economic and social success. His basic claim is that we need to develop more effective programs for disadvantaged pre-school infants and young children. He presents evidence of recent deterioration in the quality of early childhood development and shows the importance of early investments to the life chances of these children. Finally, Heckman describes two early childhood development pilot programs that were run about 40 years ago that involved extensive long-term follow-ups of the participants. He advocates bringing programs of this nature to scale to serve disadvantaged infants and pre-school children.

Heckman begins the book with his essay on early childhood development. Heckman's essay is followed by eleven critiques by experts