

Latin America's Political Economy of the Possible: Beyond Good Revolutionaries and Free-Marketeers, JAVIER SANTISO, Cambridge, MA: The MIT Press, 2006. Pp. xix, 250.\$27.95

Javier Santiso hypothesizes and concludes that, in general, policy makers in Latin America have moved to an eclectic model of development where they adopt policies as needed instead of relying on overarching economic models, such as Marxism-Leninism or the free-market, which tend to have a ready answer to most problems—namely, if there is an economic problem, let the state regulate or, alternatively, diminish government regulation. Santiso first develops the general argument in chapters one to three; he next explains how his central hypothesis applies in Brazil, Chile, and Mexico, followed by a brief recapitulation of the hypothesis and the experiences from these countries; third, Santiso explores Argentina and Venezuela which do not fall neatly into his scheme; lastly, he offers a conclusion.

In the first chapter, Santiso describes how over time Latin America has significantly shifted in political and economic paradigms quite significantly: First attracted by the promises of Marxist-inspired models, leaders then shifted to neo-classical economic models. He argues that Latin America is susceptible to promises of utopian models because it originated at the precise moment when the notion of a better future emerged in western thought. That is, where the vision of life as “poor, nasty, brutish, and short” (p.10, quoting Hobbes) gave way to prospects of a better tomorrow, and this tomorrow, in turn, “was not to be shaped by the will of Providence but rather something to be built with the help Fortune, and also through the exertion of effort in both the political and economic realm” (p.11). And it is in this fertile soil where revolutions and shifting paradigms can take hold.

For purposes of Santiso's main argument this explanation is not necessary. It may have been sufficient to say Latin American countries have shifted economic paradigms, but now they have moved beyond this. It is, however, a pleasure reading a book in which the author is able to credibly quote Hobbes, Erasmus, Machiavelli, and More in one single page. In later chapters, he ably quotes many of the great Latin American writers to make his case.

In the second chapter, Santiso concludes that democracy is taking hold in Latin America, even though in some of these countries presidents have relied too much on decrees to implement their policies. Generally,

Santiso supports his hypothesis well. While making these arguments he stresses problems democracy brings for politicians with relatively short terms in office when the policies they pursue may have many short-run costs and mostly long-run benefits.

In the third chapter, Santiso argues that while Latin America's economies remain unstable, they are less so today than they were a decade ago; in addition, their ability to recover from economic crisis is increasing. He also underscores the need to reduce the time required to do business, citing several examples of current problems. After further argument, he concludes that despite the move to the left in some countries, in general "leaders no longer have carte blanche to try out their medications and therapies on the social body, where macroeconomic prudence now trumps any fiscal or monetary adventure". (p.94)

In the following three chapters, Santiso argues that Chile, Brazil, and Mexico are examples of the new paradigm of the "political economy of the possible" (a phrase borrowed from Albert Hirschman, to whom this book is dedicated). In these countries there has been a shift away from statism to an overall commitment to the free market with significant room for government regulation. Santiso provides numerous examples of this shift. For instance, while pension reform in Chile included privatization, it came with significant government regulation; and in both Brazil and Mexico important social programs have been implemented in tandem with market reform. So, while Chile, Brazil, and Mexico are generally committed to the free market, there is pragmatism in policy making, where the adoption of policies is designed to address specific problems and do not follow an overarching model. While there are some variations in these countries, the economic formula has been one of fiscal and monetary restraint, market reform (mostly deregulation), and social programs.

Santiso, further argues this political economy of the possible appears to have institutional anchoring: Economic policy survived transitions in governments. As governments have changed in Chile, Brazil, and Mexico, the new governments have remained committed to maintaining fiscal and monetary prudence, opening the economy and deregulating the market, while leaving room for social programs and government regulation of particular markets. In Chile, this commitment has been in place since President Frei took over from Pinochet; in Brazil, President Lula generally maintained Cardoso's economic model; in Mexico, this commitment goes back to the governments of Presidents de la Madrid,

Salinas, Zedillo, and Fox.

In chapter seven, Santiso documents that this movement to more orthodox economic policies can retreat as Argentina and more so Venezuela have shown. Yet, the pragmatic policies of Chile, Brazil, and Mexico may inspire other countries. For instance, in Colombia similar economic policies seem to have taken hold, in Uruguay a leftist coalition has introduced fiscal and monetary orthodoxy.

While Santiso is skeptical of the Marxist-inspired Revolution and of pure neo-classical models, he concludes that institutional anchoring of prudent fiscal and monetary policy, protection of property rights, general commitment to the market, openness to trade, and government control when needed are both engines of growth and inhibitors of populists drifts.

Because his project is ambitious, Santiso had to paint with broad strokes where much significant detail is left out. This, however, would be true of any book on a region as large and diverse as Latin America. I recommend this book for anyone curious and concerned about current events in Latin America. Santiso's conclusions (and wishes) are reassuring. May the institutional anchoring of prudent fiscal and monetary policy, protection of property rights, general commitment to the market, openness to trade, and government control when needed he sees happening in most of Latin America (with acknowledged exceptions) continue to deepen and expand. Amen.

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Competition and Growth: Reconciling Theory and Evidence. PHILIPPE AGHION AND RACHEL GRIFFITH. Cambridge, MA: The MIT Press, 2005. Pp. x, 104, \$28.00.

In this book, Philippe Aghion and Rachel Griffith examine the causal relationship between changes in product market competition and economic growth. They analyze two conflicting views: (1) the prediction of theoretical (growth and industrial organization) models that increased competition dampens economic growth by reducing the rents from innovative activity; (2) the common wisdom and supporting evidence from empirical studies that competition encourages growth by forcing firms to innovate and to be more efficient. Aghion and Griffith attempt to