

Nudge is all bacon. It carpetbombs the reader with interesting anecdotes, and while none quite match the best of the ones in *Freakonomics*, the sheer number and variety create an informative and readable book. The timeliness of their work is also a point in their favor—for instance, the discussion of how to implement peak-load pricing, whereby utilities change the cost of energy to the user on an hourly basis, is being discussed in Congress right now. The vignette is a great example of the strength of the book: the typical reader can quickly grasp that it would be a great benefit to create a pricing system that deters energy usage during the peak demand times of the day, since the surge in demand necessitates older and invariably less efficient and dirtier plants to operate for that short period. However, it is not at all obvious that the way the utility conveys this information to the customer is important, and to read how power companies devised a simple yet powerful way to do so feels like actual learning is taking place, which can be fun and quite satisfying in small doses.

It takes a while for new ideas in economics to become digested by the profession and become relevant for policy, and *Nudge* is in many respects the official coming-out party for behavioral economics. It may take a while to get to the next step, where politicians misinterpret, distort, and exaggerate the authors' ideas for their own narrow political gains, but it is only a matter of time before we get there.

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Forgotten Continent: The Battle for Latin America's Soul

Michael Reid

New Haven and London: Yale University Press, 2007, 384 pp.

For most of this decade, Latin America has been neglected by the developed world. At least that is a recurring grievance from leaders and specialists in the region. The attention of rich countries has switched to terrorism in the Middle East and poverty in Africa, while pressing needs and conflicts remain unattended in Latin America.

Judging by the title of his book, Michael Reid, editor of the Americas section of *The Economist*, would seem to follow this argu-

ment. However, he presents an optimistic overview of the region and its prospects for the future. He claims that despite being “largely overlooked by the outside world, most of the ‘forgotten continent’ is moving forward on a path of democratic reformism, even if that is contested in some places.”

Reid knows the region well. For almost three decades he has been in the frontlines of reporting. He has the rare quality of being an insider and an outsider, having interviewed many Latin American leaders throughout the years but also having spent time in places such as the shantytowns of Lima or the mountains of southern Mexico. His work greatly benefits from that.

Reid argues that democracy is finally taking hold in the region. Despite the setbacks that the rise of populism represents in countries such as Venezuela, Bolivia, and Ecuador, there seems to be an emerging consensus in Latin America that favors sound macroeconomic policies and representative constitutional governments. Thanks mostly to the market reforms implemented in the 1990s—the much condemned Washington Consensus—the region has enjoyed several years of robust economic growth that, unlike previous episodes, looks sustainable and is benefiting the masses. This growth has had several consequences, not least the emergence of a socially ambitious middle class grounded in a thriving private economy rather than government employment. The future of Latin American countries as liberal market democracies depends heavily on consolidating and strengthening this nascent middle class.

However, there are serious challenges still facing the region. Poverty affects 36 percent of the population. Unemployment and crime top the surveys as Latin Americans’ major concerns. But according to Reid, inequality is the greatest obstacle for the consolidation of democracy. He has a point: Latin America is the most unequal region in the world, and autocratic populism seems to flourish in those countries where the masses feel excluded from the benefits of economic growth. That discontent then explodes in the ballot box with the election of the likes of Hugo Chávez and Rafael Correa.

Unfortunately, Reid exaggerates the negative consequences of inequality and fails to properly acknowledge some of the reasons it persists. For example, he positively mentions a “new consensus” that extreme inequality is in itself a drag on economic growth. Reid fails to mention the case of Chile, which has both one of the most unequal

income distributions in Latin America and the region's best-performing economy.

Reid recognizes that lack of property rights and obstacles to joining the formal economy create serious problems that need to be dealt with. He believes, however, that the road to "socio-economic equity" will be paved by decisive government action such as effective land reform, more and better provision of public services—education and health care—and conditional cash-transfer programs similar to those implemented in Mexico and Brazil. He acknowledges that the public education and health systems are dismal failures without suggesting any convincing solutions. Reid goes so far as saying that the most disappointing feature of populism is not its impoverishing economic policies or its reliance on autocratic means (although he mentions these) but its failure to seriously attack inequality.

Inequality is a problem as long as those on the bottom are excluded from the formal economy and have no hope of moving up in the social ladder. The best recipe lies in empowering people by recognizing their property rights and eliminating bureaucratic regulations that keep 40 to 60 percent of Latin Americans working in the relatively unproductive informal sector. Reid misreads this phenomenon when he argues that the main causes of informality are the lack of job creation in the formal sector and an abundance of unskilled labor.

While the author destroys populist myths, he reinforces others propagated by the Washington establishment. Some of the myths repeated throughout the book: Argentina's convertibility system of the 1990s made exports uncompetitive by tying the value of the peso to the dollar (actually the country's exports increased in every year except for one during convertibility); governments are ill-positioned to provide basic services and infrastructure unless they collect more money in taxes (although he later admits that current public spending is highly inefficient); Chile's private pension system has serious coverage problems that will require a complementary government pension scheme (in fact, coverage in the private system is growing and higher than that of the previous old public system it replaced).

Also troubling is the terminology employed: Chile's "Chicago Boys" are dubbed both "liberal" and "neoconservative." Cuba's dictator Fulgencio Batista formed a government of "socialist and radical liberal inspiration." University students will have a tough time sorting out the true meaning of those terms.

Notwithstanding these shortcomings, *Forgotten Continent* provides a compelling rejection of populism and a strong call for open economies and liberal democracies. Few books on Latin America present this case, making Reid's effort all the more valuable to the current debate. Yes, the region has been largely off the radar screen in the developed world in recent years. But if that is the price of attaining normalcy, the "forgotten continent" will not mind being forgotten.

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Heads in the Sand: How Republicans Screw Up Foreign Policy and Foreign Policy Screws Up the Democrats

Matthew Yglesias

Hoboken, N. J.: John Wiley and Sons, 2008, 229 pp.

Credit where credit is due: At 229 pages, Matthew Yglesias has written the world's longest blog post. The first of a generation of journalists who came to prominence through their personal weblogs, Yglesias now blogs professionally for the Center for American Progress. *Heads in the Sand* has all the virtues and flaws of the medium Yglesias helped pioneer. It tends toward bite-sized arguments and pith over substance, which leaves some of the chapters with a stapled-together feel. *Heads in the Sand* gives the impression of a Web journal read straight through, with an extremely thin set of footnotes substituting for links. Nevertheless, the book is by and large excellent. It is full of wit and erudition, stringing together a series of incisive arguments about politics and foreign policy.

The book focuses on a vital subject: how the American body politic blundered so catastrophically into Iraq. Yglesias finds the root of this error in a Democratic Party whose ignorance and fecklessness prevented it from providing coherent opposition to the president's war schemes, both initially and over the first years of the war. This allowed Republicans to do what Yglesias's Republicans do: screw up foreign policy.

Heads in the Sand contains two primary arguments. First, it outlines a typology of foreign policy traditions in American history: isolationism, liberal internationalism, and a nationalist conservatism.