prices relative to coal. Policy goals have been articulated that will aid in the task of reducing CO_2 emissions, including increasing the share of rail transportation compared to road transportation. In addition, renewable energy sources continue to be explored in an effort to diversify and expand India's current energy production capabilities. Wind and small hyrdropower have shown the greatest potential for GHG mitigation in the short run, biomass in the medium term, and solar in the long run. Nuclear power accounts for a small fraction of power generation and, like other cleaner and renewable energy sources, its growth is shown to be constrained by sociopolitical factors.

The role of energy conservation as part of the solution continues to be stressed, and appropriately so. The book indicates that in India, as with most of the developing world, increased efficiencies are often possible in electricity transmission and distribution (for instance by reducing/eliminating pilferage and nonmetering; improving appliance standards and labeling; and promoting consumer awareness). In addition, the book advocates enhancing carbon sequestration through afforestation, reforestation, and regeneration, important since the forest sector is currently considered to be a net emitter of CO_2 due in large part to rural household reliance on wood for fuel.

The book reveals that the policy tools for environmental protection in India are based on standards and regulation. Economists generally advocate incentive-based policies such as taxes or tradable permits; however, it is emphasized in the book that the literature is less clear about the effectiveness of these policy tools in the presence of large pricing distortions in the energy sectors of most developing countries. Chapter 7 concludes that, one way or another, there appears to be a role for regulatory and institutional reforms to achieve cost-effective reductions in CO_2 emissions even when these reforms are not motivated by a desire to reduce such emissions.

The link to international climate policy is important and a commendable feature. Some of the approaches advocated (such as an international emissions trading system with variations for developed and developing countries to allow for greater equity, Chapter 14) are fairly novel. Implications abound for developed countries, too, in the latter part of the book which deals with emissions trading and similar market-based abatement instruments.

One gets the impression that the demand side offers a relatively sizable potential for GHG mitigation in the short run, while the supply side appears to have more potential in the long run. Demand side interventions include increased efficiency of existing technologies, increased consumer awareness, and fuel source switching. Not surprisingly, major impediments to reform processes that lead to energy efficiency appear to be institutional rigidities coupled with a lack of political will to effect reforms. Perhaps greater reliance on participatory approaches and stakeholder involvement (the model used with much success in water quality management in the United States, for example) can overcome such impediments; however, there is limited discussion of this issue.

In conclusion, this is a must-read for those interested in learning more about a burning issue that has consequences for several generations. The book leaves little doubt that the planet needs to go on a low-carb(on) diet. The issues addressed in this insightful book are serious ones and necessarily ensure that this discussion is not likely to cool down any time soon. If we don't pay heed, we may have to take the heat!

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Obstfeld, Maurice and Alan Taylor, eds. *Global Capital Markets: Integration, Crisis, and Growth*. Cambridge, UK: Cambridge University Press, 2004, 354 pp., $60.45.

As the twenty-first century dawns, there is almost universal agreement that global financial integration will play an important part in shaping the development trajectory of countries. Global financial integration, however, is a process. This makes it a useful concept for a historical study on the evolution of capital markets. Knowing what variables predict capital flows and their composition, where capital flows and why, and how the benefits from greater capital market integration are distributed provides policy setters with a better understanding of the constraints that global capital markets place on their policy choice calculus.

In this book, two renowned scholars tackle some of these questions by presenting a new economic history of international capital mobility. Obstfeld and Taylor argue that the laissez-faire attitudes characteristic of late nineteenth-century finance have their antecedents in the seventeenth-century money markets of London, Antwerp, and Amsterdam. Centuries of financial innovation with state support culminates in a "liberal economic order" in the late nineteenth century. This is a period exemplified by the free movement of persons, commodity, and capital. The authors emphasize that the late nineteenth century compares in magnitude to the degree of financial integration in the late twentieth century. This leads them to state a central theme running through the book that, global capital market integration is not a new phenomenon.

Given the title, the biggest part of the book is the "integration" part. This relates to the exhaustive evidence provided to document a "U-shaped" pattern of global financial integration. The U-shaped pattern refers to the time trend of the degree of global financial integration: global financial integration falls from its peak in the late nineteenth–early twentieth throughout much of the early and mid-twentieth century, but then rises again in the post-Bretton Woods period. The U-shaped pattern of global financial integration creates the groundwork for a second theme running through the book: that, economic policy under global capital integration has ubiquitously been characterized by the fundamental macroeconomic policy trilemma that governments face. The trilemma is a way of describing a government's choices from three goals: pegging the exchange rate, keeping capital markets open, or conducting an activist monetary policy. The trilemma arises because a government can only choose two of those policy goals at one point in time.

The first part of the book (Chapter 1) sets the stage for the rest of the book. It offers a stylized description of global capital market evolution. It starts by detailing the historical development of capital mobility through the nineteenth century. Four subperiods are delineated. A period in which there is a surge in capital mobility from 1870 to 1914, which although impressive, does not endure. In the interwar period from 1914 to 1945, the free flow of goods, people, and capital comes to a virtual standstill. During the Bretton Woods era from 1945 to 1971, capital markets recover slowly. Finally, after 1971 in a post-Bretton Woods era, most capital flows surge again.

The second part of the book (Chapters 2 and 3) provides an impressive survey of the development of capital markets over the late nineteenth and twentieth centuries. Two empirical chapters detail the quantity and the price evidence to quantitatively examine the evolution of capital mobility. Both the quantity and the price evidence are used to reinforce the conjectured U-shaped pattern of international capital mobility over the twentieth century for a variety of measures. The decline in financial integration during the interwar period occurs because of a change in the underlying political equilibrium. Accordingly, changes in the degree of financial integration are driven by policy shifts that represent new politicoeconomic equilibria, not changes in the available technology. What is less emphasized in these chapters is whether the kind of capital flows during earlier periods of financial integration were different and why, and whether this might have changed over time. This has become important especially in the aftermath of the financial crises. One would also liked to have seen a discussion of how and why have the incentives to invest abroad in the beginning of the previous century versus now changed. If some similarities could be found then these variables would become important predictors of capital flows.

The third part of the book (Chapters 4, 5, and 6) seeks out a political economy rationale for the evolution of international capital markets. Most of the twentieth century is characterized by radical experimentation in political economy and monetary policy. For instance, the Bretton Woods era is a period in which currency pegs and capital controls form the foundation stones of a new financial architecture. This contrasts with the period under the gold standard before 1914 in which direct controls over private exchange transactions were rarely employed. The authors conclude that over the past century or so, exchange rate floats have permitted more interest rate independence than pegs, except when currency pegs have been combined with capital controls.

This part constitutes the crux of the book. The empirical and anecdotal evidence presented in this section is useful because it complements a large body of theoretical work that has evolved in the last couple of decades incorporating political economy into the capital market integration literature. The authors conclude that a perspective of financial integration based on the trilemma is not that global capital leaves policy makers with no choices—but only a more limited set. In addition, since the politically feasible policy set is smaller than the economically feasible set, this also has important implications for the kind of policies that emerge in equilibrium.

The final and fourth part of the book (Chapters 7 and 8) is the most interesting and raises several open research questions. These chapters contrast the involvement of rich and poor countries in the global capital market. For instance, Chapter 7 provides a nice overview of developing country participation in international capital markets. What is of interest is how capital flows have changed over time—also this time mainly for political economy and institutional factors. The authors argue that very little capital flows from rich regions to poor regions. Modern capital flows now take the form of diversification finance as opposed to development finance. In turn, these forms of finance are intended largely to reduce risk through the fine-tuning of portfolios. This takes us back to the old Lucas paradox: if countries with high marginal products of capital do not see capital inflows, this suggests that the world behaves differently from the neoclassical model, and that other factors are important determinants of capital market integration.

In Chapter 8, the authors try to estimate the welfare gains from financial opening. An obvious benefit to countries from open capital markets is the ability to converge more quickly to their desired capital-stock levels by borrowing foreign savings. A methodological problem with the analysis is whether the representative agent framework may be too stylized when examining developing country issues. In the end, the authors suggest that institutionally weak countries gain little from financial opening, but those that embrace modern economic growth and engage in "serious reforms" stand to benefit greatly.

It is, however, now well recognized that even developing countries that were "serious" about development have not always gained from capital mobility. Indeed, one gets the impression that the authors push the point too far that if capital mobility did not help developing countries then it is their own fault. They also point out that the decision for financial opening comes about through a "political equilibrium." However, this line of argument is not sufficiently developed as it relates to financial openness emerging as a by-product of open trade policies or financial repression. It would also have been nice to see a more detailed discussion of how the Latin American experience with financial liberalization has differed from the Asian experience.

Finally, the title is a little misleading since there is virtually no discussion of the "crisis" aspect of capital market integration in the book. In fact, the discussion on volatility and crisis are relegated to the last handful of pages even though the title of the book contains the word "crisis" in it. If there were a history of crises, then one would like to know how these came about, what historical and political economy factors instigate financial crises, what happens to net foreign assets in the run-up to crises, and whether changes in net foreign assets are generally transitory or persistent around crises. Indeed, the study of financial market integration has been motivated by the incidence of crises.

Bottom line. This is an excellent book that makes a valuable contribution to the literature. An important part of this contribution is in laying out the institutional and historical framework behind the rise and fall of global financial integration. The book also has a very strong (monetary) policy focus. This would make it particularly useful to academics and policy people working with macroeconomic stabilization policies. As in most of the book, the material is explained in a nontechnical way. This helps to explain it to an audience that does not have a prior specialized training in economics, and makes it broadly accessible. Having said this, one shortcoming of the book is that lacks a historical analysis of costs and benefits of capital market integration. However, there is no doubt that this should be essential reading for everyone working in the capital market integration/political economy/growth literature.

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Bigman, David, ed. *Globalization and the Developing Countries: Emerging Strategies for Rural Development and Poverty Alleviation*. The Hague, Netherlands: CABI Publishing, 2002, xv + 336 pp., price not quoted.

While the process of globalization underway over the last few decades may have benefited some countries, it is now felt that it may have by-passed many others, particularly in sub-Saharan Africa, West Asia, and the erstwhile Soviet Union. Even in countries that benefited from globalization, those in the remote rural areas did not, and poverty in those regions actually increased. It is these countries,