The Chains of Finance: How Investment Management is Shaped
By Diane-Laure Arjaliès, Philip Grant, Iain Hardie, Donald McKenzie, Ekaterina Svetlova
Oxford University Press

The book under review elaborates on the "chains of finance". The first "link" of the "chain" is, of course, the savers/investors of all sorts and the last is the companies, or the governments which issue stocks, bonds and other financial assets. In between lie the intermediaries which bring the two ends together. These are the internal "links" of the chain. Alongside these links there exists a set of external "actors": Investment Consultants, strategists and economists, rating agencies as well as regulatory and tax authorities which intervene all along the "chain". What is the impact of these financial intermediaries and their interconnections on asset returns and market volatility?

It is a highly topical field of research. The growth of the financial sector over the last thirty years and the financial crisis of 2007–2009 which followed it brought financial intermediation to the top of the agenda of the economic profession. A popular framework considers financial markets as networks including formal and informal intermediaries. As indicated in Chapter 1, the "chain of finance" is a subset of such networks. An important subset indeed, since about 87 trillion dollars, an amount exceeding the world GDP, is managed by institutional investors like pension plans and wealth funds.

However, the "chain" methodology goes beyond network theory. It focuses on the motivation of the various "actors" that participate in the investments' world and the interactions that arise from them. This way the role of the different participants is considered against the outcome and the focus is not limited only to the "decision makers". By researching each category of internal and external "actors" the impact of the "chain" is revealed in the book chapters. The authors have conducted over 400 interviews with "buy side" intermediaries and "sell side" traders.

The conclusion of the book is that the "chain" matters. It shortens the investment time horizons, through active fund management. Moreover, chapter 7 discusses how the short-term investment frontier undermines the efforts of trade union pension plans to impose better conditions for their members by investing in the company they work for. Finally, the internal chain of investment management firms hinders environmentally responsible investment, as explained in chapter 6. In short, the book argues that the operation of the "chain" does not ensure that investor preferences will be reflected in final investments. Therefore, the "chain" influences market volatility and returns.

The problems of the "chain" do not fall in the category of "principal-agent problems". This means that information asymmetries are not the critical factor. In chapter 2 it is argued that investors will never fully understand the operation of a fund since they do not participate in the discussion on investment decisions. Chapter 3 highlights the fact that increased performance information leads to the lengthening of the "chain" since more data needs to be analysed. Therefore, in some circumstances, increased disclosure and monitoring of investment managers may aggravate rather than resolve the problems of the "chain", as investment fund trustees have information processing limitations of their own. These problems are reflected in "closet benchmarking" and "leaning for the tape" practices, as discussed in Chapter 1. Nevertheless, chapters 6 and 7 make a case for additional disclosures through the extension of the fiduciary duty to include non-financial concerns, like investment responsibility.

In the same fashion, policies "shortening" the "chain" and facilitating direct investments will result to loss of expertise. The book stresses that, although some links of the chain are there simply to demonstrate that things are done "by the book", as discussed in chapter 2, they also solve clear problems. The idea that a shorter, "in-house" "chain" will reconcile priorities is not self-evident. On the contrary one of the most important conclusions of chapters 2-7 is that the presence of different interests within financial institutions is the norm.

The book criticises existing regulatory policies and makes some interesting, if inconclusive, policy suggestions. The key idea is to focus on management fees transparency and reduction of active management compensation, using index-chaser funds as a pressure mechanism. In the optimistic scenario, lower fees may lead financial intermediaries to exploit economies of scale and integrate vertically tempering the problems of the "chain".

I fully recommend the book for productive reading because it touches on an important issue: that financial intermediation is not passive. It is a problem which haunts "representative agent" asset pricing models like the CAPM and is responsible for their empirical failure. Although it takes a decisive step in the right direction, by introducing the "investment chain", the book does not consider its "links" as profit-motivated entities. If they had done so a new asset pricing theory would emerge.

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Poverty reduction in the course of African Development
By Machiko Nissanke and Muna Ndulu
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The limitations of assessing growth outcomes independent from their impact on poverty, inequality and employment, have been long known. This has spurred new (composite) measures of development, reflections on what should ultimately be the objective of development and how policy can achieve poverty reduction alongside growth. Theoretical contributions also suggest that high levels of inequality and poverty themselves negatively affect growth, be it by contributing to political instability, limiting access to education and credit or undermining the growth of purchasing power. In short, the questions how