

Book Reviews

International Political Economy in the 21st Century. Contemporary Issues and Analyses

By Roy Smith, Imad El-Anis and Christopher Farrands

International Political Economy in the 21st Century (Longman Ed. 2011, 233 pages), is a good introductory book to International Political Economy (IPE). As the authors highlight in the introduction, the book aims to introduce the topic to IPE novices or as a supplement to prior readings in related fields. Smith, El-Anis and Farrands guide the reader to basic concepts, theories and perspective to IPE and deliver an easy to understand book that is also very helpful for forming a working vocabulary and a general understanding of IPE.

The book has twelve chapters divided in three main parts. The first part is dedicated to the theoretical positions of IPE, the foundations of the discipline and its main approaches. The three chapters dedicated to the theory are presenting it in the usual way. The first chapter, is dedicated to realism, liberalism and Marxism, is giving an overview on the historical development of the theoretical approaches to the study of IPE. The chapter also highlights the relationship between the development of a theory and real-world events, which helps in building up knowledge and critical thinking necessary for a good understanding of contemporary issues. The following chapter is dedicated to the mainstream theories (neo-realism, neo-liberalism and structuralism) that have developed since the 1970s, bringing the study of IPE to contemporary issues and identifying different actors within IPE. Chapter 3 outlines “alternative” (for some scholars, as noted by the authors) approaches to IPE: constructivism, feminism, postmodernism, green thought and critical theory. Overall the first part of the book gives the reader basic tools to understand how IPE evolved in light of the new challenges that the discipline was facing with contemporary issues.

Chapter 4, by discussing the process of globalisation as seen by different IPE approaches, bridges the first theoretical part of the book and the second section, dedicated to actors and issues within IPE. “Governance” is one of the issues within the different approaches of the discipline, which is outlined in chapter 5 where the authors explore the types of national, international and global governance.

The third part of the book is dedicated to contemporary world, and highlights the most relevant issues and trends with respect to IPE. Each of the remaining chapter of the book outlines one ongoing debate on IPE. The choice of the debates and issues to develop in a chapter is addressed by the authors that clearly explain that they are a “*sample of the myriad of examples that could have been included*” (p. xv). “Trade” is the topic of chapter 6 in which, starting

from the Bretton Woods Institutions, the attention of the authors shifts to international organisations and the role of multi-national companies. The chapters from 7 to 12 cover selected issues which in order are: global finance, development, environment, technology, culture and security.

Overall the book is a good introduction to a vast discipline, it clearly shows to the reader how politics and economics come together in the contemporary global environment. It presents theories, institutions, and relationships in IPE in a simple way, and to a certain extent also retains the complexity of the world issues and intellectual problems addressed. The text demonstrates how even a very basic understanding of IPE can help the reader to have a better insight into today's government policies and business investments.

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Innovation in Developing and Transition Economies

Edited by Alexandra Tsvetkova, Jana Schmutzler, Marcela Suarez, Alessandra Faggian, Edward Elgar

The aim of the anthology *Innovation in Developing and Transition Economies* is to use the concept of National Innovation Systems (NIS), as developed by Bengt-Åke Lundwall, to analyse innovation in the poorer part of the world, and suggest means of improving innovation.

Lundwall's NIS idea shows innovation needs the cooperative interaction of a wide range of actors within a stable national system. This includes the state, universities, and firms. And firms must also interact with each other cooperatively. It is in this atmosphere that learning, which is at the centre of innovation, takes place. This is far removed from the idea that innovation is the product of individual actors fighting it out in a market.

Although NIS arose out of an understanding of innovation in developed countries, it makes sense to try and apply it to developing and transitional economies. The book has ten chapters that look at NIS in nine different countries, bracketed by an introduction and epilogue with summaries written by the editors.¹ It is divided into two parts. One focusing on the role of public policy and the other on a firm-level perspective. In practice, the difference between the first and second part is small. Unfortunately, the results are meagre.

NIS is a powerful tool for understanding broad-based innovation, as happens in developed countries. A systems approach explains systemic innovation well. It is not good at explaining why technological innovation happens as an exception, as it does in developing countries. For that, one needs to look for exceptional reasons, rather than systemic ones. NIS might be used as a starting point – a raster to lay over a nation to discover what is there and what is missing. But that is only the beginning of the research, not the end.

However, NIS is even less useful at explaining how one should get from a norm of haphazard innovation to one of generalised innovation. After reading the book, one is left with the impression that all developing countries have limited innovation because they have too little of everything – too little state support, education and interaction. And the policy recommendation is more of everything. There is little that points to the driving force that can lift a country.

The two chapters that stand out (on Argentinian software and Malaysian integrated circuits) are those that drop the NIS analysis. They focus instead on the theories of innovation complementarities vs substitutes (Argentina) and Schumpeterian patterns of innovation (Malaysia). Applying them to a specific sector, they yield reasonable results. Other ideas also pop up in the book, such as the role of non-technical innovation, global value chains, innovation with social goals, informal collaboration, and informal innovative ability. Probably these would be more fruitful lines to pursue to understand why some innovation does take place in developing countries. Yet, to understand how to get from there to a good NIS, it is probably more worthwhile to analyse the path of developmental states.

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NOTE

1. Peru, Armenia, Tunisia, Brazil, Argentina, Nigeria, Hungary, Bolivia, and two chapters about Malaysia.

Global Finance

By Sarah Hall

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The interest of heterodox economists in critical economic geography (and vice versa) has risen over recent years. Indeed, the boundaries between these two disciplines are becoming increasingly blurred as one appropriates insights from the other. Nevertheless, as probably anybody who does interdisciplinary research knows, disciplinary boundaries are not easily transcended. Each discipline has its own language, themes, and concerns. Sarah Hall's book *Global Finance* is a brilliant introduction to the sub-field of financial geography for anybody trying to transcend these boundaries (but of course, I am certain, also for students and academics of geography itself). In only 156 pages (including the references) and over nine chapters (seven of which are conceptual; one and eight are the introduction and conclusions) it gives an in-depth and clear overview of some of the main themes in this discipline (at least to my understanding, though there might be many others which I am not aware of). It is fair to say, that Sarah's book is the first one which made me start to grasp what makes financial geography 'tick'.

The book is divided into three sections. The first section begins with what seems to be one of the major themes in (international) financial geography, that is the role and power of financial centres. Despite the increased fluidity and borderless-ness of global capital flows, there remain clear spatial nodes from which many of these flows are controlled: London, New York, Frankfurt (discussed in Chapter 2), but also rising ones, as Sarah illustrates convincingly in Chapter 3, such as Hong Kong and Singapore. It is with this chapter, that Sarah also shows one of the strengths of financial geography, that is the ability to tackle new and original developments in (international) finance whilst at the same time making important analytical and theoretical contributions. Section 2 of the book goes on to discuss the relation between finance and the real economy. In Chapter 4 Sarah presents some important conceptual thinking about the symbiotic relationship between the financial and the 'real' and points to some interesting avenues of future research. Chapter 5 gives an example of the intimate relationship between the financial and the real in the form of new offshore spaces. Finally, Section 3, as we move from the macro and the meso to the micro, tackles the issue of financial subjects and subjectivities. Chapter 6 does so by looking at one end of the spectrum, that is the role of financial elites in (re)producing global finance. Chapter 7 looks at the other end, that is the importance of financial exclusion and everyday financial subjects (the number of whom have of course exploded in the era of financialisation). Chapter 8 offers some interesting conclusions and avenues for future research.

This is a wonderful little book about financial geography and some of its recurrent themes. It also reflects several of the strengths of this discipline, which is its attention to detail and interest in *how it works* (the mechanisms, practices and relations of today's financial markets), its ability to grasp novel developments without losing sight of the analytical contribution, and concern to be on the 'right' side of history. Sometimes though, as a heterodox economist, one wonders about the political economy of it all, the *why* and *so what?* From a personal perspective, I am also surprised that there are not more analyses of cross-border capital *flows* in financial geography given their inherently spatial nature. But maybe these are areas where we, as heterodox economists, can make our tiny contribution to this interesting and expanding field.

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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

Oxford University Press, Oxford, 2017

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

growth relates to inequality and poverty (G-I-P nexus) and how inequality and poverty relate to growth (I-P-G nexus) touch on the two most fundamental questions of development: (1) what is development and how do we recognize it when we see it and (2) which factors contribute to achieving development.

Poverty reduction in the course of African development edited by Nissanke and Ndulu is a collection of twelve essays in honour of Eric Thorbecke who has made seminal contributions to this field including (among many other) the Foster-Geer-Thorbecke index. The essays cover numerous monetary and non-monetary dimensions of poverty and inequality in sub-Saharan Africa (SSA) from a comparative and country-specific perspective. They give an overview of the main trends across the continent and a myriad of detail necessary to trace the anatomy of poverty, inequality and deprivation in SSA.

The first major contribution of the book lies in providing the reader with an updated and extensive overview of data on poverty and inequality available in the SSA context. McKay, for instance, draws on surveys in SSA's 18 largest economies, while Fosu makes use of World Bank data revised in 2012 and Alkire and Hosseini assess multiple dimensions of deprivation using the Multidimensional Poverty Index (MPI).

Secondly, the book deploys a multitude of innovative methods to analyse these data descriptively and econometrically. Fosu, for example, introduces a measure of 'growth-poverty transformation efficiency' and estimates the income and inequality elasticity of poverty, both allowing for important comparative analysis. Alkire and Housseini develop a measure to assess inequality in deprivation across the poor within a country or region, which provides a useful entry point into the political economy of poverty reduction. Sahn and Younger construct health and education incidence curves showing whether access to these services increased at a faster rate in poorer income brackets. Dang et al show ways to construct a 'synthetic panel' and Davies applies one of Thorbecke's less well-known methodologies, the 'structural path analysis and multiplier decomposition' within a social accounting matrix framework to the context of South Africa. Even though data requirements for SAMs exceed availability outside of South Africa, this method can be a useful starting point for structured thinking combined with qualitative evidence around the issue of spending multipliers in the presence of inequality.

All of these methods provide useful blueprints for work elsewhere, be it to trace causal relationships around the G-I-P and I-P-G nexuses in SSA or to inform policy evaluation. The contributions by Kabubo-Mariara et al, Dang et al and Mason and Smale provide applications that can inform the design of welfare policies (for the case of Kenya and Senegal) and impact assessments of policies (at the example of hybrid seeds subsidies in Zambia).

Overall, the authors are very careful in highlighting that correlations presented are not tantamount to causation (e.g. Dang et al: 209). The chapters by Ndulu and Nissanke offer theoretical frameworks for the G-I-P nexus and the volume also suggests hypotheses around the I-P-G nexus, drawing in

particular on Thorbecke's research on inequality and political instability. Other channels are worth exploring at greater empirical and theoretical depth in future research, including distribution and its effects on the growth of purchasing power and ultimately output in the economy.

Taken together, this compilation of empirical studies and methods around the themes of poverty and inequality in SSA provides a much-needed update of SSAs poverty and inequality profile, an entry point into policy design and evaluation as well as the establishment of causal relationships around G-I-P and I-P-G.

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