

Financializing Space, Spacing Financialization

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Abstract

The paper develops a sympathetic critique of the concept of financialization. This concept has been developed to account for the empowering of financial markets and their influence over the unfolding of economy, polity and society. Processes of financialization are claimed to manifest at a number of scales, ranging from higher levels of instability within the economy as a whole, through pressure exerted on corporations by capital markets, to the equity effects of the financial system on individuals and households.. In seeking to explain the change within contemporary society financialization has to date been relatively underplayed, particularly when compared to similar and related concepts such as neoliberalization. While the concept of financialization has the potential to unite researchers across cognate social science fields, thereby building critical mass and recognition within social studies of money and finance, we argue that to date research has been insufficiently attentive to the role of space and place, both in terms of its processes and its effects. The paper explores a number of possibly fruitful directions for work on financialization to pursue, focusing in particular on the concepts of the financial ecology and financial citizenship.

Key words: financialization, space, neoliberalism, financial ecologies, financial citizenship, securitisation

1. Introduction: ‘*We live in FINANCIAL TIMES*’¹.

In April 2007 the Financial Times launched a new advertising campaign with a new marketing strap line boldly proclaiming that ‘we live in FINANCIAL TIMES’. The concept behind the rebranding was, according to the FT, to ‘explore and highlight the ways that business influences different aspects of modern life in unexpected ways’ (quoted in Banham, 2007). The decision to revitalise the FT brand garnered considerable attention in the advertising and marketing world, not least because the previous ad-line – ‘No FT, no comment’ – had survived for a quarter of a century since its introduction in 1983, and its longevity had become fabled in such a notoriously faddish industry. While it is dangerous to try to read too much into the changing trajectories of advertising, the FT’s new strap line is prescient in its reflection of the wider zeitgeist. While it is widely accepted that finance and the financial services industry have, since the collapse of Bretton Woods in the early 1970s, become increasingly significant in the reproduction of the economies of the developed world, there is a growing consensus that the last two decades has witnessed a further deepening of the power of finance and of financial markets such that we are indeed now living, in an Anglo-American context at least, in financial times. Such a view is reflected in the confidence – and the staggering affluence – of financiers and financial institutions (the crisis associated with the breaking of the US sub-prime crisis notwithstanding), the ways in which finance itself has become a media event in its own right (Clark et al. 2004), and how social scientists from a diverse range of disciplinary backgrounds have increasingly begun to use the term financialization to describe such changes.

While there may be a growing academic consensus that financial institutions and financial markets are increasingly significant actors, shaping contemporary economic,

¹ Advertising strapline for the Financial Times newspaper.

social and cultural life, a closer analysis reveals at least two different ways in which financialization as a concept has been mobilised by social scientists. First, financialization has been used as a descriptor of a wider transformation in economy and society, whereby the financial sector and financial markets come to occupy a dominant or quasi-dominant position in countries such as the US and the UK. In particular, commentators have mobilised the concept to describe the emergence of finance-led economic systems (Aglietta, 2000; Boyer, 2000; Dore, 2000) and of the ‘macro-economic possibility of a new ‘wealth-based growth regime’” (Froud et al. 2006, page 67). Second, financialization has also been employed in a narrower sense to describe the processes and particular effects of the growing power of financial values and technologies on corporations, individuals and households. The rise of the discourse of shareholder value (SV) and a burgeoning economy of financial metrics to measure it, underwritten by the expectations of institutional investors for constant asset price appreciation, has led to the radical realignment of the interests of corporations and of corporate managers in the US and UK since the 1990s (Froud et al., 2000, 2001, 2006). Thus, as we shall elaborate below, during its relatively short history, the concept financialization has already been employed in different ways and for different purposes. It has been used to describe an economy-wide, epochal shift on the one hand, while at the same time used to account for processes associated with the conjunctural application of specific financial values and technologies on the other. Moreover, while financialization in the broadest sense of the term has frequently been asserted, there is too often a lack of empirical evidence to support such claims (for a notable exception, see Krippner, 2005).

In this paper we seek to contribute to the growing literature on financialization by providing a sympathetic critique of the concept. We argue that financialization may have significant purchase on the nature of change and transformation within contemporary society, but as yet it has not gained as much currency as similar concepts

such as neoliberalization, for example (Krippner 2005; Peck and Tickell 2002). However, despite our broad support for the concept and the insights that it has generated, we also argue that, to date, work on financialization has been insufficiently attentive to the role of space and place, and has tended to be characterized by an overly pessimistic view of the nature and future of financial markets. We argue this despite what might be seen as the prescience of this position given the breaking of the US sub-prime crisis in 2007, because while many of the criticisms are valid, there is an underlying unwillingness to admit the possibility of progressive financial outcomes or even to consider public policy responses.

The remainder of the paper seeks to undertake a critical review of the concept of financialization and to assess its utility, and is organised in four parts. In Part Two, we undertake a critical review of the extant literature on financialization. It is possible to identify at least three distinctive intellectual 'schools' which may be gathered under the banner of financialization: a critical social accountancy approach; regulation theory; and socio-cultural approaches that focus on the financialization of everyday life. In Part Three, we examine the spatial scales at which financialization is considered to have agency: the nation state; the corporation, and; the household. There has been reluctance in much of the mainstream financialization literature to consider other spaces, such as the region and the international financial system, for example, or to think about financialization in a geographical register other than scale. Moreover, the power of financialization as an analytical tool is circumscribed by a continued, *a priori* adherence to a deeply suspicious and pessimistic view of money and of the role and future of *financial markets* in favour of an implicit preference for *finance capital*. In Part Four, we identify four prescriptive suggestions for further work on the subject of financialization, focusing in particular on the concepts of financial ecologies and financial citizenship. The fifth part of the paper draws conclusions from the preceding analysis.

2. Accounting for financialization

As indicated above, the concept of financialization is currently far from being stable. It is a highly malleable concept, made up of a plethora of contested narratives. In a recent review of the phenomenon, Blackburn (2006) argues that financialization ‘can most simply be defined as the growing and systemic power of finance and financial engineering’ (page 39). Meanwhile, Krippner (2005) defines financialization as ‘a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production’ (page 174). It is possible to identify a number of schools of financialization spread across several disciplines, from which a series of approaches have emerged. Of these, we argue that three are particularly significant: a critical social accountancy approach; a socio-cultural approach that focuses on the financialization of everyday life, and; regulation theory.² We now review each of these approaches in turn.

2.1 *Critical social accountancy: financialization and shareholder value*

It could be argued that the critical social accountancy (CSA) approach initiated the contemporary debate on financialization through the initial coining of the term and through subsequent attempts to uncover the practices associated with it. The CSA approach is associated in particular with Julie Froud, Karel Williams, and colleagues based (mainly) at the University of Manchester (Froud et al. 1998; 2000a; 2002; 2002a; 2000b; 2006; Williams 2001). This work has culminated in the production of a body of work that focuses on the logics, practices, and limits of financialization. The earliest

² There is, of course, a long and deep literature within the social sciences that seek to account for the growing influence of money over social life more broadly, from Marx (Harvey, 1982), through Simmel (1901) to Arrighi (1994). In identifying the three schools referred to in the main body of the paper we have sought to draw attention to what seem to us to be the most active and coherent movements within contemporary social science research.

work focused on the rise of the concept of shareholder value, a value-based management tool which emerged from the US analytical and consultancy community that sought to overcome the principal-agent problem within corporate governance. Shareholder value was designed to maximise profits by aligning the interests of the owners and managers of capital (Williams 2000). Those advocating a corporate governance regime devoted to shareholder value argued that the *raison d'être* of managers should be the maximization of shareholder returns, both through dividends paid and the appreciation in the value of the stock, with managerial remuneration schemes being structured accordingly to reflect their ability to achieve these goals.

A growth in the constituency for the concept of shareholder value in the last decade or so prompted Froud et al. (2000, page 103) to argue that while the 1980s and early 1990s were marked by a new productionism and a concomitant 'challenge for [corporate] management which was represented in productionist, physical terms', the late 1990s witnessed the emergence of a 'new universal competition of financial results' and a 'challenge for management which is represented in narrow financial terms'. Thus, corporate managers have become ever more oriented toward securing financial value for shareholders, value that can only be achieved through financial engineering and 'alchemic transformation' (Froud et al. 2001). Froud et al. (2000) argue that there exists a fundamental discrepancy between the expectations of capital markets for double digit asset growth and the single digit growth achievable in most real product markets. Moreover, the tendency toward financial engineering is exacerbated by corporate remuneration packages which are heavily weighted in favour of company equity rather than salary (Erturk et al. 2004). At its most extreme, rampant financialization of this kind has, in the case of Enron for example, been blamed for the collapse of corporations, with the concomitant loss of thousands of jobs. More generally, financialization is considered to have engendered economy-wide instability, undercutting the competitive strength of

the corporate sector in the US and the UK, and creating deeper divisions between a minority, or what Froud et al. (2001) estimate to be the 'fortunate 40%', who are able to reap benefits from the financial system in the form of accumulating assets and a degree of financial liquidity, and the other 60% who constitute the larger majority of households who do not have the resources to compete in a financialized world.

However, the CSA approach recognises that there are limits to financialization; indeed, although the US and the UK are considered to be vanguard financialized economies, by the early 21st century still only half of UK and US firms were public companies with shares listed on stock exchanges and, as indicated above, only 40 percent of households in Anglo-American economies could afford to invest in finance markets (Williams, 2000, 131-132; Froud, et al, 2002b: 131-132). In other words, much like globalisation, financialization is better seen as a *process* that has introduced a new form of competition within the economy and that has the capacity to become ever more pervasive.

Froud, et al, (2000) argue that for an economy to become financialized, three preconditions need to be met. First, there need to be domestic or international investors willing to take stakes in the ownership of companies. Second, an economy must be able to generate returns to justify such investment. Third, and finally, management needs to be willing to shed costs, restructure internal labour markets, and consistently reorganise for capital. Froud et al (2000) argue that financialized economies tend to be both contradictory and myopic, as the logics of financialization jeopardise the long-term integrity of firms in favour of short-term returns. Thus, although financialized economies may produce increases in shareholder value, the rush for short-term returns benefit institutional investors, and in time this may threaten future innovation and long term performance, and even the long-term viability of companies. In this regard at least, the

CSA approach echoes perennial debates about the ‘short-termism’ of money and finance in relation to the ‘real’ or ‘productive economy’, such as those that regularly surface about the relationship between London’s financial district and the rest of the UK economy, for example (Cain and Hopkins 1993; Hutton 1995; Weiner 1981).

However, whereas traditional analyses of short-termism have traced its origins to the actions of an elite financial-rentier class, the CSA approach argues that the engine of financialization is more prosaic and mundane. Financialization is driven in the main by attempts by middle class savers to minimize risk and seek long term financial security through investments and pensions. For example, Froud et al (2002b) identify what they describe as ‘coupon pool capitalism’, wherein shares, bonds and coupons regulate firms and make financial markets engines of financialization. This system is driven by middle class households whose insurance premiums and savings are pooled and mediated by institutional investors who are trusted with the task of increasing the value of those assets (Hawley and Williams 1997). This aggregation and investment of savings, and the tasking of agents such as pension fund trustees to maximise the returns on their investments (Clark 2003), has begun to affect the behaviour of firms through the financial markets (Froud et al. 1998; 2002a). Making this connection between individual and household behaviour and processes of financialization overlaps with two further bodies of work in this field, which focus on the interpellation of money, finance and everyday life. It is to this work that we now turn our attention.

2.2 *The Régulation School of Financialization*

Regulation Theory has long had an interest in the role of the financial system and the ways in which it has served to make and break regimes of accumulation over time (Lipietz 1985; 1987). However, over much of its history regulation theory has been used

more as a framework for investigating changes in the nature of production and associated modes of social regulation (Brenner 1997; Jessop 2000; Peck and Tickell 1992; Tickell and Peck 1992). More recently there has been a renewed interest among Régulation theorists in role of the financial system in the emergence of an accumulation regime in the wake of Fordism (Boyer 2000). This new financially based regime of accumulation, it is claimed, has led to the development of new institutions which serve to stabilize and normalise it. Examples include the growing power of institutions such as bond rating and credit scoring agencies, (see, for example, Leyshon and Thrift 1999; Sinclair 1994a; Sinclair 1994b; Sinclair 2005) and financial metric producers (Froud et al. 2000a) that are used in an increasingly disintermediated financial system (French and Leyshon 2004).

Boyer (2000) argues that, in the wake of Fordism, a new financialized regime has emerged wherein some consumers who previously consumed the fruits of their labour now increasingly own assets in financial markets which impose new imperatives of profit production on firms. Meanwhile, Aglietta and colleagues (Aglietta and Breton 2001b; Aglietta and Reberieux 2005) argue that a new regime of finance-led capitalism has emerged since the 1970s, which has been driven by the growth in the size and liquidity of global financial markets and of the power of institutional investment 'responsible for the management of continually increasing savings' (page 1). As a result, there has been a significant revaluation and reallocation of risk, which is now diffused widely throughout the economy.

Boyer (2000) characterises this accumulation regime as one of capital mobility, corporate governance based on shareholder value, labour market flexibility, optimism, and a booming financial market, but argues that these attributes need to be sustained to constitute the requisite mode of social regulation necessary to allow the regime of

accumulation to reproduce itself. Financialized economies, therefore, require that corporations are subject to shareholder power, where managers manage according to shareholder's needs, and for the market to be the ultimate adjudicatory authority (Aglietta and Breton 2001a). Within a financialized regime, individuals and household are subject to both a requirement for labour market vulnerability and flexibility. However, the more privileged will be compensated by investments, and pensions, but which in turn further fuel the process of financialization.

Work on financialization within the Regulation Theory tradition provides a useful and valuable attempt at investigating the economy, not least because it explores the possibility of an accommodation of a finance-led accumulation regime through the development of appropriate socio-political institutions to form a mode of social regulation (Grahl and Teague 2000). Thus, whereas the CSA School take a rather pessimistic view of the long-term prospects of financialization, regulation theorists are at least prepared to countenance the possibility that the regime represents an enduring transformation, due to the ways in which financial innovation has managed to sub-divide and distribute risk and extend credit in new ways to smooth periods of economic uncertainty.

2.3 *The financialization of everyday life*

A third body of work on financialization has emerged from culturally-inflected sociological accounts that take as their focus the ways in which money and finance interacts with everyday life within contemporary cultural-economies. For example, Martin (2002) interprets financialization as a phenomena that has led to the embedding of the financial world into people's everyday lives. Focusing in particular on the US, he argues that the financial demands made upon individuals and households are now such

that it requires 'people from all walks of life to accept risks into their homes that were hitherto the provenance of the professional' (page 12). The financialization of everyday life, he argues, has its roots in the retreat of the Keynesian state and its various systems of social support, and its replacement by private sector variants which are paid for out of individual and household earnings and, increasingly, investments made in financial markets. Thus, Martin(2002) argues that the household is necessarily becoming more financialized, an observation supported by Dore (2000) who similarly argues that the economy has become financialized almost by default as a result of the withdrawal of the state and the implementation of a Smithsonian invisible hand, where firms privilege shareholders above all others, including employees and even consumers.

Other commentators have looked more specifically at the impact of the growing power of new financial values on subjects and subjectivities. For example, Langley (2006a; 2006b; 2007; 2008) and Cutler and Waine (2001) have sought to show how new technologies of financialization have, in conjunction with the neo-liberal state, assembled self-disciplined suburban subjects. In particular, technologies such as the securitisation of mortgages, the shift from Defined Benefit to Defined Contributions occupational pension schemes, and the rise of personal pensions have, it is argued, helped bring forth new, investor subjectivities and financially self-disciplined subjects.

These approaches have delivered significant insights and advances in understanding the role that money and finance increasingly plays within contemporary life. The fact that they have mobilised around the concept of financialization is politically important, for they help provide a much needed critical mass to a field that, despite its significance, has not been overly populated to date. However, before the concept of financialization can serve as an effective rallying point for researchers working on the social consequences of money and finance beyond social accountancy, regulation

theory and cultural edge of economic sociology, it needs to address a glaring lacunae at the heart of the financialization project; that is, its relatively uncritical approach to the role of space and place within monetary and financial processes.

3. Financializing space.

The financialization literature has, for the most part, focused on processes and effects at three scales: the nation-state; the firm or corporation, and; the household and individual. In terms of national economic space, studies have largely focused on the Anglo-American shareholder economies of the United States and the UK. The key reason for this is that these are seen as the exemplar financialized economies. Froud and colleagues, in their earlier forays into the subject, have argued that it is possible to identify a sliding scale of financialization, so that

the different advanced economies can be ranged along a continuum: at one extreme position, in Japan, none of the conditions [for financialization] are met and, at the other extreme, in the USA and UK, all three conditions have been clearly met for the past couple of decades (Froud et al. 2000, page 105).

Located somewhere between these two extremes are all the other industrialised economies, many of which have begun to move along the continuum toward the US and UK, albeit at different speeds. Studies that have sought to examine processes of financialization outside of the Anglo-American context have largely been concerned with measuring the relative financialization of the two large stakeholder economies in Europe, France and Germany (Jurgens et al., 2000; Stockhammer, 2004). In France, the movement towards the US-UK pole is more rapid, as the 'system of cross-shareholdings has broken up with the abdication of domestic players and the arrival of foreign American shareholders' (Froud et al. 2000, page 105). According to some accounts,

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change in Germany would appear to be more limited (*op.cit.*, page 105). Stockhammer (2004) has amassed econometric evidence to suggest that while financialization and the prioritisation of shareholder value has led to a slowdown in rates of accumulation in economies such as the USA, France and to a lesser extent the UK, the evidence suggests that the phenomenon has to date had little effect in Germany for the simple fact that ‘shareholder value orientation is a very new phenomenon in Germany’ (*ibid*, page 739). However, Clark and Wójcik (2007), in a detailed analysis of corporate governance by Lander, suggest that those German that have in effect adopted Anglo-American models of corporate governance have delivered faster growth and profits, so that the regions that have abandoned continuity for convergence towards Anglo-American convergence have demonstrated stronger rates of economic growth and job creation.

Judging from the – albeit still limited – number of studies that have sought to assess the spread of financialization across national economies, it would seem that financialization is at present still limited in its geographical scope. Even in the US and UK there appears to be much ambiguity about its actual extent. On the one hand, as we highlighted earlier, many accounts appear to assume, either explicitly or implicitly, that the UK and the US can already be considered already financialized economies, often without clearly defining what is meant by financialization or providing evidence in support. On the other hand, theorists such as Froud et al. (2000, page 104-5) have, as we noted earlier, been more circumspect, arguing that

[e]ven the UK and USA could not be characterized as financialized economies.

In the UK, for example, only half of the GNP is corporatized and only part of the corporatized sector is organized into PLC companies which include many minnows as well as the giants that dominate the FOOTSIIE 100

Furthermore, concern over broad brush accounts of financialization have led both Froud et al. (2006) and Langley (2004) to argue more recently in favour of a much narrower conceptualisation of financialization as aspiration or ongoing project, rather than a *fait accompli*.

Uncertainty as to how far the economies and societies of Britain and the United States can be considered financialized is in large part a reflection of the ambiguous nature of the concept itself and of the difficulties of measurement. While the term financialization suggests the growing power of financiers, financial institutions and of the financial sector in general, the accent laid upon capital markets and upon shareholder value makes clear that the concern is really with the growing power of disintermediated finance. Thus, the label financialization is slightly misleading, for concern does not appear to be with financial intermediaries *per se*, or with the growing power of financial intermediation, but rather with the growing reliance, directly or indirectly, upon capital markets, securitised products and contracts, and institutions allied to a transaction-driven mode of financial activity. Indeed, despite the fact that banks have long been acknowledged to have played a central role in the accumulation strategies of stakeholder economies, the bank-based model of the economies of Japan and Germany are implicitly held up as a kind of foil against financialized capitalism. Or, in other words, that the model of finance capital identified by Hilferding (Hilferding 1985), or of the Rhine model of capitalism as identified by Albert (Albert 1993), is a more acceptable form of accumulation and exploitation than is Anglo-American financial(ized) capital. For example, Froud et al. (2001) draw a distinction between, on the one hand, a 'productionist type of capitalism', and, on the other hand, a 'coupon pool' or financialized capitalism. In the case of the former;

the stock market is an *unproblematic intermediary* whose coupons are simply instruments which facilitate an uninterrupted circular flow between households and firms, [and] whose motives are defined by logics outside the capital market (Froud et al. 2001, page 85, emphasis added).

In contrast, under coupon pool capitalism ‘the (secondary) market in issued coupons becomes increasingly important as a regulator of firm and household behaviour’, and consequently ‘the coupon pool becomes an active source of imperatives and constraints which structure what every firm and household should do’ (ibid, page 86). As such, financialization can be considered more a qualitative than quantitative shift, and this may help to explain the relative dearth of empirical evidence that has been offered to support claims that the US and UK have become, or are becoming financialized. Financialization may well lead to a quantitative increase in the number of financial institutions, financial transactions, products, and employees in the retail and wholesale financial sectors, as processes of securitisation have facilitated, for example, the expansion of the mortgage (Krippner 2005; Langley 2006a) and credit card markets (Montgomerie, 2006) in the UK and US. While the expansion of the financial services sector is a likely outcome of financialization, it is not in itself a necessary expression of a shift toward disintermediated finance (French and Leyshon, 2004). This distinction has been recognised by Krippner (2005) who distinguishes between an activity-centred and accumulation-centred view of a shift towards a financialized economy and reveals through an examination of profitability data that while financial activity may not dominate the US economy in terms of employment and GDP, there has been a marked shift towards financial activity as a form of profit generation since the 1980s. By 2007, the financial sector accounted for 40% of US corporate profits, but only 19% of stockmarket value, 15% of gross value added and only 5% of total private sector employment (The Economist, 2008a).

In turn, analyses of financialization and its effects on corporations, households and individual subjectivities are firmly couched within the context of the nation-state as container of economic activity, and of a scalar geographical imaginary. The financialization literature largely treats the corporation as an abstraction, a sub-national space within which the generalized pressures of financialized capitalism are most readily expressed (Pike 2006). In so doing, the financialization literature has tended to downplay the manner in which the ‘geographies of financialization and shareholder value ... unfold in uneven ways across the range of interdependent, social constructed, and contested scales’ (Pike, 2006, page 206). In particular, the ways in which ‘geography inevitably enters into assessments of shareholder value’ (ibid, page 205), both in terms of the regional and local geographical embeddedness of corporations and their ability to ‘preserve their strategic autonomy despite shareholder dissent’ (ibid, page 2006), and of the heterogeneity of the City of London and of the concept of shareholder value itself (Pike, 2006). Similarly, there is a tendency for households and financial subjects to be conceptualised in similar abstract, atomised and geographically disembedded terms. So, for instance, while Langley (2006) has recognised the ways in which subjectivities are constituted in, and through space – arguing that financialization is underwritten by the translation of suburban subjects into financially self-disciplined investors – households and financial subjects are almost exclusively constituted in terms of class. In so doing, not only do theories of financialization fail to take into account the myriad ways in which subjectivities are geographically constituted, not least by the financial services industry itself (Jeacle and Walsh 2002; Leyshon and Thrift 1999), but also overlook the complex ways in which subjectivities are assembled in the interstices of many other variables, such as ethnicity, gender, age and, critically, location. Moreover, the work on financialized capitalism tends to leave little space for households and individuals to resist, negate or subvert processes of financialization (French and Kneale, forthcoming).

However, the most significant weakness of work on financialization to date, and certainly the most surprising, is the relative absence of an explicit consideration of the role of the international financial system. Although there are notable exceptions in this regard, such as the recent work of Langley (2006) and research on the international financial system which use the term financialization (for example, Pryke and Allen, 2000), the core group of financialization theorists have failed to incorporate a robust analysis of the role of international finance. While such an omission seems surprising, it can perhaps be better understood in light of the genealogy of the concept and, in particular, the accent placed upon national, rather than international, economic processes, by both the regulationist and SCA schools. Nevertheless, the tendency to prioritise the nation-state as container of economic activity fails to adequately take into account the central part played by the emergence, in the 1980s, of a new international financial system grounded in the international financial centres of New York and the City of London in the birth of a disintermediated and increasingly securitised financial capitalism in the US and the UK. Moreover, while Froud and colleagues have meticulously grounded their misgivings about the sustainability and the injustices of financialized capitalism in empirical data drawn from the US and the UK, such accounts seldom appear to take into account the possibility that financialized capitalism may be sustained through international financial flows. So, for example, data on measures of EVA by firm (Froud et al. 2000) and corporate share issues and buy-backs (Froud et al. 2001) only relate to US and UK corporations and thus do not account for the possibility that at least some of the shortfall between capital market expectations and the actual returns generated by the mature corporate sector in the US and UK might be made up by the international investment strategies of institutional investors and households, not least in financial arbitrage between the financial markets of Britain and the United States.

What we wish to argue here is not that the inclusion of the international financial system in analysis necessarily assuages concerns about the sustainability and injustices of financialized capitalism; quite the contrary, as we shall make clear in the next section, but rather that in line with the recent work of Langley (2006) and Montgomerie (2006) we suggest that processes of financialization cannot be understood without proper consideration of the networks of international finance. Furthermore, in taking more account of the international financial system and other missing geographies of financialization, work in this area might be better served by seeking to move beyond a scalar geographical imaginary toward a more monetary network approach (see, for example, Lee et al, 2004).

In seeking to understand the assembly of financially self-disciplined subjects in both the US and the UK Langley (2006b, page 296) has, for example, argued that ‘orthodox representations that typically position a globalising system above, beyond and separate from everyday saving and borrowing’ necessarily obscure key developments in contemporary financialized economies such as the growth of residential mortgage-backed securities (RMBS). In contrast, Langley argues that current developments can be better understood as the consequence of the re-articulation of monetary (in this case mortgage) networks. In a similar vein, Pryke and Allen (2000) have argued that financial instruments have served to strengthen the link between capital markets and the everyday. Using the example of the Orange County financial crisis in California in the mid-1990s and the personal debt boom in the UK, they argue that derivatives have constructed:

an idea of money that is not simply sucking a growing number of everyday events into the intensive rhythms of digital capitalism ... but rather one that is promoting an imagination of time-space that is becoming increasingly acceptable

among a growing proportion of the populations of developed countries (Pryke and Allen, 2000, page 281).

In order to better understand processes of financialization and their complex geographies, we would also argue that it is vital to follow the networks of contemporary financialized capitalism wherever they may lead. As such this would entail moving away from generic accounts of financialization and towards a greater focus on the specificities of new financial values and technologies. However, in so doing we would argue that there is a need for such accounts to engage more fully with the wider literature on the meaning and nature of money. For it seems to us that even accounts of financialization that have sought to think about money more as a mutable network, such as those of Langley (2006) and Pryke and Allen (2000), still implicitly cleave to an understanding of money as necessarily disembedding and alienating, an agent that acts on social relations, rather than being constituted by social relations (cf. Zelizer 1994; 1998; also French and Kneale, forthcoming). Thus, residential mortgage-backed securities are assumed to act on, and reconstitute the everyday, but the possibility of the everyday constituting and reframing RMBS and the circuits of international finance is not properly considered.

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4. **Spacing financialization**

Having set out our diagnoses of some of the problems that are afflicting the body of work on financialization, what are our prescriptions for a robust future? In this part of the paper we want to explore ways in which the financialization literature could develop and, in doing so, close some lacunae and move beyond the tendency in some of the literature to exaggerate and inflate the power of financial capital and close off the possibilities for resistance and the development of alternative financial imaginaries. We

have a number of prescriptive suggestions for work on financialization, of which we think four are of particular significance.

First, we argue that the financialization literature requires a far greater engagement with the wider political economy literature on money, financial and neoliberalization than has hitherto been the case. Indeed, work in international political economy has a long tradition within this field, having focused on what has become known as financialization long before the neologism was coined, and which has sought to provide more of a historic-geographical account of the formation of the international finance markets and their growing power and influence. Regulation Theory is the strongest of the extant approaches in this regard, as it shares with IPE an interest in broad processes of socio-economic transformation. Indeed, the work of Gramsci can be seen to be a strong formative influence on both fields, with regulation theory taking inspiration from Gramsci's (1971) identification of the social formation of Fordism in the pre-war United States, while IPE drew directly on the Gramscian concept of hegemony to provide a framework for analysing change within the international political economic system (Cox 1987). However, regulation theory, like critical social accountancy, remains wedded to a national comparative approach, whereby a series of exemplars of the processes of financialization are compared within different countries (for example, see Boyer, 2000). In contrast, a good deal of IPE work has focused more explicitly on the relational nature of economic transformation, looking at the interplay between political and economic power at a world scale, within which the making and breaking of the Bretton Woods system has been subject to considerable scrutiny (Gill 1995; Helleiner 1994; Leyshon and Tickell 1994; Leyshon and Thrift 1997; Walter 1991). This work is significant, we argue, because it embraces a purposely inclusive world view of financialization, and draws attention to the relational nature of financial and economic change with the contemporary financial economy.

This brings us to our second and related prescription for work on financialization, which is that it needs to recognise more fully the growing integration of the international and domestic financial systems. This is especially pressing in the wake of the US sub-prime mortgage crisis, which we will discuss shortly. To be sure, some researchers have begun to do this, but not necessarily in a joined up way as yet. The conduct of international finance changed markedly after the collapse of Bretton Woods, as practices in global financial increasingly became focused on the recalibration and redistribution of risk. Under the fixed exchange rate system of Bretton Woods, there was a greater tendency towards stability over space, not least because the costs of adjustment were borne directly by states that negotiated exchange rates between them, and the system was motivated by a sentiment that assumed that stable exchange rates facilitated long-term economic growth. However, the shift to a floating or flexible exchange rate system transferred those costs of adjustment to the market, and set in train the proliferation of financial innovation that developed products that would seek to control, or hedge, risk (Lee and LiPuma 2004). Up until the 1980s, there were marked similarities between practices in international or wholesale financial markets, particularly as regards the production of credit and debt, which for the most part involved the management of assets and liabilities through the balance sheet, albeit that the scale of activity was of a very different order. During the 1980s, however, there was a marked shift to off-balance sheet financing as the process of securitisation began. This then paved the way for the production of a new market that repackaged the debt into ever increasingly hybrid and diverse financial instruments. The transformation of domestic, retail financial markets took longer, which remained dominated by the management of assets and liabilities through the balance sheet, as financial institutions took in deposits from their retail bases, which were then packaged up in loans. However, as has become strikingly apparent, the connections between retail and wholesale or global financial markets have

increased markedly of late to the point where they have become integrated into a coherent network.

As indicated above, these tendencies have been identified within the financialization literature. For example, the growing connectivity between retail and global financial markets is a key argument of the critical social accountancy school of financialization in their identification of what they describe as coupon pool capitalism (Feng et al. 2001; Froud, Johal and Williams 2002b; Froud et al. 2001), with Froud et al. arguing that '[t]he 'coupons' that figure in the term coupon pool capitalism are all the different kinds of financial paper (bonds and shares) traded in the capital markets and coupon pool capitalism exists where the financial markets are no longer simple intermediaries between household savers and investing firms but act dynamically to shape the behaviour of both firms and households (Froud et. al, 2002, page 120). This increased connectivity is significant as it acts to mutually shape the behaviour of both financial markets and individuals and households in response to the flow of investments and the income that flows between them. Similarly, Langley (2006b) has explored the growing links between retail and global financial markets in the provision of mortgage finance in the US and the UK. Mortgage finance has for the most part been dependent upon traditional processes of financial intermediation, whereby retail deposits are pooled into loans that were transformed into long-run assets held on the balance sheets of lenders. However, as Langley points out, a transformation began in the 1980s when US investment banks began to securitize mortgage debt, which enabled loans and their receivables to be parcelled up and sold off as RMBS. This moved debts off balance sheets – which had regulatory advantages in overcoming reserve requirements, for example – as well as bringing forward income from such assets, as lenders exchanged their rights to future income from such assets in return for a capital sum that could be used in turn to advance more loans, and so on.

There is an interesting circularity and connection between these processes of securitisation and coupon pool capitalism, because these flows of capital involve the participation of mainly middle class subjects³: that is, those with sufficient income and wealth to be able to generate savings to fuel the growth of coupon pool capitalism and to be able to take out a mortgage, with their monthly repayments being packaged up to form the income streams of RMBS (many of which may be held indirectly by such individuals as part of pension funds or other savings vehicles) (Leyshon and Thrift 2007).

Thus, our third recommendation is the spatial implications of this circularity or flow of funds be subject to more critical attention. Langley's work is valuable in this regard. His analysis of the securitisation of mortgage finance is strongly influenced by actor-network theory, in as much as he argues that the fusion of global and retail markets may be understood as a lengthening of domestic financial networks as both assets and liabilities become entangled in the capital markets of global financial centres such as London and New York (Langley, 2006). In doing so he focuses on the ways in which the social phenomenon of middle class suburbs – the areas to which most mortgage finance is advanced – has become incorporated into the global networks of finance. But we suggest that this needs to be taken further, not least because such middle class suburbs are also the spaces of coupon pool capitalism and have a distinctive geography. A concept that may be useful in encapsulating and elucidating the key role that such apparently quotidian spaces play in the reproduction of the global system is that of the *financial ecology* (Leyshon et al. 2004). This concept is influenced by attempts to ascribe ecological properties to social arrangements (Nardi and O'Day 1999; Star 1995) in opposition to traditional systemic approaches in order to illustrate that systems are in effect made up of numerous interrelated technological and informational ecologies. This

³ It must be noted that many poor, financially marginalised sub-prime borrowers are also integrated into the system, although unlike their wealthier middle class counterparts they will not receive income generated by the revenue streams from mortgage backed financial products.

is a useful political strategy, because 'by fragmenting systems to the level of the ecologies that constitute them, it becomes possible to identify individual points of leverage, ways into the system, and avenues of intervention' (Nardi and O'Day, 1999 page 50). The financial ecology approach, therefore, argues that like all systems the financial system is made up of smaller, constitutive ecologies. These consist of certain arrangements that emerge and that are more or less reproduceable over time. These processes unfold across space and evolve in relation to geographical difference so that distinctive ecologies of financial knowledge, practices and subjectivities emerge in different places.

Within such a formulation, the financial ecology of the middle class suburb can be seen as one of relative privilege, with deep and close connections to the financial system (French et al. 2008). Both savings and debt payments emanating to and from such ecologies are now constituent of the successful reproduction of the global financial system, whose networks have extended to incorporate them (cf. Langley, 2006). The utter dependence of the financial system on the continued prosperity of the middle class ecology can be illustrated by recent costly attempts by the financial system to extend its networks into different types of financial ecology, those made up of less privileged individuals and households that are located more towards the margins of society (see Wyly, et al, 2004; 2006; 2008). The crisis of sub-prime lending that broke out towards the end of 2006 is a salutary lesson both in terms of the internal contradictions of financialization, but also of normative assumptions found within some of theories of financialization that its advance is necessarily socially regressive.

By the summer of 2007, the collapse of confidence over the quality of loans made to sub-prime mortgage borrowers in the US had introduced panic and volatility into global markets worldwide, and produced a rash of institutional failures in North America, Europe and Asia, and led to the extraordinary run on the UK mortgage bank

Northern Rock⁴ and the fire-sale of the US investment bank Bear Stearns to JP Morgan. The root of this problem has been traced back to the attempt to extend the networks of global finance into hitherto unexplored territories, as part of a process that Leyshon and Thrift (2007) have described as the attempted ‘capitalisation of (almost) everything’. What has become known as sub-prime lending is not a new financial practice, rather a renaming of the extension of lending practices to those financial subjects that are deemed to either have levels of income too low or too volatile (or too often, both) to conform to the financial system’s preference for borrowers with linear and progressive subjectivities (that is, the linear and progressive careers enjoyed by the middle class ‘prime’ market). Chronic problems of information asymmetries mean that mainstream financial services are normally unwilling to advance mortgage loans to individuals with low incomes and/or volatile career histories, who either have to rent or resort to other sources of housing finance. Some of these sources might be benign, such as family, friends or other social networks, while others can be malignant, such as loan sharks and other predatory lenders. However, in order to serve such customers, over time a set of specialist sub-prime lenders emerged that occupied a position between mainstream and predatory lenders and in doing so created a new hybrid market for debt that contained qualities of both the prime and sub-prime markets (Burton et al. 2004). Emboldened by the success of credit scoring in extending the range and scope of the prime market (Leyshon and Thrift 1999; Marron 2007), such techniques were adapted to be able to advance loans for ‘non-standard’ borrowers, including those with ‘impaired’ credit histories and low scores on traditional credit rating systems (see Burton et

⁴ Until the 1990s, the Northern Rock was a typical provincial building society, based mainly in the North East of England. It had relatively few branches. Following demutualization and its conversion to a Public Limited Company, it sought to overcome its relative lack of branches by turning itself into a ‘mortgage bank’, the *raison d’être* of which was making mortgage loans funded by money borrowed on the international money markets, with the loans being transformed into structured investment products that were sold off to international investors. The bank’s lack of branches, and heavy reliance on short-term borrowing to raise capital meant that the drying up of the inter bank market as the sub-prime crisis spread, and as uncertainty replaced risk, saw the bank seek emergency funding from the Bank of England which triggered a crisis of confidence among retail depositors.

al. 2004, for examples). This development was further encouraged by two other factors. First, an awareness of the significant margins and profits being generated by traditional sub-prime institutions, such as door-to-door money-lenders, which were able to operate successfully in apparently risky markets by charging high rates of interest to cover the higher risk of default (Leyshon et al. 2006). Second, by the growing demand for securitised debt as an investment vehicle within capital markets and drawing lessons from the corporate debt market where lower quality debt can be offset against low-risk debt through a process known as structured finance, but which could nevertheless be sold to investors looking for diverse portfolios that include in part a preference for higher risk but also higher yielding assets.

The expansion of the sub-prime industry into new markets and new financial ecologies during the 1990s brought many people into the housing market than ever before, and no-doubt helped to inflate housing prices both in the UK and the US. Moreover, as investigations into the causes of the sub-prime crisis have proceeded, so it appears that at least part of the cause is yet another episode in a long history of egregious mis-selling (see Doran, 2007; Connon, 2007) and predatory lending (Farris, 2004; Immergluck and Smith, 2005; Wylly, et al, 2007) within the retail financial services industry. In so doing these financial instruments entangled many individuals and households within financial obligations that they had no prospect of honouring, given the retrospective identification of many 'assets' being produced through so-called NINJA mortgages; that is, loans advanced to individuals with no income, no job and no assets. Such mis-selling was driven by a tendency to overlook the long-term ability of borrowers to repay due to the overwhelming demand by banks for RMBSs with high yield that they could sell off to institutional investors.

However, the expansion of securitised finance into such hitherto unexplored financial ecologies was revealed to be highly contingent, being dependent upon benign macroeconomic conditions and the low interest rate regime that prevailed from the mid-1990s to the early 2000s. In the United States in particular, the gradual increase of interest rates from as little as 1% in the early 21st century to over 5% by 2006 was the catalyst for a rash of defaults and foreclosures that called into question the logic of extending financialization beyond the standard middle class ecology. This has undoubtedly been the cause of considerable financial and social misery for those borrowers unable to keep up repayments on mortgages and other loans. But the growth of sub-prime also undeniably enabled some individuals and households to accumulate financial assets in a way that would otherwise have been closed to them, albeit at a price in the form of paying a higher than average interest rate. For example, the founder of Operation Hope, a Los Angeles-based non-profit organisation founded in the early 1990s to promote financial literacy among the poor, has defended the existence of sub-prime mortgages from those who saw them as a form of predatory lending, insisting that 'homeownership has lifted many people out of poverty; the challenge is to make the [sub-prime] product better' (John Bryant, quoted in *The Economist*, 2008b).

The breaking of the sub-prime mortgage crisis has produced a generalised credit crunch, not least because the process of securitising debt and the production of structured finance is so complicated and confusing that no-one is really sure where the chips will fall when all the defaults and failures are added up. These losses at the time of writing, are estimated by the IMF to be in the region of \$1,000bn (Guha, 2008). What one can be sure of is that, as in the wake of other financial crisis, the securities produced by the sub-prime market – at least in the US – will be embargoed for some time to come by international investors, which will effectively limit that industry's ability to attract investment and advance further loans. The economic geographical consequences of this

liquidity crisis and withdrawal of credit will be quite profound. For while many will celebrate any brake on what is seen as exploitative and predatory lending, it means that a potential source of credit within low-income financial ecologies already short of options will be closed off; not every sub-prime borrower that engaged with the sub-prime sector defaulted, although undoubtedly like the rest of the population with mortgages, they would have had to divert more of their income to repayments in the face of rising interest rates (see, for example, Kirchoff, 2007). One of the most regressive outcomes of the sub-prime crisis will be a further widening of the gap between middle class and less privileged financial ecologies, as the former continue to access the benefits of the financial system at the expense of the latter, leading to a deepening of the process described by Gary Dymski as financial dynamics, by which more affluent areas become enriched through the financial system at the expense of less affluent areas, leading to a deepening of uneven development (Dymski and Veitch 1996).

This brings us to our fourth and final recommendation, which is that work on financialization seeks to incorporate and develop the concept of *financial citizenship*. First coined in the mid-1990s by Leyshon and Thrift (1995), the idea has been picked and revived by Dymski (Dymski 2005; Dymski and Li 2003) as a measure of engagement with the financial system, so that the possession of financial citizenship confers on individuals and households the right and ability to participate fully in the economy and to accumulate wealth. This is significant because, as part of the broader process of neo-liberalization (Peck and Tickell 2002), the contract between the individual and the state is being remade, with personal responsibility and financial markets becoming the default route for short-term income smoothing and long-term financial security. A key part of this process, as Langley (2007) illustrates through the concept of governmentality, is the encouragement on the part of the state and other agencies for individuals to adopt the position of a responsible neo-liberal financial subject, which requires them to ‘calculate,

measure, and manage proliferating [financial] risks' (page 81). Unfortunately, it would seem that neither individuals nor markets are currently up to this task. Dymski and Li (2003) argue that there has been a splintering of retail financial markets on a global scale, a process exacerbated by the globalisation of banks, which are actively pursuing wealthier, middle-class customers within the territories in which they operate:

Ideally, customers for one product will overlap with those from another. The point is to acquire the rights to the banking business of the well-capitalized firms and wealthier households, and then to nurture these relationships over time. And when the customer potential of a given market area has been exhausted, new market areas must be opened up. In sum, intermediaries' customer bases have bi- or even trifurcated: some with costless access to money and plentiful credit, others with costly money and limited access to borrowing (page 187).

In the wake of the recent credit crunch, accessing such costless money has become even more restricted, as retail financial services firms have engaged in a severe pruning of the number of products on offer, even for the most mainstream and middle class of customers. Nevertheless, it is still possible to identify different classes of financial citizen within financialized economies, each with their own particular subject position and associated geographies. Thus, at one extreme we have the idealized financial citizens, those with assets and investments that are, for the most part, accumulating wealth and delivering for themselves long-term financial security. A second category of financial citizen would be those that are to all intents and purposes 'inside' the financial system, with access to a full range of products and services, but they may have few assets and/or may be highly indebted. Then there is a third class of financial citizens, those that are only marginally connected to the financial system. They may live in a cash economy, use traditional sub-prime financial services or – in the UK at least – use regulated but limited

financial products such as basic bank accounts. These different kinds of financial citizen are clearly associated with different kinds of financial ecology, and the way in which they are constitutive of one another requires urgent investigation (French et al. 2008).

However, there is a problem in the expectation that individuals in financialized economies are able to assume the responsibilities of the neo-liberal financial citizen (Langley 2004; Langley 2006a). Levels of financial literacy are alarmingly low, even among those in the middle classes that one might assume most closely approach the idealized financial citizen (Eturk et al. 2007; The Economist, 2008b), let alone among other groups. This, we would argue, is where the real weakness of financialization as a process lies; the ability of financial citizens to be able to continue to play the long term role expected of them in the reproduction of a regime of financialization. Indeed, given the active focus on the efficacy of markets and the financial responsibilities that states now expect their financial citizens to assume, it is perhaps worth invoking and inverting the exhortation so frequently heard on the right around issues of citizenship more broadly; that is, that there are no rights without responsibilities. The responsibilities are clear and increasingly unavoidable. What is urgent, we would suggest, particularly in light of chaos caused by a crisis in sub-prime markets – which after all is a relatively subordinated part of the overall financial market – is a discussion of the *rights* of financial citizens of all kinds within contemporary neoliberalized financial markets (Eturk et al. 2007).

5. Conclusions

This paper has sought to develop a sympathetic critique of the concept of financialization, which has developed around a multi-disciplinary research project which attempts to account for, and detail the impacts of, the growing power of money and

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finance in contemporary processes of economic, political and social change. While financialization has made understanding contemporary socio-economic change more tractable, the body of work currently coalescing around the concepts needs to pay more attention to issues of space and place, and to recognize how many of the processes associated with financialization are geographically uneven. Most particularly there is a pressing need, especially in the wake of the sub-prime crisis, for more to be done to trace through the connections between the international and domestic financial systems that is emblematic of the best work currently being undertaken in the CSA tradition and by the likes of Langley. We have sought to identify a number of potentially valuable directions that work in this developing tradition might follow, focusing in particular on the concepts of the financial ecology and financial citizenship.

One of the great strengths of the concept of financialization is that it has proved a rallying point for researchers interested in money and finance across a number of cognate social science disciplines. This is important because despite the material evidence of the growing influence of the financial system over social life in the last few decades, the number of social scientists dedicated to its investigation within individual disciplines remain relatively thin on the ground. However, the concept of financialization has proved broad and malleable enough to be able to gather beneath its banner sufficient individuals who see value in its interpretative power to deliver a critical mass that is often lacking at the level of individual disciplines.⁵ We hope and anticipate that in relation to the broader economy this intellectual movement will prove counter-cyclical; that is, as the impacts of the destruction of value and opportunity brought about by the credit crunch of the early 21st century become ever more manifest, particularly

⁵ Human Geography being a good case in point; despite the absolute growth in the numbers of academics that could be defined as working on the geographies of money and finance, they remain a small minority even within the sub-field of Economic Geography, which was itself recently defined as a shortage subject in an Economic and Social Research Council graduate training recognition exercise.

within Anglo-American economies, so researchers working more broadly across a range of economic, political and social fields find it difficult to ignore the concept and processes of financialization and seek to contribute to its development.

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