

The remit of financial geography—before and after the crisis

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1. Introduction

Of late, the geographical study of financial markets has started to look like a fox hunt. The target is not only moving but appears to be a master of disappearance and disguise. Events, developments, contingencies and accidents have followed one another with such a speed that the truths of yesterday are continuously being unmasked as the lies of today. Who could have thought that banks would become nationalized, that state debts would reach historical levels, that bulge bracket investment banks would go bankrupt and that the masters of the universe would be so widely vilified?

Given the remit to tease out what is structural, generalisable and, ideally, universal about the phenomena under investigation, social scientists are ill at ease. When all that is solid is seen to melt into air, they are forced into the role of the reporter who sketches the first draft of history. The social scientist is by nature and training ill equipped to undertake that role. Nevertheless, in view of the historical dimensions of the global financial meltdown it has, arguably, been a blessing that some stuck to their trade and sent out regular updates on what was happening on the frontline to the rest of us, even though these updates did betray traces of the provisional, the temporary and the intermediate.

This commentary is no different. Originally written for a session dedicated to the issue of ‘what had happened to the big questions in financial geography’ at the 2008 Association of American Geographers conference in Boston, it clearly betrays the fact that the conceptual issues raised then have been pushed to the background by subsequent developments in financial markets. The four reflections collected in this

commentary, each in their own way, address the new issues raised by the financial meltdown for the past and future of financial geography. They also reflect back on the issues raised in the introduction to the special issue and the way the papers making up the special issue provide ammunition for future research.

The comments that follow, of course, do not converge, based as they are in different biographical soils and emphasizing different aspects of the challenges of the crisis. But they do offer a remarkably coherent message that reflects that conveyed in the introduction about the potential, and especially the need to realize the potential, of financial geography at the current time.

2. ‘The financial system itself’? Economic geographies and the place of finance

The crisis was generated by the financial system itself

George Soros, 22 November 2008

Rather like the lack of attention paid by Economics to economies (see Callon 1998), one of the most curious tendencies within Economic Geography has been the sub-discipline’s lack of explicit attention to economic geographies interpreted as circuits of value. The notion that such economic geographies are necessarily integrative socio-material relations, socially constructed and sustained, or not, across space and time,

and relationally formative of the consumption, production and circulation of value is regarded as trivial or self-evident and so hardly worthy of further analytical concern. One consequence of these tendencies towards the analytical fragmentation of economic geographies was the neglect of money and finance, at least until the early years of the 1990s – a neglect associated in part, perhaps, with the traditions of interest within Economic Geography in the material landscapes of economy. With the subsequent burgeoning of work in financial geographies, another, and opposite, consequence has been a tendency to separate finance from wider economic geographic relations (see Hudson 2005; Lee 2006). To focus, in other words, on ‘the financial system itself’. Thus there is, as Peter Gowan (2009 5) has argued, a requirement

to transcend the idea that changes in the so-called real economy drive outcomes in a supposed financial superstructure. Making this ‘epistemological break’ is not easy. One reason why so few economists saw a crisis coming, or failed to grasp its scale even after it had hit, was that their models had assumed both that financial systems ‘work’, in the sense of efficiently aiding the operations of the real economy and that financial trends themselves are of secondary significance.

In what follows, I reflect on this tendency to fragmentation and separation which is not restricted only to academic discourse but also informs high profile financial practice and public commentary. It points to a take on finance which locates it in its wider economic-geographical provenance and relations. What might such a perspective contribute?

The first point is simple but profound. Economic geographies are big but financial geographies dwarf them. In October 2007, the world's financial markets were, according to the Bank of England (2007), trading \$149,10 trillion of securities. In the same year the World Bank calculated global GDP at \$54,35 trillion. Very crudely, therefore, the 'fictitious capital' or, perhaps more accurately - but still crudely - global leverage (value of securities minus value of GDP) traded across financial markets amounted to almost 175 percent of global GDP.

Given such developments it is hardly surprising that the 'glory days' of finance involved a 'hegemonic model of the market economy' (Wolf 2009a 13) or that financial centres came to be termed 'spaces of hegemony' (Lee 2010, 2003; see also Faulconbridge and Muzio (this issue)). However, as early as 1934, in a chapter entitled 'Credit and capital', Joseph Schumpeter (126) concluded

[T]he money market is always, as it were, the headquarters of the capitalist system, from which orders go out to its individual divisions, and that which is debated there and decided there is always in essence the settlement of plans for further development.

This certainly describes a hegemonic set of geographical relations and points to the formative significance of finance (or, even before it came to be labelled and signified as such, is the term financialisation appropriate here?) in the wider economic geography.

But financialisation is not restricted merely to the spaces of hegemony. Indeed, financialisation with a vengeance characterised the 'glory days':

In the 1930s, it ended with bank failures and the Great Depression. Now, after decades of “financialisation” in the US and other Anglophone economies, whereby financial services have increased their share of gross domestic product, banks are being bailed out – using public money – in an effort to ensure the same does not happen again.

From a political perspective the notable feature of the inegalitarian, free-market era that began in the 1980s is how little backlash there has been against the stagnation of ordinary people’s earnings in such a large portion of the developed world economy. Yet there are signs that the mix of policies and economic circumstances that gave a protracted *laissez-passer* to the rich and to business is coming to an end.

This is potentially dangerous territory. For as Bill Gross, managing director of Pimco, the world’s biggest bond fund, has argued: “When the fruits of society’s labour become maldistributed, when the rich get richer and the middle and lower classes struggle to keep their heads above water as is clearly the case today, then the system ultimately breaks down; boats do not rise equally with the tide; the centre cannot hold.”

Whether the markets have detected this sea change is moot. ... But the change is real. (Plender 2008)

Certainly, finance and markets are, here again, not separated from wider economic geographic relations. Further, the necessity of a class-based analysis is clear and

reflects the view that a Marxist analysis of finance is wired in to contemporary economic conditions. And why is this ‘territory’ so ‘potentially dangerous’? Three reasons are offered here.

Geographers, like economists (see North 1977) and sociologists (see Knorr Cetina and Preda 2005), have taken very little notice of markets. Notwithstanding that, however, they are now top of many agendas. However, as recently as the summer of 2007, even during the rapid onset of financial crisis, the prevailing notion was that financial markets are somehow separate from the real economy. The *Financial Times* referred to the ‘parallel worlds’ of markets and ‘the real economy’ (17 August 2007) and commented that ‘Economists are reluctant to predict whether investment turmoil will spread to the economy’ (24 August 2007). And, in this, the newspaper was simply accepting and following the conventional wisdom of financial economics with its (unproblematic or ideological?) acceptance of the distinction between ‘The financial system and the real economy’ (Howells and Bain 2007: 29 – 48). This lack of attention to, and separation of, markets again reflect a failure to consider economies as economic geographies - socialised and spatialised circuits of value.¹

Such a perspective allows George Soros (2008 1) to argue, with respect to financial crisis, that ‘the defect was inherent in the system’. Sure. But his follow up comments point up the narrowness of the market separation perspective and tightly constrains the analytical extent of inherency.

¹ This is a relational conception which does not, of course, rule out territorial conceptions which interact in a mutually formative fashion with relational spaces. The debate on financial convergence/divergence (for a specific engagement with which, see Dixon and Monk 2009) tends to a territorial view of spaces both influencing and influenced by relational spaces.

To understand what has happened ... will require a new way of thinking about how markets work. ... I propose an alternative paradigm that differs from the current one in two respects. First financial markets do not reflect prevailing circumstances accurately; they provide a picture that is always biased or distorted in one way or another. Second, the distorted views held by market participants and expressed in market prices can, under certain circumstances, affect the so-called fundamentals that market process are supposed to reflect.

This kind of framing is, perhaps not surprising: the separation of markets is a convenient discourse. Thus when

[F]ive of the highest paid and most powerful hedge fund managers, including George Soros, were testifying under oath after being summoned to Capital Hill to face questions on the potential risks their firms pose to the broader economy ... [T]hey blamed the crisis on the “financial system itself”....
(Kirchgaessner and Sender 2008: 27)

But the problem with this framing is that markets are not independent of the political-economic relations which shape and drive them. (see Fligstein and Dauter 2007 for an attempt, stressing political economy, more coherently to identify the elephant in the room of the sociology of markets). Even a very early relational ‘model of economy’ (Hodder and Lee 1974) recognised the integral nature of economic geographies in which such notions of separation are impossible. And studies of the changing spatialities of financial centres also recognise this implicitly (see, for example, Engelen and Grote 2009). But not only is the discourse of separation convenient, it is

dangerous as its framing of crisis simply ignores both the imperatives of accumulation in capitalist circuits of value and the dominant relations of hegemony exerted by finance in Schumpeter's 'headquarters of the capitalist system'.

Nevertheless, the apparent separation and neutrality of financial markets continues to be perpetrated and reproduced in highly influential accounts of the financial system where asocial/aspatial notions of markets as mere channels between supply and demand - are dominant. For Howells and Bain (2007 3), '[A] financial system channels funds from lenders to borrowers'. And for Frederic S Mishkin (2007 3), financial markets are simply 'markets in which funds are transferred from people with an excess of available funds to people who have a shortage.'

Harmless though such conceptions may be one sense – and harmlessness is, of course precisely the point of the discourse of neutrality - this is performativity in powerful and effective action. Mishkin has a long association with the Federal Reserve Bank of New York and with US Federal Reserve System - he was a member of the Board of Governors from 2006 – 2008 during the onset of the financial crisis - as well as with other financial authorities around the world. His textbook, first published in 1986, is already in its 8th edition with all that that says about its widespread use.

And finance is, of course, at least as much about production as it is about exchange. An advertising poster in branches of the UK Lloyds Banking Group refers to "our products and services". The sheer scale of financial flows around circuits of value not only opens up all sorts of opportunities for actors in circuits of financial capital. But, in classic Brennerian (Brenner 1986) fashion, it necessarily presents them with little alternative but to exploit their profitable potential to the full by engaging not only in the provision of banking services but in the production of financial

instruments of various kinds, both retail and wholesale. These imperatives were greatly increased by de-regulation and liberalisation, especially in the prevailing conditions of massive structural imbalances in global finance following the crisis which ‘originated’² in south-east Asia in 1997.

So, rather than merely acting as providers of credit to productive capital, financial institutions have designed, produced and sold increasingly sophisticated products (see, for example, Tett 2009). This intense commodification of finance has embroiled not only other financial capitals and productive capitals but has further incorporated individuals and whole communities and nations. Such incorporation has taken place directly, via investments (eg Aalbers 2009) or borrowing or indirectly, via increased taxation and/or cuts in public expenditure to offset the dramatic socialised costs of staving off financially induced economic collapse.³ It has, in short, contributed to a gigantic extension and intensification of financialisation.

As indicated above, it is likely that financialisation is hardly a new phenomenon in circuits of capital. What is perhaps relatively new is the extent to which finance has found its way into most, if not all, the nooks and crannies of social life. To illustrate, it is easily possible to identify at least 17 notions of financialisation:

- growing influence of finance in defining the norms which define the ways in which circuits of capital operate⁴
- growing share of finance in economy (GDP/employment)

² In fact, of course, it originated, as did the crisis which began in 2007, in the ‘spaces of hegemony’ operating predominantly in the global financial centres of the global north (see, for example, Lee 2003; Sidaway 2008)

³ And this is to say nothing of the massive loss of jobs induced in the economy by financial crisis.

⁴ Martin Wolf (2009b 11) refers to the “old norms” and the “new norms”. See Hall and Appleyard 2009 for a discussion of the complex reproduction of these norms through learning

- growing influence of finance capital and its relations in shaping the trajectories of public finance
- finance as
- the increasingly significant criterion of worth (personal and corporate)
 - sources of growth (see Zadermach (this issue)/crisis (eg residential-based equity))
 - power (cf land; industrial capital)
 - innovation: structured finance
 - the means of governance of circuits of value
 - geography 1: financial production
 - geography 2: financial consumption
 - geography 3: switching flows of value and extending/retracting economic geographies
 - geography 4: credit - space/time travel and stasis
 - geography 5: active and remorseless exclusion/inclusion
 - geography 6: financially driven convergence/divergence
 - geography 7: financial centres
 - sociotechnical *agencements* – economic practice and economic theory
 - technique - cyborg economy

This list – which is doubtless incomplete and certainly ever changing – goes well beyond a mere financialisation in the spaces of hegemony.⁵ It explains the inevitability of unsurpassed levels and degrees of state intervention in the face of a global financial crisis which had been generated by those working within such spaces

⁵ But for a discussion of the continuing widespread significance of the latter see Faulconbridge and Muzio 2009; Hall and Appleyard 2009; Mullerleille 2009

of hegemony. But it also sees beyond even such cataclysmic events. Not only was there a real danger of the collapse of the banking system and hence economic chaos but of the shattering of social norms and possibilities in ways that might have been liberatory – losing nothing other than the chains that bind – but which, more likely would have led to widespread disruption and disorientation. Destructive creation with a vengeance.

Dangerous though the financial territory currently being negotiated by economic geographies certainly is, it is possible - but unlikely – that geographies and histories could be remade in wholly progressive ways in the aftermath of financial crisis. But even to have a chance of such a remaking, would involve (i) an understanding of finance as central to the dynamics and trajectory of capitalism; (ii) an understanding of markets as far more than neutral channels driven merely by ‘external events’ – ‘random’ or otherwise; and (iii) a recognition of the significance of social relations (here of capitalism) in shaping economic and social dynamics.⁶

These are simple points with which to conclude. And no doubt their simplicity helps to explain why economic geographers tend not to incorporate them in their analyses. However, for as long as they are not taken on board in shaping economic and financial understanding, that understanding will fall far short of providing a framework through which people may be empowered to make their own geographies and histories (see Lee 1999; 2008).

⁶ This would, therefore, be a very different understanding of the “future of capitalism” offered by the *Financial Times* (2009) for example.

3. Leverage⁷

The proximate causes of the global financial crisis are well-known: the remarkable expansion of mortgage lending in the US, the UK, and other countries combined with the securitisation of mortgage loans and their bundling into risk-rated tranches sold into the wholesale market without adequate quality assurance as to the veracity of those risk-ratings by either the issuers, the raters, or the purchasers (see Ashton 2009). It was a recipe for disaster, anticipated by some institutional investors and sophisticated market-players but otherwise blithely ignored by most market participants. For many market players, any possible downside risk was covered by their distribution of risk to other institutions; the possibility of a systemic crisis linked to their actions or the incoherence of the whole was deemed remote by bakers and regulators alike. As Alan Greenspan commented, it was believed the “self-interest of organizations, specifically banks and others, was such that they were capable of protecting their own shareholders” (citing Dan Ariely’s 19 May 2009 blog).⁸

In fact, the expansion of the highly-leveraged mortgage market into the nooks and crannies of ‘distant’ regional housing markets and market segments characterised by limited and unstable incomes that had previously been declared off-limits to heretofore cautious banks was declared by a number of governments to be a success-story. Governments claimed that the extension of home ownership to people previously excluded by reason of location of residence and income through the medium of mortgages of up to 120 per cent of the notional ‘value’ of the property represented the

⁷ Thanks are due to Ashby Monk, Adam Dixon, Ewald Engelen, and Dariusz Wójcik for comments on a previous draft, and Olga Thönissen for a close reading and correction of the final draft

⁸ See http://blog.ted.com/2009/05/dan_ariely_2008.php “2008 was a good year for behavioural economics” (accessed 27 May 2009).

enfranchisement of lower income groups on the property ladder.⁹ By this account, the dream of owning one's own home had been realised through financial innovation and the integration of global financial markets. Everyone was deemed a winner: house-price inflation was to be properly understood as a short-term issue of realising demand and supply rather than a bubble which was there for all to see if willing and able to do so (Clark et al. 2010).

As we know, property markets are geographically differentiated. It hardly makes sense to talk of a 'national' housing market so much as regional markets or even local markets nested within regional markets (Shiller 2008). It is obvious why this is the case: the demand for housing is, in part, driven by the local demand for labour while the supply of housing is fixed in the short-term, non-transferrable between jurisdictions except at the margin (mobile homes etc), and subject to limits imposed by public regulation and infrastructure provision. In many western countries, there is also a structural and geographical misalignment of housing markets in that excess supply is to be found in old industrial centres subject to relative economic stagnation whereas excess demand is found in growing regions subject to short-term constraints on the provision of new homes (due to shortfalls in the availability of land, materials, and labour). In the vernacular of the 'geography of finance,' property markets are opaque in the sense that understanding their structure and performance depends a great deal on costly-to-obtain market-specific information that is not efficiently communicated to the global marketplace (Clark and O'Connor 1997).

⁹ It should be acknowledged, of course, that home-ownership has been a long-term commitment of US and UK governments of all political persuasions. So, for example, the recent problems encountered by the US government-sponsored mortgage underwriters Fannie May and Freddie Mac were hardly the direct making of the Bush Administration.

It is not surprising, then, that the research by Coval and Moskowitz (1999, 2001) on the premium attributed to market-specific information has great relevance for understanding how and why market agents—cut off from the relevant information through quantitative techniques that compile data into general pools—may have been poor in anticipating market failure. Perhaps more surprising is the fact that market-failure in the pricing of mortgage loans should have been transformed from local or regional ‘crises’ into a truly global financial crisis that came close to prompting a great depression and now threatens the wellbeing of many people near and far for perhaps a generation (in some countries, and some regions). Even so, the transformation of market failure into systemic crisis was anticipated by a number of institutions. As Tett (2009) has shown through on-the-record interviews with those involved, some institutions were willing and able to scrutinise collateralized debt obligations (CDOs) offerings and translate analysts’ misgivings into company-wide strategies designed to affect retreat from related markets. But many were apparently either not able to understand the risks involved or translate misgivings into market strategy. Either way, there were systematic failures of governance in many of the world’s largest financial institutions.

For those critical of banks’ governance, the failure of banks to regulate employee behaviour figures prominently. By this account, in Anglo-American banks employees’ annual salaries and benefits were too closely linked to performance—whereas such incentive programmes were conceived to align the interests of principals and agents, the overwhelming emphasis on short-term performance without a matching level of scrutiny on assumed risks meant that bank employees were able to leverage their positions in order to maximize short-term performance (and bonuses). At another level, it appears that boards of directors were often ignorant of the risks

assumed in playing the CDO market, did not understand CDOs and, in any event, failed to act in ways commensurate with their responsibilities. So, governance failed at the top of banking institutions, and at the bottom of these institutions. In any event, ‘principals’ were rarely sighted in most institutions being, more often than not, ‘absent’ shareholders whose own positions were heavily discounted through the holding of whole-market portfolios. Shareholders were either wholly ignorant of the nature and significance of CDOs or were inured to the associated risks because of a misplaced confidence in market-wide portfolio diversification as a risk-management strategy (compare Litterman et al. 2003).

As Tett (2009) shows, amongst some banks located at the centre of the global financial market (London and New York), there was great unease about the nature and pricing of CDO risk. And yet, there was great demand for these types of investment products locally and globally. If one bank retreated from the sector, another was only too willing to meet market demand even if they were no surer of the underlying design and credit worthiness of offered products. With short-term incentives driving transactions, it is little wonder that sales dominated risk-management (particularly when a third-party such as a credit rating agency could be introduced to certify risk-ratings). What was more surprising, though, was the geographical spread of the CDO market from New York to London, and then on to continental Europe (contra home bias and the historical significance of local markets; see respectively Huberman 2001 and Engelen and Grote 2009). At that distance, decisions appear to have been made on the ‘reputations’ of offering banks, the claimed superior innovativeness of Anglo-American markets, and the rumour-mill of actions taken by competing banks in other jurisdictions. Whereas institutions involved in currency trading have had to develop rigorous checks on cross-market positions on a 24/7/365 basis, this type of discipline

was apparently not applied to participation in exotic products (see Clark and Thrift 2005 on the management of currency trading within and between global institutions). The practice of risk management is far more context and role-specific within and without institutions than many appreciate.

Why was there such demand for CDOs and the exotic products offered by companies such as AIG Financial Products (located in Curzon St., London)? And why was demand global not just local? Here, we should recognise that global financial markets, and especially those in London and New York, had become saturated with savings over the past 20 years leading up to the crash 2007/2008. As well, the leverage policies of the leading banks and investment companies amplified the volume of money-in-the-market many times over. Not surprisingly, the savings ‘glut’ has driven-down returns in developed securities’ markets while the debt and equity of listed companies has tended to trade at prices well-above underlying fundamentals. Savings and investment has come to market from three corners of the world: from the Anglo-American countries with large funded supplementary pension systems; from east Asia and the Middle-East, where nation-states were the beneficiaries of the growth in global trade; and, from continental Europe, where leading institutions have sought higher rates of return than that which could be found in markets otherwise dominated by entrenched networks of owners and managers (Clark and Wójcik 2007). In effect, the transformation of the subprime crisis into the global financial crisis is emblematic of the financial integration of the global economy and the changes wrought in western markets and economic systems (see Boyer 2000; Engelen 2003).

This theme is explored at some length by contributors to this special issue (see, for example, Dixon and Monk 2009, Falconbridge and Muzio 2009, and Mullerleille

2009). The point to stress at this juncture is that each component of the vast reservoir of global savings and investment had an interest in maximising returns over and above what was anticipated in either their 'home' markets or what they anticipated in terms of their underlying obligations. That many Asian and Middle-east financial markets are rather immature, lack liquidity, and are subject to gross inefficiencies drove investors from those markets to the centre. That Anglo-American pension funds have had to capitalise (directly or indirectly) unanticipated liabilities due to lower bond yields and growing claims for benefits by surviving beneficiaries drove these institutions towards the promise of higher-than-average rates of return. That continental European institutions have suffered from the costs of market inefficiencies and the prospect of ageing populations (looming liabilities) provided compelling reasons for the assumption of higher levels of risk. And yet, few institutions matched their assumption of higher levels of risk with governance and risk-management systems consistent with their risk exposures (see Clark and Urwin 2009).

In effect, by taking on these types of risks (known and unknown), institutions near and far placed a bet on the integrity of the Anglo-American markets and joined (perhaps unwittingly) the leverage applied to those markets by agents who stood most to gain, at least in the short-term from the leverage game. If this logic is now apparent, to have described the world in these terms three to four years ago would have run the risk of being dismissed as ignorant or worse (anti-capitalists). Even Shiller's (2000) commentary on the 'irrationality' of the dot.com bubble was dismissed by many, including regulators, with an interest in selling the story of unending financial innovation and success (see also Clark, Tickell, and Thrift 2004).

Can governments claim to have been the innocent victims of the crisis? Here, there is an ever-growing debate, especially as regards the role of regulation past,

present, and future. In my view, the US and UK governments were (are) largely culpable for the subprime crisis and, most importantly, the transformation of the mortgage crisis into the global financial crisis. In the US, the Bush Administration had everything to gain in the short-term from the expansion of credit in housing markets after the dot.com bubble and bust and the growth in consumer spending over the subsequent recovery through to the peak in early 2008. Elected by a disputed margin in 2000, the Bush Administration was prepared to carry increasing government indebtedness so as to meet voter expectations for the re-election campaign of 2004. The fact that some of their core supporters were to be found in growing southern housing markets added fuel to already highly-leveraged regional housing markets. In effect, the Bush Administration leveraged the bond market to secure its short-term political objectives underwritten by a compliant Federal Reserve that extended the money supply beyond reason and refused to call the housing bubble for what it was (Taylor 2008). US taxpayers and the rest of the world are likely to pay for this political gambit for years to come.

In the UK, the Labour Government was caught in a vice of their own making: the hubris of the Chancellor who sought at every turn to become Prime Minister, the need to pacify his supporters from northern remnants of the 'old' Labour Party with growing government spending, and the wilful disregard of the accelerating housing bubble in the south and all that implied for the impossible expectations of 'wealth' for middle class swing-voters. These 'interests' were resolved for government through the housing bubble which, according to some influential commentators, was not a bubble at all so much as a market driven by structural problems of demand and supply. As market transactions continued to grow, the government was able justify its increasing expenditures on public programmes by the expected growth in tax receipts. Just like a

number of states of the United States, the UK government had an interest in an ever-expanding volume of property transactions and consumer spending. It effectively leveraged future tax revenue for the political advantage of the Chancellor-who-became-Prime Minister. In this ‘game’ of leverage, the Bank of England could only warn of emerging problems—it was a pawn in the government’s campaign to legitimate increasing spending.

In both the UK and the US, political interests relied upon the growing levels of leverage in financial markets, and the seeming never-ending growth in house prices. In the US, of course, the Fed effectively removed itself from the issue by the remarkable assumption made by Greenspan that markets are ‘rational’ and that institutions are not ‘self-defeating’. He has observed that these related assumptions were legitimate ‘theoretical’ propositions underpinned by the efficient markets hypothesis and the reputation of the burgeoning financial industry.

In the UK, of course, the Governor of the Bank of England had his own problems to manage—including the disputed powers of the Bank to regulate financial markets in relation to the Financial Services Authority and especially the Chancellor’s Treasury. It appears that a ‘stress test’ conducted in 2004 on Northern Rock’s capacity to weather an unanticipated shortfall in the wholesale market raised significant doubts about the viability of the bank’s business model. Further, it was noted that a run on Northern Rock would have also affected HBOS.¹⁰ It is arguable that the lack of an effective response to the stress test, and the run on Northern Rock when it began in late summer 2007, reflected on the desire of the Chancellor and his Treasury to control the policy arena given the lack of an effective mechanism for coordination embedded in the ‘tripartite agreement’ that gave the Bank of England independence in

¹⁰ This story was broken by the Financial Times May 30, 2009 under the heading “Northern Rock risk revealed in 2004” by Norma Cohen and Chris Giles.

1997 (see Jacomb 2009 on the Treasury's policy of 'divide and rule'). Monetary policy was made more difficult, of course, by the lack of expertise (until recently) on the Monetary Policy Committee in housing markets, mortgage markets, and asset price bubbles.

As noted above, institutional investors were complicit in the leverage-game of the last decade. If driven into the leverage-game by the search for higher-than-average rates of return, it is apparent that institutional investors have faced an increasingly difficult market environment since the TMT bubble. Conventional recipes of asset allocation and investment management against notional benchmarks did not realise expected returns during the 'good years' of the first decade of the 21st century and have proven toxic for those institutions that held to these recipes as markets went into free-fall during 2008. It became apparent in the run-up to the crisis that 'superior' performance was dependent upon either leveraging against the expected behaviour of financial agents in public markets (hence hedge funds, short-selling etc.) or finding a corner of the industry that had not been exploited so as to diversify asset allocation (hence the interest in alternative investments). Both strategies have placed a premium on innovation and expert knowledge and understanding of the nature and scope of market behaviour. As such, the premium on innovation has challenged the relevance of the governance systems of institutional investors that function according to formal strictures of stakeholder representation and accountability rather than real-time market responsiveness.

Into this world have stumbled the sovereign wealth funds of far-off countries and regions. Many of these institutions have suffered an enormous destruction of wealth, being paradoxically contributors to the leverage game played by western banks and governments while remaining locked-in to western markets by virtue of the

immaturity of their own financial markets and the overwhelming need to find safe-havens from domestic political intrigue. At every turn, speculation abounds about the likelihood that Chinese funds (for example) will withdraw from western markets and especially the purchase of US and UK treasury bonds only to find that, once again, these institutions pick-up what is on sale. Not all sovereign wealth funds are locked into this predicament. Not all funds have had to follow western markets up and down on the roller-coaster of bubble and bust. But it is entirely possible that the leverage game played by US and UK governments on the housing market and consumer spending may be effectively paid for, in part, by sovereign wealth funds with nowhere else to go. Perhaps this was, in any event, understood by western governments as they played the leverage game. If so, there may be a significant geopolitical cost to this cynical play on the wealth of 'other' nations to be paid by future generations of western consumers.

Where this takes us is difficult to predict. It is salutary, in this context, to realise that the costs of the current crisis will have to be paid down quite quickly given the apparent frequency of financial crises and their geographical propagation in an increasingly globalised economy (Barro 2006). Unlike those countries that have effectively saved for a 'rainy-day' whether through sovereign wealth funds or through budget surpluses and the paying-down of inherited debt, the US and the UK can only hope that the depression is a recession and recovery is at least a 'W' if not a 'V' as opposed to an 'L'. As suggested above, the geopolitics of underwriting recovery are likely to prompt a long-term realignment of states' powers and their place in the world.

More prosaically, in current circumstances there is an enormous premium on market-relevant experience and judgement that is able to step-aside from the professional expectations and training of younger traders whose understanding of

current events is anchored in formal education (see Hall and Appleyard 2009). Equally, there is an enormous premium on geographically-informed academic studies of the interplay between financial markets, between market players and institutions, and between markets and political institutions. At the limit, there is a new map of finance and state power to be drawn that looks forward another 10 to 15 years. The papers published in this special issue of the journal should promote research in the field, and ultimately the realisation of the benefits associated with a critical perspective on the 'geography of finance'.

4. Big questions and future trajectories

There are exciting albeit difficult times for those interested in geographies of finance. As a sub-field long concerned about its relatively marginal location in Economic Geography (Leyshon and Thrift 1997, Martin 1999, Pollard 2003), the ongoing finance-led recession provides an opportunity for those of us who have long argued that financial institutions, markets and intermediaries are integral to the entangled geographies of contemporary economic, cultural and political life. This is a time when undergraduate students, long used to dismissing money and finance as too difficult, are signing up for modules on Geographies of Money and engaging with what is happening around them. It is a time when various constituencies unused to thinking about financial geographies are recognising just how deeply their public and private lives are bound up with financial intermediaries, metrics and practices. It is also a time when there appears to be an appetite for thinking about how greater democratic accountability could be introduced into Anglo-Saxon finance, a time for doing battle with the mantra that 'there is no alternative'. A broad sweep of recent literatures have made some significant contributions to working through some of the empirical and conceptual contours of this latest bout of financialisation, pointing to the seemingly ever deepening social and spatial reach of financial intermediaries and practices, the generation and transmission of risk, uncertainty and volatility and the production of material, social and political unevenness (see French *et al.* 2009 for a review). And while popular commentary on the current crisis is still largely running ahead of academic debate, literatures in Geography, Economics and Sociology are illuminating the constellation of geopolitical shifts, macroeconomic imbalances, financial

innovation, racism and changing attitudes to risk that lay behind the current crisis (see Dymski 2009).

The contributions to this Special Issue reflect some of this growing intellectual engagement in Economic Geography. In an analytical and political terrain where it is easy to be mesmerised by the apparent speed, complexity and scale of finance, exploring the economic geographies of financialisation is a crucial task, one antidote to what Mullerleille (2009:3) describes as the “almost atmospheric quality” of research on financialisation, “omnipresent but absent of context or cause”. While much financial geography has traditionally been focused on financial centres and institutions and, in essence, the *supply* architectures of financial geographies (Pollard 2003, Wrigley 1989), this latest bout of financialisation is interesting in part because it surely forces analytical attention to some different – and much more difficult to research – financialized sites and agents, including a wide range of intermediaries, firm managers, households and consumers. These papers are an important resource addressing some of these spatialities of financialisation, charting its reach into corporate strategy, labour market training and recruitment dynamics, location decisions and institutional change. In what follows, I want to pull out three themes from these papers that draw from ongoing shifts in economic geography but also point to promising emerging streams of work in financialisation, before highlighting some areas for future work.

The first theme emerging from the papers is simple, but very powerful: political economic variety matters. One of the ever present dangers of work on financialization is not the ‘end of geography’ *per se* or the ‘flattening’ of spatial differentiation but the temptations to view the ‘local’ as simply a recipient of ‘global forces’ or to accept a diminution of geography’s substance and importance (Pike and

Pollard 2010). These papers offer a useful corrective. For example, Dixon and Monk (2009) contrast UK and Dutch responses to the pressures on defined benefit (DB) pension provision, while Engelen and Grote (2009) contrast the different patterns of decline in the fortunes of Amsterdam and Frankfurt as international financial centres, highlighting significant institutional differences between Germany and the Netherlands (both labelled as ‘Coordinated Market Economies’ in Varieties of Capitalism literatures (Hall and Soskice 2001)). Both papers explore the interplay between tendencies towards greater global harmonization in pricing and standards, for example in international ‘fair-value’ accounting conventions, with the persistence of sticky territorialized rules and institutional fixes that produce non trivial differences in outcomes. Zadermach (2009), Mullerleille (2009) Faulconbridge and Muzio (2009) and Hall and Appleyard’s (2009) papers all explore how geographically specific contexts mediate processes of financialisation in a range of corporate contexts in their analyses of the regional cluster of Munich’s film and television industry, the relocation of Boeing’s corporate headquarters, the reorganization of large law firms and the production of business education respectively. Mullerleille (2009) illustrates the significance Boeing executives attached to spatial relocation as a means to overhaul an engineering based corporate culture, socially and spatially embedded in Puget Sound. Zadermach’s analysis is unusual, working at the intersection of literatures on agglomerated production complexes and geographies of financialisation and exploring, rather than assuming, the financial anatomy of a territorialised production system (Pollard 2007). His case study is also significant in two other senses. First, he illustrates the dangers of conflating processes of financialisation – in this case, shifting modes of corporate governance that favour shareholders - with convergence towards an ideal typical Anglo-American brand of capitalism. Second,

he argues that processes of financialisation need not be wholly negative and can, in some contexts, support a renaissance of “traditional economic values” (p.26) like risk taking and entrepreneurial spirit. The political-economic variety unearthed in these papers is important; it helps alert us to the situatedness of knowledge and avoid the trap of universalizing from the particularity of specific (often US-UK) cases and overstating the coherence of processes of financialisation. The next challenge – and echoing wider debates in economic geography and cultural political economy (see Larner *et al.* 2007, Pollard *et al.* 2009) - is to do more in this vein, to produce rich, contextualized research on what processes of financialisation mean in broader regional contexts, beyond the usual financial industries, occupations and places (see, for example, Stenning *et al.* 2010).

A second theme emerging from these papers, not unrelated to the above, is the sense of financialisation conceived not as a new set of logics, but rather as a set of tendencies that are at times fragile, incoherent and contested. Relatedly, rather than being a force for homogenisation, these papers conceive financialisation as an impetus to mutation, bricolage and institutional hybridity. Drawing on theoretical architectures from Comparative Political Economy, New Economic Geography, Comparative Institutionalism and Cultural Political Economy, the onus is on “roads with many junctions and a multiplicity of interlinked and interacting dynamic paths” (Djelic and Quack 2007:2, cited in Ashby and Monk 2009:5). While they emphasise continuities and adaptations rather than ruptures, however, these papers also point to the need to engage with what is new about this latest bout of financialisation, be it shifts in rules and standards or innovation in particular products and technologies. Thus Faulconbridge and Muzio (2009), for example, demonstrate the importance of metrics like Profits per Equity Partner (PEP) in producing financializing management logics

in law firms that, as privately held entities, might have been insulated from the full disciplining force of such metrics. Similarly, Ashby and Monk (2009:17) consider how convergence towards fair value accounting can produce greater consistency and compatibility of information for investors but simultaneously exacerbate short term risks on pension balance sheets; in essence “the asset side of the DB [defined benefit] pension institutions” are “pricing the liability side of the institution out of business”. This interrogation of specific tools and technologies of financialization is important and needs to be pushed further because some financial innovations pose some significant challenges to conventional theory. For example, derivatives, once viewed as marginal, fictitious, one-off tools for hedging exposure in commodities markets, are now central elements of corporate accounting that,

separate the capital for firms into financial assets that can be priced and traded or ‘repackaged’, without having to move them physically, or even change their ownership. In so doing they allow scrutiny of the parts of the firm that were pooled by the joint stock process, and so allow a more intensive scrutiny of its capacity for profit making (Bryan and Rafferty 2006:97).

The commensuration properties of financial derivatives push the logic of capital,

beyond the bottom line (annual profit rates) and into the details of each phase of production and distribution, because they permit the corporation as a legal entity to continually verify the market value of its component ‘pieces’ of capital. They have provided a form of capital in which competition has, to use

a popular legal phrase, ‘pierced the corporate veil’ (Bryan and Rafferty 2006:96-97).

A by-product of longstanding tendencies to treat firm finances as something of a ‘black box’ (Pollard 2003) has been the tendency to leave the realm of financial innovation to financial economists (Engelen *et al.* 2008). While not losing sight of the continuities of financialisation, it is essential to understand financial innovations that have the potential to destabilize some of the staple categories of Economic Geography, such as ‘ownership’, ‘corporation’ and ‘capital’.

A third important trait of the papers in this issue is their attention to agency and particularly the social, network and territorial embeddedness of agents (Hess 2004). Hall and Appleyard (2009) explore the production of highly skilled financiers through post-degree level business education in investment banks, noting the need to inculcate financiers into the working practices of transnational financial institutions while also embedding them in particular organisational places and cultures. This is an important line of research because so much popular attention is devoted to the so called ‘Masters of the Universe’ (Macintyre 2008) and the ‘New Olympians’ (Elliott and Atkinson 2009) of international financial centres, rather than the more mundane, everyday circuits of social, cultural and educational capital that reproduce financial labour markets. The production of such norms and cultures cannot be taken for granted as Mullerleille (2009:16) demonstrates, exploring the difficulties faced by managers seeking to rewrite Boeing’s “genetic code” as the firm shifted from an engineering-focused culture to one designed to appease Wall Street. More broadly, these papers highlight the complex sociality - and much less so the rationality - of actors, suggestive of a view of agents as situated, problem-solvers, with multiple,

sometimes contradictory interests, (sometimes) able to think on their feet and ‘make do’ with what they have at hand in conditions of uncertainty.

In terms of future research, there is plenty of scope for further work exploring the tools, technologies and practices of financialization in an extended selection of sites and agents. While there is already a strong tradition of ethnographic work in literatures in Anthropology, Sociology, Social Studies of Finance and Actor Network Theory (for example, Maurer 2005, MacKenzie 2006, Goldman 2005), one potentially fruitful avenue of exploration would produce complementary ethnographies interrogating how less obviously finance-related sites and agents receive, understand and respond to the pressures of financialization. Another crucial line of inquiry is to explore, very broadly, the uneven effects of financialization. One strand of work here should explore some of the gendered dynamics of financialization. As Sutherland (2009:1) has recently argued, this ‘credit crunch’, “is shaping up to be Britain's first fully feminized recession” as job losses are concentrated in sectors like retail and services, with severe likely knock-on effects for prevailing gender gaps in pension provision. Sutherland (2009:1) goes on, however, to pose the following question:

If Lehman Brothers had been Lehman Sisters, run by women instead of men, would the credit crunch have happened? ... Both feminist and mainstream economists have pointed out that the credit crunch is quite literally a man-made disaster, a monster created in the testosterone-drenched environment of Wall Street and the City. There is a growing body of opinion that, if there had been more female decision-makers, the agony could have been avoided.

While the nod towards greater gender equality in hiring is laudable, such readings are problematic not least in terms of the essentialism of their implied politics and their reluctance to confront the specifically capitalist social relations that prioritise and reward particular norms and behaviours. Yet such commentary does provoke the question of what a more sophisticated feminist critique of financial theory and practices might look like, and how it would draw from and build upon more than a decade of scholarship that has demonstrated the significance of social reproduction, challenged omissions of women's work from national accounting conventions, explored the gendered dynamics of globalisation and demonstrated that economic theory is gendered (and western-centric) in its assumptions, models and practices (Ferber and Nelson 2003, Zein-Elabdin and Charusheela 2004).

Finally, and related to the above, from the wreckage of the current crisis, there emerge questions about what happens next and, more difficult, what should happen next? On this score, we should recall that one of the themes that motivated the editors of this Special Issue to convene a session at the Boston meetings of the Association of American Geographers was a concern with whether there was a shift away from confronting the 'big' questions of financial geography, a diminution in the appetite for confronting the geographical unevenness of financial activities and the implications for policy and practice. These papers, in different ways, confront one of the enduring difficulties of challenging the current bout of financialisation, namely the need to overcome politically disabling representations of finance that stress the scientism of technical, purportedly objective metrics of liquidity, rate of return, shareholder value and so forth (de Goede 2005). While there is little new about such representations, in the context of current circumstances the significance of the political-economic diversity and the uneven, incoherent and contradictory elements of financialisation

reported in these papers should not be overlooked. Although the intellectual landscape of economic geography has, broadly, shifted away from the traditional political-economic questions of uneven development and redistributive justice in economic geography, there are concerns in these papers to open up space for normative deliberation. So, for example, Hall and Appleyard (2009) question the assemblage of financial actors, specifically, the metrics and values that are prioritised in financial education, to open up the question of what types of financiers and expertise should be produced and reproduced? Answers to such questions require a willingness to take on questions like “what do we want banks to be?” (see Dymski 2009). In a sub-discipline that, historically, has proven itself to be “notably responsive to changes in external conditions” (Scott 2000: 484), financialization and its fallout challenges us to move financial concerns to the heart of economic -geographical and political analysis (Pike and Pollard 2010) and to engage with such normative questions.

5. Financial geographies after the 2007-2008 financial crisis

For those of us who have previously argued for greater academic attention to be paid to matters of money and finance (Leyshon 1995, 1997, 1998, 2000; Martin 1999; Thrift 1990), the financial crisis of 2007-2008 – if one wanted to put the most optimistic gloss on things - might be seen as a rather large black cloud surrounded by the merest hint of a silver lining, in as much as it forced large numbers of people who had previously not given the workings of the financial system much thought, the opportunity to do so. At the height – or should that be depth – of the crisis in October 2008 and the blanket media coverage that it commanded, the fortunes of financial institutions suddenly became of great interest to many of my University colleagues who had previously not given much indication that such matters were worth much of their attention. For some, particularly those in their 50s and 60s, their concern was driven by a fear for the value of their investments (in as much academics have many of these) and/or the likelihood of their pensions still being in place by the time they came to retire. Others, such as those at the beginning or in the middle of their careers, wondered more about the implications for their mortgages and the value of their homes, and even about the future of financial capitalism itself. Colleagues engaged me, and others based here who work in this field, in conversations that sought clarification of terms and processes that were being identified as being at the heart of the crisis.

For a brief period, then, just about everyone seemed to agree on the importance of understanding money and finance, as the central role that it plays in ensuring the unfolding of economic and political life was revealed in the startling series of events

that brought about, in turn, financial failure, job losses, unprecedented government intervention, and the grinding to a halt of the benign conditions of the ‘goldilocks’ or NICE decade – that is, of non inflationary continuous expansionary growth – and the descent of the world economy into recession. However, as the financial system has stabilised, in large part due to the large sums of money that governments have expended in bailing it out, there is a sense that slowly things are returning to normal. If the interests of my colleagues are any guide, the financial crisis is no longer seen to be such a pressing issue, and the days of the geography of money and finance being the conversation *du jour* are behind us.

However, for reasons that I will outline in this commentary, the breaking of this crisis and its aftermath is certain to have fundamental and long-run implications for all of us – not least those who work in higher education, as I shall make clear later – and it has already had severe consequences for those thousands of people that have lost jobs as the financial crisis closed down the credit lines that were supporting so much of consumer demand in western economies. Already there are reports emerging that claim to have identified the ‘green shoots of recovery’, even if such signs are that the rate of economic decline is merely slowing or that there is evidence that the housing market may be slowly flickering back into life. But there has been, I would argue, a shift in the very structures of the financial system, both political and cultural, which will ensure that we may well be entering a new financial epoch (cf. Erturk et al. 2008). Given that events such as the collapse of Bretton Woods and the breaking of the Less Developed Countries debt crisis had the effect of ushering in new financial eras, it would be more remarkable if what most commentators agree is the worst financial since at least the 1930s – and perhaps worse even than that — did not mark a significant break point in the trajectory of the financial system. That we are embarked

upon a rather different financial trajectory is also the opinion of even mainstream commentator, with Martin Wolf, chief economics correspondence of the Financial Times, describing those who wish to see ‘a swift return to what they thought normal two years ago’ as ‘deluded’ (Wolf 2009a). However, these changes are not necessarily benign; while there is evidence that some aspects of financial activity will be subject to greater regulatory oversight, this will not protect economies from the disciplinary power of globally financialized capitalism.

In what follows I do not want to really focus on the causes of the crisis, not least because there are a number of valuable accounts of the crisis now beginning to emerge both from journalists (Elliott and Atkinson 2008; Tett 2009; Wolf 2008) and academics (Aalbers 2009; Blackburn 2008; Gowan 2009; Mann 2009; Nesvetailova and Palan 2008; Sidaway 2008; Wade 2007, 2008), including the contributions in this theme issue, while I have also written on this subject elsewhere (French et al. 2009; Leyshon and Thrift 2007). However, as many of these accounts suggest, and that the contributions here underscore, the roots of this crisis are strongly geographical, and as such suggest important lines of enquiry that require urgent attention. I want to focus on at least three urgent areas of geographical enquiry that need to be pursued in the wake of the 2007-2008 financial crisis.

First, we need to know more about the geographies of asset creation and destruction and what are the consequences of this? The production of assets in global finance are tied to quite specific geographies – there needs to be a there, there, so to speak. A key catalyst for the crisis was the transformation of sub-prime mortgages into investment assets through the process of residential mortgage based securitisation. Sub-prime mortgages, loans made to individuals and households that previously would have been subject to financial exclusion, were attractive for financial

institutions because of the ways in which they lent themselves to being transformed into a highly flexible asset class that, through the application of mathematical models, seemed to offer the prospect of producing both low risk and low return AAA bonds as well as lower grade but higher yielding bonds from the same kind of mortgage (Wainwright 2009).

As we now know, these bonds were unable to deliver on their promises (Blackburn, 2008). The ability of mortgagees to repay was undermined by a shift in monetary conditions and an increase in interest rates. Part of the problem here was the way in which these bonds represented an extension of the mainstream financial system into financial ecologies beyond the prime, middle-class ecologies (Leyshon et al. 2004; Leyshon et al. 2006) that represent the default market for the production of residential mortgage backed financial assets. The demand for new asset classes for investors helped drive the financial system into spaces that it had previously shunned, but this flurry of lending was driven by miss selling and predatory lending which ensured that this round of long awaited reinvestment in many run down areas of the US would be short-lived and, ultimately, counter-productive (Langley 2008b; Wyly et al. 2004; Wyly et al. 2007). But by breaking out first in areas of poverty and deprivation the crisis revealed just how dependent the financial system is on middle class financial ecologies and how their solvency and ability to reproduce themselves – and to repay the significant debts that they have drawn down – becomes of key economic and political significance (Langley 2008a). Sub-prime mortgages in the US only made up a small proportion of the total consumer debt burden, and yet problems in this market – exacerbated by the extreme levels of leverage brought about by financial innovation – brought the global financial to its knees. More work is needed on the geographies of these taken for granted middle class financial ecologies and, in

particular, their relatively vulnerability to financial shocks and disruptions. In particular, we need to know, through the behaviours of individuals and household within such ecologies, particular within countries such as the US and the UK, whether they are able to make the necessary transition from eager consumers of debt to net savers in ways that will be required at an aggregate level in enable their economies to work their way out of fiscal deficits (Wolf 2009c).

Second, what are the implications of the financial crisis for the regulatory geographies of the global financial system? The crisis is a failure of regulation and, in particular the shift towards market forms of regulation. Before the crisis, the preferred mode of regulation was that signalled by private organizations such as credit rating agencies and agreements on internal risk control and management as set out in the Basle II capital measurement and capital management standards, the logic of the latter being that large financial institutions can be trusted to price and judge risk in a self-interested manner that would avoid bringing disaster to itself or, via contagion, to the rest of the financial system. There are few people who believe this now, and certainly not the regulators themselves. The UK's Financial Services Authority (2009), in its report on the crisis, goes as far as to effectively debunk the idea that markets can ever again be understood as rational or efficient, and make a strong case instead for greater levels of regulatory intervention and much stronger international co-ordination. One of the key issues that requires urgent attention is a critical investigation of the geography of financial regulation and, in particular, the attempt to knit together a patchwork of national solutions into an effective transnational policy response (The Economist 2009). There has long been an interest in financial geography in the issue of regulatory arbitrage, as financial centres have sought to out do one another in rounds of ever more light touch regulation so as to attract financial institutions and the

employment and revenues they generate (French et al., 2009). But there is an opportunity now to recover an interest in the material practices of ‘real’ regulation (cf. Clark 1992a, b), as an attempt is made to construct a framework for the future conduct of a world in which the ‘willingness to trust the free play of market forces in finance has been damaged’ (Wolf 2009c)

Third, and relatedly, there is much work to do in investigating the political and geopolitical consequences of finance. In many ways, the crisis was facilitated by the inconstancy of economic geography, and the build up over time of very large budgetary surpluses between indebted consumer economies and surplus exporting economies (Financial Services Authority 2009; French et al. 2009; Wolf 2008). The recycling of these surpluses provided the energy and material for the build up of bubble in asset prices in the west, as well as producing a demand for the manufactured goods and commodities exported from surplus countries in Asia and the Middle East respectively. But the breaking of this cycle of mutual convenience has forced a major rethinking of economic growth models across the world. For export-based economies, the evaporation of demand in the west has caused considerable economic problems, although those that had managed to build up significant reserves and have large sovereign wealth funds, such as China for example, were able to divert sufficient funds to stimulate domestic demand in attempt to cushion at least some of the blow. Smaller, more exposed economies have not been able to insulate themselves in this way, with often catastrophic consequences in less developed countries. In a recent radio broadcast, Minouche Shafik, the permanent Secretary of the UK’s Department for International Development, starkly drew attention to the impact of the crisis on the poorest parts of the global economy:

This crisis has huge negative consequences in the UK – clearly rising unemployment – people are much less well off, but in poor countries, particularly in Africa, this crisis means people will die and that’s a very different consequence than anywhere else in the world. We’re already getting lots of evidence of children who are seeing increased levels of malnutrition, poor families who are having to sell their modest livestock, pull their children out of school because they can no longer afford the school fees, or they need their children at home to help with work, and those consequences are far more severe, frankly than anything we will experience as a result of this crisis ... And this crisis is unfolding in poor countries more slowly more quietly and perhaps a bit less dramatically – its because the families who are having to cut back on the quality of food they eat are poor and isolated and in rural areas and so we don’t see them on the front page of the Financial Times or the Wall Street Journal but that doesn’t make the effect any less real. (BBC Radio 4 2009)

Thus, the current financial crisis is yet another episode in the silent violence that the financial system has wreaked on developing countries over the past 40 years or so. What the Financial Times and Wall Street journal has certainly been reporting is the monumental efforts that governments in the west have made to shore up their failing financial and economic systems. For example, in a recent Global Financial Stability Report the International Monetary Fund estimated that the total value of write downs of financial assets since the onset of the crisis amounts to a staggering \$4.4 trillion (Wolf 2009c). This figure equates to 37 years of official development assistance, and around 13% of aggregate global GDP (*ibid*). In order to stabilise their financial systems many western governments have effectively socialised these losses, and in

doing so have committed large amounts of future income to effectively underwrite the considerable private gains made during the boom years of finance. There were some who hoped that the nationalisation of banks might signal an end to the era of neoliberalism, and the return of a kind of neo-Keynesianism. However, it must be remembered that a key element of the Keynesianism settlement was the building of an international financial system through Bretton Woods that, for a time at least, constrained the power of financial capital and gave national economies some leeway before they were disciplined by the markets. While governments have directed cautionary words about the future conduct of corporate governance, levels of executive pay and lending behaviour to the banks and other financial institutions that now find themselves in state hands, there has been no suggestion that any formal restraint should be placed on the disciplinary power of financial capital in general. The irony of this is that due to the large bail outs of the financial system required across leading economies at a stroke, a financial crisis was transformed into a fiscal crisis. This is a crisis that governments will have to resolve in the not too distant future before the foreign exchange markets start dumping currencies as fears grow that government bonds will not be able to be repaid. Different countries are differentially exposed to such a risk, with the US having the greatest leeway due to the dollar's traditional role as a safe haven. But economies such as Britain, for example, look much more exposed being forecast to have the second largest fiscal deficit as a proportion of GDP in the European Union by 2010 (Wolf 2009d). But, unlike Ireland, the country likely to have the largest such deficit, Ireland, Britain is not part of the Eurozone and so lacks the support of the powerful European Central Bank. For this reason, while the state has become a more important economic actor in

western economies as a result of the crisis, it does so in an increasing impoverished and emaciated form (Wolf 2009e).

Therefore, to conclude by returning to the point on which I began, those more senior colleagues contemplating retirement with their defined benefits pensions still intact may after all, be the more fortunate ones amongst us; they might have been given a scare so close to the end of their normal working life, but at least they have a prospect of a traditional pension (Dixon and Monk 2009) and did at least spend the last 10 years or so of their career in a sector that was undergoing expansion. The next 10 years, I fear, will be very different. In economies like the UK the public sector is set to come under considerable pressure as the government – of whatever persuasion – will be forced to reign in public spending to pay for the bail out of financial capital, in order to prevent the economy being further disciplined by global financial capital through the foreign exchange markets. In the UK, the obvious areas for significant public sector budget cuts are defence, law and order, but also higher education. And the prescription here as elsewhere will be ‘a sustained freeze on the pay bill; decentralised pay bargaining; employee contributions to public pensions; and a pruning of benefits’ (Wolf 2009d). As I hope I have made clear there are plenty of challenges ahead for financial geographers in the wake of the 2007-2008 crisis.

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