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Financialisation, financial chains and uneven geographical development: Towards a research agenda

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ABSTRACT

This paper examines a critical relationship between finance and uneven geographical development, using Europe as a point of reference. It argues that the existing economic geography literature fails to fully address the implications of financialisation for uneven geographical development. In particular, and despite recent renewed interest in geographies of finance, there does not seem to be a coherent theory of debt and its spatialities. The paper argues that the lack of a coherent theoretical framework on spatialities of credit–debt is a major shortcoming and highlights the need for a geographically-informed view of financialisation and its implications for uneven development. As a way forward, the paper proposes a new approach based on the concept of ‘financial chains’ understood both as channels of value transfer and as social relations that shape socio-economic processes over space and time.

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1. Introduction

Europe is at the crossroads. The impact of the global financial crisis that hit the continent in 2008 continues to cast a long shadow over European economies. The financial core of Europe has been badly shaken. The continuing trouble in the Eurozone and its possible fragmentation not only threatens the single currency (the hallmark of European economic and financial integration), but has wider political and economic implications. Indeed, it is no exaggeration to say the European integration project itself is under a threat. The future of the European Union (EU) is at stake.

If there is anything positive about the on-going financial and economic crisis at all (and the particularly virulent form it took in Europe), it is that it raises fundamental questions about what kind of Europe we (the Europeans) actually want and what needs to be done to get there. If the economic, social and territorial cohesion and sustainability is still a goal for the EU (an aspiration that sets it apart from the US) then the processes that undermine such a goal need to be thoroughly investigated and properly understood in order for them to be successfully addressed. Rehearsing the old stereotypes about prudent (Northern) core and feckless (Southern) periphery as a way of understanding economic differences and crisis in Europe is not necessarily helpful¹.

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¹ For a recent intervention in this stereotypical vein see Jürgen Stark’s article in the Financial Times (Stark, 2015) in which he argued that ‘in contrast to many eurozone countries, Germany has reliably pursued a prudent economic policy. While others were living beyond their means, Germany avoided excess. These are deep cultural differences and the currency union brings them to light once again’. Such views are all the more surprising given that their author is a former European Central Bank board member.

This paper argues that one such process that deserves full attention from academics, policy-makers, practitioners and public alike is the process of *financialisation*. Financialisation, shorthand for the growing power of finance over societies and economies, has already attracted a considerable attention from among the social scientists (while, ironically, making only limited progress in academic finance – for an exception see Lagoarde-Segot, 2015). In fact, there is a growing consensus among social scientists (political economists, political scientists, sociologists, business studies scholars and geographers alike) that financialisation represents the key feature of contemporary capitalism and its dynamics (e.g. Epstein, 2005; Krippner, 2005; Froud et al., 2006; Engelen, 2008; Pike and Pollard, 2010; Marazzi, 2011). Simultaneously, there is also a growing recognition that mainstream economics is ill-equipped to fully appreciate the role of finance in the economy and its crisis tendencies (e.g. see Toporowski, 2010; Keen, 2011; Pettifor, 2014). This has been fully demonstrated in the global financial and economic crisis, giving further impetus to the studies of financialisation. Numerous accounts have convincingly demonstrated that financialisation has, in fact, been the key factor behind the crisis (e.g. Aalbers, 2008; Stockhammer, 2012; Lapavitsas, 2013).

This paper argues, however, that there are a number of aspects of financialisation that have been neglected so far. Indeed, limited attention has so far been paid to the ‘financialisation of the state’ and ‘financialisation of finance’, for example. In addition to this, and despite a growing realisation that financialisation is essentially a *spatial* process, geographically-informed view of financialisation remains underdeveloped. This shortcoming is compounded by the fact that the bulk of the literature on financialisation has so far focused on advanced capitalist countries (especially US, UK and Western Europe) at the expense of other geographical contexts. Yet, it is through the elucidation of the ways in which the tentacles of finance are connecting various geographical places that insights into the links between financialisation and uneven development can be gained. Such insights, in turn, are of crucial importance for the territorial cohesion in Europe and for debates on uneven geographical development more generally.

This paper thus aims to examine a critical relationship between finance and uneven geographical development, using Europe as a point of reference. It argues that the existing economic geography literature –despite its potential to do so – fails to fully address the implications of financialisation for uneven geographical development. In particular, and despite recent renewed interest in geographies of finance, there does not seem to be a coherent theory of debt and its spatialities. We are therefore left without critical theoretical insights precisely at the moment when such insights are needed the most. The paper thus calls for a mobilisation of new approaches and tentatively proposes a novel approach based on a notion of ‘financial chains’. The concept of ‘financial chains’ introduced here understands ‘financial chains’ both as channels of value transfer (between people and places) and as social relations that shape socio-economic processes and attendant economic geographies. Prime examples of ‘financial chains’ are credit–debt relationships that criss-cross Europe and link households, financial institutions, enterprises, nation-states, supra-national structures and financial markets together, with significant implications for economic fortunes of localities, regions, and whole nations. The paper suggests that approaching the issue of uneven development in Europe through the lens of ‘financial chains’ opens up a whole new research agenda. Ultimately, such an approach can contribute not only to the debates on the eradication of territorial disparities in Europe, but also to social and economic sustainability more broadly.

The paper is organised as follows. First, dominant approaches to financialisation will be briefly reviewed. Second, the gaps in financialisation literature will be highlighted. Third, emerging research agenda based on the ‘financial chains’ approach will be outlined. Finally, conclusions will reiterate the importance of such research agenda for territorial cohesion in Europe and beyond.

2. Financialisation: Dominant approaches

Financialisation has been studied from a number of viewpoints, although largely centred on the most advanced and (apparently) the most financialised capitalist economies (US, UK and Western Europe). Three *dominant* approaches to financialisation can be broadly identified as (i) *Regime of accumulation* approach, (ii) *Critical social accountancy* approach, and (iii) *Financialisation of everyday life*. I will briefly summarise these in turn (for an extensive review, see Van der Zwan, 2014).

- (i) *Regime of accumulation* approach places emphasis on the macro-economic transformation at the level of national economies. Financialisation is understood as a new regime of capitalist accumulation based on finance, emerging at the back of neo-liberalism from 1970s onwards. The new ‘finance-led growth regime’ (Boyer, 2000) or ‘finance-dominated accumulation regime’ (Stockhammer, 2008) is characterised by the shift of investment away from production/manufacturing (which displays signs of declining profitability) and towards finance as the key channel of profit-making. Financialisation thus can be defined as a pattern of accumulation in which ‘profits accrue primarily through financial channels’ (Krippner, 2005, 174). In this new accumulation regime (and amid neo-liberal retrenchment of the welfare state), real wages of workers are stagnating. Financial instruments of credit (and debt) therefore must be mobilised to compensate for stagnating incomes, in order to prop up aggregate demand and to prevent the system from collapsing. The result of this is (an illusion of) growth, which is based on high levels of indebtedness among workers, and is ultimately unsustainable in the long-run (see also Foster and Magdoff, 2009; Lapavitsas, 2009).
- (ii) *Critical social accountancy* approach focuses on capitalist corporations and their increasing dependence on financial markets and financial logics (Froud et al., 2006). The emphasis is on the ways in which financialised corporations are increasingly focusing on maximising ‘shareholder value’ (Lazonick and O’Sullivan, 2000) via (short-term) *financial* gains

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