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Geographies of money and finance III: Financial circuits and the 'real economy'

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Abstract
This report focuses on the intersection between finance and the 'real economy'. I begin by examining how political economy approaches to money and the wider financialization literature reveal the entangled relationship between finance and broader economic practices. I then review how recent work in economic geography has used these approaches to develop understandings of the role of financial circuits in everyday economic life and the implications of this for the international financial system. This research is important because it problematizes popular and policy calls to rebalance the economic activity in favour of the 'real economy'. I argue that this highlights the need to examine how financial circuits might be produced differently in order to develop a more sustainable financial system and associated economy.

Keywords
financial crisis, financialization, firms, geographies of money and finance, infrastructure, 'real economy', urban economy

I Introduction

In policy-making circles and popular discourse, an over-reliance on financial services has been identified as a key cause of the financial crisis and an ongoing hindrance to economic recovery in several advanced capitalist economies. For example, in the USA, there has been growing concern surrounding the ways in which Main Street (shorthand for the everyday economic activities of the majority of Americans) is overshadowed by Wall Street. The power of this argument is reflected in the global growth of Occupy protests, the first of which started in Wall Street on 17 September 2011, that focus on income inequality associated with the concentration of wealth in the top 1% of the population. In the UK, concerns surrounding the relative power and size of financial services vis-a-vis the 'real economy' are reflected in frequent calls to rebalance the economy in favour of the latter, particularly the manufacturing sector (*The Economist,* 2011; BIS, 2010a, 2010b, 2011). As Peter Mandelson (2009), the then Deputy Prime Minister, argued, rebalancing would involve creating an economy with 'less financial engineering' and 'more real engineering'.

These policy pronouncements rely on an implicit assumption that finance can be separated, relatively easily, from the arguably more productive parts of the rest of the 'real economy' (see Christophers, 2011a, on the role of

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national accounting in shaping definitions of national economic productivity). However, in this report, I draw on aspects of the financialization literature and recent political economy inspired research on money to demonstrate how financial circuits and flows are grounded in, produced by and thoroughly entangled with wider economic geographies beyond the international financial system. An interest in the relationship between money, finance and the wider economy is a well-established debate within economic geography and the wider social sciences. As Pike and Pollard (2010) note, this is reflected in longstanding concerns within geography that work on finance has become detached from, and occupies a relatively isolated position within, economic geography (Engelen and Faulconbridge, 2009; Leyshon and Thrift, 1997; Martin, 1999). However, as the international financial system boomed in the 2000s, so social scientists working on money and finance became increasingly interested in the heartlands of high finance and the relationship between these places and more mundane, everyday economic geographies became comparatively neglected (Hall, 2011a). In the fallout from the financial crisis, this focus has become increasingly untenable and the literature reviewed in this report marks a concerted effort to (re)ground finance within the 'real economy'.

Reflecting this growing interest in the material bases of money and finance, the next section examines the different conceptual vocabularies that have been developed to theorize the intersection between financial circuits and wider economic geographies. I then examine three particularly vibrant strands of research within economic geography that have advanced this intellectual agenda both theoretically and empirically: first, work on firm finances; second, research into the relationship between finance and everyday economics geographies of urban economies and the environment; and, third, examinations of the changing nature of the international financial system itself. I argue that this literature is intellectually valuable because it provides a powerful critique of popular media and to some extent academic assumptions that a complex international financial system exists, divorced from everyday life and hence beyond scrutiny (see also Christophers, 2009; Pike and Pollard, 2010). Rather, work in economic geography highlights the need to understand the intersection between finance and the 'real economy' in relational terms. Such an approach points to the limitations of any policies aimed at rebalancing national economies away from financial services. Instead, it signals the need for greater attention to be paid to how financial circuits might be used to produce alternative versions of the 'real economy' with different economic geographies that facilitate a more sustainable global economy and associated international financial system.

II Theorizing circuits of finance and the 'real economy'

Two related theoretical perspectives have been developed in economic geography and the social sciences in order to advance understandings of the intersection between financial circuits and the wider economies of which they are a part. First, research has drawn on Marx's approach to understanding the vital role of money in production and exchange, particularly as developed by Harvey (1999), to call for a fuller engagement with political economy approaches to money within economic geography (Christophers, 2011b, 2011c). While this theoretical perspective has been overshadowed by cultural economy research in economic geography in recent years, a concern with the socially and materially embedded nature of money is not new and runs through a number of different disciplinary approaches to money including anthropology and sociology, as well as geography (see, for example, Buck-Morss, 1995; Dodd, 1994; Gilbert, 1998; Zelizer, 1994). However, Christophers (2011b, 2011c) has revived interest in political economy readings of money within economic geography by drawing on Harvey (1990) to suggest that work on 'following' different commodities (Cook, 2004) might be fruitfully developed in order to defetishize money as a commodity. The value of such an approach lies in revealing the co-constitutive relationship between money and the social relations involved in its (re)production and circulation. By emphasizing the need to understand the circulation of money in order to reveal its critical role in economic production and consumption, Christopher's (2011b, 2011c) approach echoes broader calls for work on money and finance, as well as economic geography more generally, to focus on 'circuits of capital' (Participants in the Economic Geography 2010 Workshop, 2011) and the tangled relationship between money, questions of value and the 'ordinary economy' (Lee, 2006).

Building on this political economy approach to money, the second literature that seeks to theorize the intersection between financial circuits and wider economic geographies is interdisciplinary research on financialization. As I noted in my previous report (Hall, 2011b), this literature is theoretically and conceptually diverse, ranging from studies of the different subjectivities demanded by the contemporary financial system through analyses of the rise of shareholder capitalism to more general claims concerning the growing power of money and finance within the global economy (see French et al., 2011). However, the strand that is most relevant for my arguments here is work that examines the growing power of financial metrics, most notably 'shareholder value', in shaping corporate behaviour within firms. Research has examined how these 'financial narratives' (O'Neill, 2001) have become increasingly powerful, tying firms into the international financial system in ever more complicated ways in a range of sectors including legal services, car manufacturing and clothing (see Faulconbridge and Muzio, 2009; Froud et al., 2002; Gibbon, 2002). However, despite economic geography's longstanding commitment to the firm as a central unit of analysis (Dicken and Thrift, 1992; Grabher, 1993; Maskell, 2001; Schoenberger, 1997), geographical research on firm finance has remained comparatively limited until recently. Pollard (2003) attributes this oversight to two powerful theoretical lineages in approaches to firms. In neoclassical economics, finance has been assumed to be an unproblematic factor of production that does not vary across space. Meanwhile, until comparatively recently, political economy retained its focus on the 'productive' elements of the economy without attending to the ways in which monetary and financial circuits contribute to this.

However, as the recent work on money as a commodity discussed above reveals, the divisions between productive and unproductive dimensions of the economy is being critiqued as economic geographers seek to better theorize and understand the relationship between money, finance and economic activities more generally. Pike and Pollard (2010) identify two ways in which a distinctly geographical approach to understanding this intersection between finance and the 'real economy' might be developed. First, they argue that research needs to explore 'the inescapable geographic construction, context and rootedness of financial networks and practices' (Pike and Pollard, 2010: 38). Indeed, as they observe, the intersection between finance and the wider economic activity is inherently geographical as it comprises a juxtaposition between ostensibly 'fixed' scalar units such as nations and regions with more relational and topological elements such as monetary and financial flows and circulations. Second, Pike and Pollard (2010) argue that the increasing intensity and scope of processes of financialization highlight the need to examine the new actors and spaces that are becoming entwined with, and are vital for the production of, the international financial system. Below, I explore how economic geographers have begun to develop such a research agenda.

III Circuits of finance: firms, everyday economic geographies and new financial actors

The first literature on the intersection between financial circuits and economic geographies more broadly responds to concerns that firm finances have been overlooked by geographers. This literature extends work on financialization and corporate strategy by developing a distinctively geographical perspective. In particular, economic geographers have demonstrated the co-constitutive relationship between uneven economic development and firms' relationship with the financial circuits that they increasingly rely on to secure finance and maximize shareholder value. In this vein, Pollard (2003: 442) calls for firm finance to be conceptualized as 'integral to our understandings of firm behaviour, governance and strategy'. In particular, through a focus on small firms, she argues that economic geographers are well placed to develop both spatialized and socialized understandings of firm finance since financial networks continue to be geographically heterogeneous despite research frequently pointing to the increasingly powerful international financial system. Moreover, in negotiating access to finance, particularly credit, individuals within firms not only use their place-specific expertise but also develop a series of interpersonal networks with financial intermediaries that are often overlooked in orthodox economics research on firm finance. In so doing, this approach builds on economic geographers' longstanding commitment to the geographically embedded nature of the firm (Dicken and Malmberg, 2001). The salience of this approach has been underscored by the ongoing finance-led recession as access to finance for firms and prohibitive interest rates and terms of lending associated with bank borrowing have become a key source of policy concern and are identified as important mechanisms that continue to hinder economic recovery (Groom and Pickard, 2012).

Extending this research beyond small firms, Muellerleile (2009) uses a geographical approach to financialization to examine the relocation of Boeing's corporate headquarters from Puget Sound on the west coast of the USA to Chicago. This strategy was driven by a belief at board level that being headquartered in Chicago would allow the firm to align itself more closely with the requirements and opportunities offered to it by international financial markets, rather than being driven by the engineering culture that was perceived to dominate financial imperatives in Puget Sound. Meanwhile, research has also demonstrated how financial narratives produced in leading international financial centres, such as London, impact on regional economies and provincial cities through the closure and/or relocation of firms based on the prioritization of financial returns above producing sustainable economies in peripheral regions. In the case of the UK, the northeast of England has received particular attention in this regard, reflecting its historical reliance on manufacturing and more recent experience of public-sector growth and retrenchment. For example, Pike (2006) has examined the socio-economically significant closure of the Vaux Brewery in Sunderland, while the consequences of the demise of Northern Rock in Newcastle following the financial crisis have also been documented (Marshall et al., 2012). As such, geographers working in this field have emphasized the ways in which attending to firm finance develops understandings of uneven economic development, something that is largely overlooked in both the financialization literature and wider debates surrounding rebalancing economies away from financial services. As Dixon (2010: 195) summarizes, finance acts as a driver of 'scalar and spatial political-economic restructuring' and hence plays an important role in shaping a variegated global economy.

The second approach to the entangled nature of financial circuits and economies within economic geography shares this insistence on the importance of place and space in constituting financialized economies. This literature examines the intersection between financial circuits and environments, both built and natural, or what Leyshon and Thrift (2007) term the 'capitalization of almost everything'. As Leyshon and Thrift (2007) argue, the focus of much of the work on contemporary finance has been on the seemingly glamorous world of financial speculation associated with traders in leading financial centres. Much less attention has been paid to the more mundane material bases of these speculative activities. Yet high finance relies on searching out 'fixed assets that will yield a predictable income stream' (Leyshon and Thrift, 2007: 99) in places such as hospitals, sewerage systems and electricity grids for its very existence. Income streams derived from retail financial products including rental incomes, mortgage payments, credit card debts and car loans through processes of securitization represent some of the most important and keenly debated sets of assets used as the basis for financial speculation in this manner (Wainwright, 2009). Through the use of credit scoring techniques, securitization allowed financial firms to aggregate and classify these debts according to their perceived risk of being repaid, thereby allowing financial firms to offer financial products to low-income borrowers who had previously been seen as too high risk, albeit with prohibitive terms and conditions (Burton et al., 2004). In so doing, the growth of this subprime sector facilitated greater financial inclusion by extending credit to groups previously excluded from mainstream finance. However, the ending of the benign macro-economic conditions of the 2000s in which it developed, particularly low interest rates, has had now well-known consequences in terms of the collapse of subprime mortgage markets in the USA and the associated finance-led recession (Aalbers, 2009).

Beyond documenting the links between material assets and financial speculation such as those associated with subprime mortgage finance, geographical research has also examined the processes through which seemingly mundane assets are converted into financial instruments. For example, research has examined how the 'natural' environment has also become the source of financial speculation through the development of financial products associated with emissions trading and derivatives associated with the weather (Pollard et al., 2008; Randalls, 2010). This work responds to calls for greater attention to be paid not only to the mundane, everyday material bases of the international financial system, but also to how these are then converted into financial instruments. As Pryke (2006) argues:

> flow and circulation do not quite capture the entanglement of time-spaces that accompany the motion of finance and the traffics in financial instruments. As analytical concepts, they join the story half way through as it were; they miss out the formative stages, the processes and practices that shape and generate the flows and circulation. (Pryke, 2006: 63)

In this respect, research in cultural economy that focuses on the nature of working practices within financial centres (see Hall, 2011a) provides a valuable resource for understanding how financial products are created that deepen the links between finance and wider economic geographies. O'Neill (2009, 2010) has developed this approach through his examination of the production, growth and reproduction of urban infrastructures as an investment category. Focusing on the case of the Australian Macquarie Bank, O'Neill reveals how infrastructure is transformed from an urban fixture of relative stability into a financial product imbued with financial risk as it becomes the source of financial speculation. Moreover, this transformation of infrastructure comes at a critical time as much of the postwar infrastructure of cities in advanced capitalist economies is in need of replacement while urban growth is placing unprecedented demands on infrastructure systems. These developments raise important questions for future research concerning the ability of financialized infrastructure products to meet public demands for functional, competitive cities.

The third literature that examines the intersection between financial circuits and wider economic geographies builds on the need to understand how material assets are converted into new revenue streams for contemporary finance by exploring the implications of financialization for the international financial system itself, emphasizing the emergence of new actors and spatialities within this. While relatively well-established institutional investors, notably pension funds (Clark, 2000) continue to play an important role, by focusing on the nature of work and organizational structure of securitization, research has also identified important new economic geographies of money and finance. For example, Wójcik (2011) charts the changing geography of the securities industry as it developed in the USA in the 2000s associated with the growth of securitization. In particular, by examining the clusters of securities firms, issuers and investors including investment banks, stock exchanges and brokerage companies, he demonstrates how the geographical concentration of this industry is reflected in a similar concentration of corporate headquarters as company executives become increasingly beholden to the logics of securitization and co-locate with the securities industry in order to overcome the information asymmetries that characterize the production of financial products. In addition to these new geographies, attention has also turned to new forms of powerful financial actors that have grown in significance in the wake of the financial crisis, notably sovereign wealth funds (SWFs). Often seen as evidence of a relatively simplistic shift in the global balance of power from west to east within the international financial system, geographical research has examined how, while these funds are undoubtedly concentrated in the Middle East and Asia, their investment strategies have become increasingly internationalized as they accumulate finance to invest in international financial markets, including notable economic interests in advanced capitalist economies such as New York's Chrysler Building and stakes in the investment banks Merrill Lynch and Morgan Stanley (Clark and Monk, 2010a, 2010b; Clark et al., 2010). These developments point to an international financial system in considerable flux. Hence, future economic geographical research will increasingly need to look beyond the established heartlands of global finance and well-established actors such as investment banks in order to understand the increasingly important yet dynamic intersection between financial circuits and wider economic geographies.

IV Conclusions

In this report, I have documented how recent work in economic geography has theorized and researched the relationship between finance and the 'real economy'. Contrary to policy pronouncements in this area, this research is characterized by a commitment to demonstrating the constantly entangled nature of these two spheres as seemingly ethereal financial products, particularly those associated with securitization, are grounded in the materiality of everyday life. In so doing, this research moves studies of finance beyond the seemingly glamorous and complex worlds of international financial centres whose perceived power frequently places them beyond political scrutiny. Instead, by revealing how everyday socio-economic lives and materialities are increasingly tied into the financial system, this literature reveals the more mundane bases of high finance and the erroneous assumptions built into attempts to rebalance economies away from financial services towards a supposedly separate 'real economy'. However, by emphasizing the inescapability of finance, important questions are raised about what this might mean for both future academic work on the geographies of money and finance and wider political intervention in the financial system following the financial crisis. Theoretically, the research reviewed in this report points to the importance of understanding the intersection between finance and wider economic geographies in relational terms in which established geographical spaces such as cities and households intersect with topological flows of money and finance, creating new economic geographies in which new spaces and actors are important. Such an agenda is politically valuable since it focuses attention not on switching between financial engineering and 'real engineering', but examining how financial circuits might themselves be re-engineered in order to produce new economic geographies that are more economically and environmentally sustainable.

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