

## Book review for *Journal of Economic Geography*

Gordon L. Clark, Dariusz Wojcik, 2007, *The Geography of Finance: corporate governance in the global marketplace* (Oxford University Press, Oxford)

During this significant contribution to the literature on the geography of money and finance, which is based upon a detailed analysis of the changing structure of corporate governance within the Germany economy, Clark and Wojcik identify Mannesman and BMW as examples of firms with radically different models of corporate governance. Mannesman is held up as representative of an open corporate governance style, with highly distributed share ownership with high proportion of its shares in the hands of overseas investors. BMW, meanwhile, is an example of a more traditional German firm with a less open model of corporate governance. It had shares listed on major international financial centres but the majority of shares were owned by just one family and not openly traded. Thus, Mannesman's corporate governance style was typical of Anglo-American shareholder capitalism while BMW was typical of Continental European stakeholder capitalism. Clark and Wojcik analyse the performance of the shares of both firms to illustrate that the share price of Mannesman showed less temporal variation and was seen to be a more 'accurate' reflection of the value of the firm than was the share price of BMW, where information about the firm was more patchy, less transparent. The market in its shares was less liquid, affecting the ability of investors to price the stock. What Clark and Wojcik also mention, but chose not to elaborate, is the fact that in 2000 Mannesman was taken over by the British firm Vodafone, and therefore ceased to be a German-owned company. BMW, which because of its closed corporate governance structure, is more or less immune to the threat of hostile takeover; it remains resolutely German and with its brand intact, albeit that increasing amounts of its productive capacity takes place beyond its borders. However, to conclude from this vignette that BMW's likely long-term survival as an independent German company testifies the enduring strength of the German model would be a hasty and possibly mistaken conclusion. As Clark and Wojcik make clear, the complexities of global competition and the essential need to access capital and finance to fund economic activity casts some doubt over the long term reproducibility of the stakeholder model of capitalism.

This book makes a strong geographical contribution to a body of work on the process of financialization, which seeks to account for the growing power of money and finance within contemporary economic life. Clark and Wojcik argue that a revolution in the organisation of capitalism has taking place over the past 30 to 40 years based on a transformation in the dominant model of corporate governance. The origins of this revolution started as far back as the 1950s, with the development of the academic field of finance theory. Put simply, this work argued for a portfolio based model of investment, which assumed that all other things being equal, share prices reflected the true value of a company, so that a rational and efficient investment strategy would be to invest broadly across a market or markets, and attempts to 'beat' the market were fundamentally flawed. This revolution was consolidated by the collapse of Bretton Woods in the 1970s, and given a further boost in the 1980s with the movement to align the interests of owners and managers. This alignment was designed to overcome the so-called principal-agent problem in corporate governance, where there were seen to be a possibility of a disjuncture between the interests of owners and managers of companies. Where such a disjuncture exists, so finance theorists would argue, there is a danger that the managers of public companies begin to focus more on growth and empire building at the expense

of profitability and return on investment. The realignment of the interests of owners and managers occurred most strongly within economy such as the US and the UK, which already possessed fairly open corporate governance systems, and came to represent the apotheosis of financialized capitalism which has deep and relatively cheap capital markets, but also a corporate governance system that ensures companies are permanently "in play", at risk of a hostile takeover if owners can be convinced to sell their shares to the highest bidder.

One of the reasons that the UK and the US are the most extreme examples of financialized capitalism is the strong role within both economies of pension funds and other institutional investors which are now the main owners of capital and the engines of most financial markets. As a result, financial markets within Anglo-American are deeper and more developed, so gaining access to capital is for the most part cheaper. However, to be able to access this capital, investors require transparency and openness from borrowers in order that the level of risk associated with each investment can be made. Clark and Wojcik draw attention to what they describe as a 'market in metrics' as financial institutions and other organisations have produced copious amounts of data on indicators of various kinds which are fed into highly powerful computers in attempt to calculate the risks of investments and to spot arbitrage opportunities. What this market in metrics attempts to do is bring about a systemic erosion of information asymmetries between investors and borrowers, so that the former have all the information they need to calculate the risk of an investment both *a priori* and *de facto* asset acquisition. Although not fully realised, this is clearly a neo-liberal utopia in the making.

The lure and promise of Anglo-American financial markets has had significant consequences for the famous 'German economic model', which has delivered long-term economic success over the past 50 years or so. Indeed, Clark and Wojcik argue that such a model no longer exists, at least as it is conventionally understood, within regional economies converging with the Anglo-American model as firms have abandoned the closed, bank-based, traditional corporate governance style in favour of openness, transparency and access to capital markets. The core of this book consists of a set of quantitative analyses that indicate that corporate governance within Germany has undergone significant change, reflecting convergence with Anglo-American standards, although this has been a geographically uneven process. The Lander that have abandoned continuity for convergence towards Anglo-American convergence have demonstrated stronger rates of economic growth and job creation. This, Clark and Wojcik, argue, is a lesson for the Continental stakeholder model as a whole. Over a relatively long period of time continental European economies have recorded slower rates of growth and have consistently higher levels of unemployment than Anglo-American economies. The regions of Germany where firms have adopted a more open style of corporate governance, and traded in a reliance on their bank for capital in favour of the investment opportunities in international capital markets, have enjoyed economic benefits. However, this growth comes at a cost; that is, the abandonment of the participatory, stakeholder model which gives actors other than the owners of capital a voice in the running of the firm. Thus, short-term economic gains and greater labour market inclusion enjoyed by these Lander maybe at the cost of the long-term regional and nation-state alliances upon which long-term economic prosperity was built, and which may have implications for welfare and well-being in the future.

As should now be clear, I think this a significant and important book which helps our understanding of the process of financialization and also gives an insight into the

likely future of European capitalism. It deserves a wide audience, although I fear that it may appeal to only a niche market, which would do the book a disservice. The authors and publishers have tried hard to broaden interest with its title, which does not indicate that the bulk of the book is about a highly quantitative analysis of corporate governance in Germany. But even if readers are sucked in by the title they will find that parts of the book is sometimes a tough read and the heavy focus on quantitative analysis is out of kilter with the main methodological strand of contemporary economic geography, which is largely based on narrative accounts and interviews with elites (and even though I was sympathetic, I struggled to understand the technical details of many the analyses undertaken here). But economic geographers are only part of the intended audience for this book, as this work also represents a continuation of Clark's long-term project of rapprochement between economic geography and economics. The fact that much of the analysis is underwritten by a concern for the economic concepts of path dependency and information asymmetries is testament to this. No doubt as a result of this audience in mind, some of the writing is a little clipped and sparse in places, and there are also rather too many assumptions about knowledge of financial markets, reflected in an overuse of acronyms and phrases which may alienate the general reader. I would also have liked to have seen the fascinating final chapter fully engage with work which falls under the umbrella of Social Studies of Finance, to which it alludes and moves towards, but which it never acknowledges. This material which would have provided a ready-made critique of the black-boxed nature of the 'market of metrics' and the highly political nature of this apparently open and 'democratic' market.

These minor quibbles aside, this book is to be strongly recommended to anyone interested in the geography of money and finance or even European economic development more generally. Although largely based on previously published work this book provides a great service in drawing together work that is clearly part of a broader project so that the outcome is greater than the sum of its parts.

Andrew Leyshon  
School of Geography  
University of Nottingham  
Nottingham NG2 7GW