A Very Geographical Crisis: the Making and Breaking of the 2007-2008 Financial Crisis.

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Abstract:

The paper argues that the origins of the financial crisis of 2007-2008 can ultimately be located in four spaces: in international financial centres, in particular, in the longstanding competition that has existed between London and New York; in the insularity of the everyday geographies of money that have emerged in such centres in the wake of the apparent hegemony of financialization; in the geographical recycling of surpluses and deficits and more particularly the structural dependency that has grown up between China and the United States, and; finally, in the growing power of the financial media, centred in international financial centres and an increasingly significant agent in performing money and the economy in general, and in engendering mimetic forms of rationality.

Key words: financial crises, securitisation, sub-prime, financial centres, media, China.

JEL Codes: O16; P10; R11

1. Introduction

> "[I]n the course of a crisis, capitalism is forced to abandon the fictions of finance and to return to the world of hard cash, to the eternal verities of the monetary basis" (Harvey 1982: 292)

> "One of the least reported yet most remarkable market movements of the past week was the run on Mars and Snickers bars in the Lehman Brothers vending machines. For me, this was the image that most sticks in the mind: bankers jostling with each other to liquidate their positions on prepaid vending cards and turn them into sugar, caramel and fat." (Kellaway, 2008: 18)

The storming of the vending machines in Lehman Brothers' Canary Wharf offices on Monday 15th September 2008 was an unlikely harbinger of an extraordinary period in the history of the global financial system. As Lucy Kellaway points out, although the event displayed qualities of "[p]anic, desperation, pettiness and [of] everyman [sic] for himself", it also displayed an underlying logic. These people

> were behaving just as bankers should behave. Unwinding the catering contracts and taking delivery of confectionery showed a desire to balance books, an attention to detail, an abhorrence of waste and a desire to claim assets that rightfully belonged to them rather than let others claim them (ibid).

In the intervening period between this event and the writing of this paper we witnessed the same logic played out time and time again through the familiar performances associated with a financial crisis: institutional failure, rescue mergers and acquisitions, financial market instability, flight to commodity markets, emergency state intervention, and a reappraisal of the nature of financial risk. So far, so familiar, and some older heads in financial markets were initially quick to chalk all this down as just another, although more intense, episode in the perennial history of financial crises that have routinely rocked the financial system over the last thirty years or so; from the less developed world debt crisis of the early 1980s, through the global stock market crash of 1987, to the housing-related financial crisis of the early 1990s, as well as the Asian, Russian, and Argentine financial crises of the late 1990s, and the bursting of the tech bubble in 2000. Commentators writing in the midst of the unfolding of each of these crises would no doubt have argued that they too were at a moment of historical and fundamental change, one of the outcomes of which would be the undermining of the power of financial

capital within the wider economy and polity. However, in each of those cases it would appear that in fact quite the opposite happened; the financial system rebounded to become ever more powerful and pervasive. Therefore, in writing this commentary, particularly so close to the event, we are very aware of being in a period of rapid flux and change, and of the consequent dangers of passing judgement too quickly on fast-moving events. Nevertheless, the sheer speed and scale of recent events, the fact that the crisis is taking place in the heart of the dominant Anglo-American model of financialized capitalism (Gowan, 2009; Nesvetailova and Palan, 2008; Sidaway, 2008), and the unequivocal re-emergence of the state as an active, interventionist agent in financial markets has emboldened us to at least make some tentative prospective claims about the significance of ongoing events for understanding the future of the global financial system. We will also make a set of stronger retrospective claims about the role of geography in the formation and fermentation of this crisis.

In terms of understanding the future of the international financial system, the central question is whether the events of 2007-2008 signalled changes that can be described as epochal or merely conjunctural in nature (Eturk et al, 2008). For us there are at least three reasons to suggest that the current crisis of securitisation may indeed represent a significant break point in the trajectory of the global financial system, so that we can fairly say that we are entering a new financial epoch. The first is the extraordinary fact that the model of independent US investment banking, embodied in the now discredited firms of Bear Stearns, Lehman Brothers, Merrill Lynch, Morgan Stanley and Goldman Sachs, would appear to be irrevocably broken. Both Bear Stearns and Lehman Brothers folded in 2008 – and it was the decision of the US authorities to let the latter fail in September 2008 that was the catalyst for the most destructive phase of this crisis in the Autumn of that year – while the others were either taken over or converted into bank holding companies as it became impossible for them to raise sufficient working capital within the inter-bank markets. This fact is far more significant than the demise of the fabled institutions themselves, because they were both the architects and the leading representatives of the securitised model of finance which has come to dominate the financial system since the 1980s. It is a fact that is only underlined by the equally rapid decline of the institutions that many had identified as the successors to the investment banks, namely hedge funds. While the value of assets managed by hedge funds grew exponentially during the 1990s and 2000s, with the industry enjoying a staggering 50-fold increase in assets under management since 1990 (Economist, 2008), the crisis has now

worked its way through to hedge funds too, producing 30 per cent fall in the value of assets held during 2008 (IFSL Research, 2009). Consequently, funds are being forced to close at a growing rate amidst predictions that as many as half of the approximately 7,000 existing hedge funds are likely to disappear, despite claims to be able to deliver positive 'absolute returns' in both bear and bull markets (Economist, 2008). The difference in the level of publicity surrounding the fortunes of investment banks and hedge funds may be the fact that hedge funds will simply be allowed to die, rather than be the subjects of state-sponsored rescues. Second, the response to the financial crisis during 2008 represents a remarkable about-turn in the state's attitude toward financial markets as the US and UK governments, through unprecedented acts of financial intervention, rejected nearly four decades of neoliberal financial reregulation. To prevent wider systemic failure and contagion there has been an effective nationalisation of failing financial institutions in the US (such as Fannie Mae, Freddie Mac and AIG) followed by the Troubled Asset Relief Plan (TARP) 'bailout' designed to take 'toxic' loans off the balance sheets of financial institutions, but whose funds have primarily been used to try to recapitalisation ailing banks, while the UK also engineered episodes of nationalisation (for example, Northern Rock), 'shotgun marriages' to save failing institutions (such as the takeover of HBOS by Lloyds TSB and Bradford & Bingley by Banco Santander, for example), as well as an unprecedented 'rescue plan' for the entire banking British banking sector which involved it being underwritten by the public purse. These actions represent a body blow to the ideological purity of market-led ideas of neoliberal financialization that had hitherto dominated Anglo-American economy, society and polity. Nowhere is this better illustrated than in the curious standoff between democratic and republican members of the US Senate Banking Committee during the Autumn of 2008 over the TARP which was originally intended to ameliorate financial stress by providing a $700 billion financial rescue plan through the purchase by the state of failing financial assets from distressed institutions. While both parties agreed that the plan was flawed, they did so for opposing reasons: on the one hand, the Democrats criticised the bailout for the injustice of socialising market losses and transferring the cost of failure to the broader population; on the other hand, the Republicans also bridled at the socialisation of risk, but not for its equity effects, rather for violating the principles of the free market. Third, the problems associated with the failure of securitization are likely to prove particularly complex, intractable and costly for at least three further reasons. For one, the breakdown of trust in the calibration and metrics of risk by the rating agencies that has

hitherto underpinned the spread of the securitisation model (Sinclair, 2008). For another, the fungibility of such securities and their very power to shrink time and space, has meant that most major economic regions of the world will be implicated to some extent in the process of deleveraging and a concomitant fall in the value of assets (Wade, 2008). Finally, the very complexity of modern financial instruments makes them extraordinarily difficult to unwind. In the final analysis, the critics who argued that financial markets had fallen in love with instruments that, when combined, produced levels of risk that were impossible to calculate were proved right. Rocket scientists knew the math alright. But it appears that in this instance a model doth not a market make, or at least when markets move outside the particular norms that historical data can dictate (cf. MacKenzie, 2006)[1].

Our sense that we are witnessing an epochal shift within the global financial system may yet prove to be unfounded – although as each day of this extraordinary crisis passes, any sense that we shall return to financial business 'as normal' seems increasingly unlikely – but what recent events have revealed beyond doubt is the extent to which an understanding of the historical *geography* of money and finance is essential to an apprehension of the volatile financial world in which we currently find ourselves. Above all, this is a crisis of financial space. The reference to Harvey at the start of the paper is appropriate, given his formative role in the development of geographies of money (Leyshon, 1995). Money and finance does not just have a geography, it is inherently geographical, and money and finance has evolved as a technology for bridging space and time (Harvey, 1989; Leyshon and Thrift, 1997). In what follows, we therefore attempt to locate the origins of the crisis through four geographical prisms: financial centres; the quotidian geographies of money, the global geoeconomics and geopolitics of money, and the financial media.

Our approach will be based on *near event description* for the simple reason that events are still unfolding (Thrift, 2005). It seems to us that this kind of description is important currently for three reasons. First, there is no definitive theoretical framework that can fit all of the facts as they currently exist. Second, it follows that a portion of what can be said can only be speculation. We are living, even more than usual, in a state of uncertainty, not only because it has become impossible to value many assets or guarantee all the promises upon which the international financial system depends (Wolf,

[1] There are interesting parallels here with MacKenzie's (2006) discussion of processes of counter performativity in the portfolio insurance market.

2008) but also because the policy initiatives that are currently being put into place depend on, at best, half-formed understandings. Third, it is also imperative to understand that there is a market in speculation. Numerous financial celebrities, politicians, and business schools are producing accounts of the causes of the crisis and their own suggested remedies. But these are – more or less informed – speculations which are valued according to many criteria, only some of which are what might be called objective. Other criteria, which increase in value in an era of uncertainty, include reputation, supposed proximity to the action, and perceived ability to transform comment into policy. So, more than usual, we live in an era in which the inevitable looseness of theoretical discourse when measured against the richness of actual practices is exposed, a situation which makes many uncomfortable and is, in itself, a contributory factor in fuelling uncertainty.

2. Financial Centres

The financial crisis of 2007-8 was fermented within international financial centres. To be sure, it involved the entanglement of the financial system with actors in the 'rest of the economy', as we shall discuss below, but the primary roots of this crisis can be traced back to competition between leading international financial centres (Clark, 2002; Grote, 2008; Faulconbridge, et al, 2007) over a long period of time. Indeed, London and New York have been vying with each other for the position of the world's preeminent financial centre for at least 100 years. Although other centres have sought to challenge New York and London for this status – notably Tokyo in the 1980s – by the time the crisis broke they were rated as by far the largest and most important financial centres in the world by the financial community (Mainelli and Yearle, 2007) (see Table 1). In the past, this position was allocated to the centre that was located in the world's most dominant economy and was home to the international reserve currency. For example, the mantle of preeminent financial centre passed from London to New York in the wake of the First World War as Britain was transformed from the world's leading creditor nation to a position of indebtedness due to the loans it received from the United States to prosecute the war. On this understanding, New York should have enjoyed an unchallenged status as the foremost international financial centre, given the enduring strength of the US economy over the twentieth century and the role of the dollar as international numeraire, underwritten after 1944 by the Bretton Woods agreement.

However, from the late 1950s onwards, London was able to take advantage of the inherent weaknesses of the Bretton Woods system to usher in a new era of competitive reregulation between international financial centres. In short, in order to attract increasingly mobile and fluid capital flows there has effectively been a race to the bottom in terms of the regulation of financial activity which has given an advantage to those centres able and willing to offer a 'light touch' regulatory environment. In much of the policy debate following the financial crisis, there has been a good deal of concern about the role of offshore financial centres, and the need to reign in the ability to channel money through lightly regulated tax havens (The Economist, 2009). However, it is often overlooked that this process of regulatory arbitrage (Leyshon, 1992) was pioneered in the competitive struggle between leading financial centres. A recent example of this tendency has been the difficulties experienced by New York in the wake of the Sarbanes-Oxley Act. This legislation was introduced on the back of concerns around accounting standards following the collapse of Enron and related corporate scandals, and served to increase the burden of compliance for companies wishing to list on the New York Stock Exchange. In so doing, the Act gave an advantage to London, which took the lead for the volume of initial public offerings from 2007. When taken together with the increasing barriers to the mobility of labour that have been erected in response to 9/11, the ability of New York to compete for new market listings was significantly diminished, leading to calls from the Wall Street community for a radical review of Sarbanes-Oxley with a view to its repeal (Figure 1). London's ability and willingness to compete aggressively with New York was supported by some unlikely champions, including the Labour Government and London's left-leaning Mayor of the time, Ken Livingstone, who both vigorously defended the London Stock Exchange in its endeavour to fight off a takeover bid by NASDAQ on the grounds that it was both anti-competitive and against the inherent interests of the City of London.

But close links between the political and financial classes were not confined to London, where a belief in the perspicacity of financiers saw them recruited to hold forth on all kinds of matters that one might consider beyond their natural purview.[2] The flow of financiers between New York and government in Washington was even more marked, and here the money men got their hands directly on the levers of power, with the result

[2] These include, for example, David Freud, former vice-chairman of UBS, who was hired by the Labour government to undertake a review of welfare, and Alexander (Baron) Leith, former head of Zurich Financial Services, who undertook work on behalf of the government on the New Deal programme and later on the National Employment Panel.

that 'a whole generation of policy makers has been mesmerized by Wall Street, always and utterly convinced that whatever the banks said was true' which led to 'a river of deregulatory policies' (Johnson, 2009).

From this perspective the move toward 'light touch' (or, as some would argue, 'soft touch') regulation, is an important causal factor in the current crisis, and a product not only of narrow sectoral and political interest, but also of spatial competition, as institutions and regulatory authorities have competed with one another to capture highly lucrative and prestigious financial business. This race to the bottom in terms of regulation was facilitated by a general sense that financial markets and products were too complicated to be regulated by those outside the market, and the belief that financial institutions were sufficiently sophisticated and forward thinking to develop risk assessment models that would ensure their long-term survival and avoid systemic financial crisis.[3] It was also bolstered by a pervasive ideology that assumed markets were somehow rational, logical and, most importantly, self-correcting (French and Leyshon, 2004). This mode of thinking and ideology was institutionalised in the international regulatory framework of Basel II, which was predicated on the concept of prudential regulation, and displaced the regulatory gaze from financial risks themselves toward the risk assessment systems employed by financial institutions. In turn, internal risk assessment systems were underwritten by privatised quasi-regulatory bodies such as credit rating and international bond rating agencies (Sinclair, 2005). As the financial crisis of 2007-2008 has illustrated this system was not without its problems, to put it mildly.

One of the most immediate and unwelcome, certainly for the 'masters of the universe' who inhabit international financial centres, consequences of the crisis has been the strong political and public response to what has been perceived as a culture of irresponsible risk-taking by financiers, reflected in the widespread public damnation of City 'spivs' and speculators, and the more general ethos of 'punterism' (Guthrie, 2008). Many commentators have drawn satisfaction from the immediate pain of the crisis being

[3] This was not a belief held universally in all financial centres, and in some economies the attitude towards financial regulation was more cautious. Financial centres in budget surplus economies, such as Hong Kong, Shanghai, and Bahrain, for example, played important roles in recycling surpluses funds into financial investments though centres such as New York and London. But in places the intervention of the state in controlling these funds was marked. Indeed, China's inverse relationship to the US was continued in the relative power exerted by their political and financial centres during the boom. There was never any doubt in China that Beijing exerted strong policy control over its financial institutions, which ensured that reregualtion in putative global financial centres such as Shanghai advanced cautiously, ensuring state command over the flow of Chinese financial assets overseas (Lai, 2008; Wang et al, 2007, and see Part 4, below).

borne by those who benefitted from the ramp in financial markets. However, this satisfaction has been tempered as the financial crisis has been transformed into a more general economic crisis, and as the realisation has dawned of the degree to which many of these very same speculators have continued to benefit from the bonus culture. Though the immediate impacts of the downturn will be felt keenly in international financial centres, they have increasingly rippled out through ancillary services as well as to labour and housing markets more generally. In particular, smaller, more regionally-based provincial financial centres are likely to be disproportionately affected, particularly as capacity is drastically reduced in call centres and back office functions which are often located in these centres (Bailey and French, 2005). In the case of the UK, many of the leading and secondary order organizations that have failed or that have been forced into 'shotgun' mergers with larger financial services firms have historically retained a considerable presence in regional financial centres outside of London. So, for example, HBOS, itself formed by an earlier merger of Halifax and Bank of Scotland, was headquartered in Halifax, but maintained significant corporate banking presence in Edinburgh. It is now part of London-based the Lloyds Banking Group. Another example has been the failure of Bradford & Bingley, a former building society headquartered in the Yorkshire town of Bingley which converted to a bank in the late 1990s, but failed in September 2008 and has since been broken up with part of the business sold to Spanish bank, Banco Santander. Clearly the future of these provincial centres is now less than certain – Banco Santander having already announced significant job losses across Bradford & Bingley and its two other UK banking subsidiaries, Alliance & Leicester and Abbey – so although international centres may bear the immediate pain of the crisis ironically the crisis may ultimately lead to growing concentration and centralisation of financial services activities within centres such as London. Furthermore, whereas in the boom period of the 1980s and 1990s financial services firms became more inclusive employers, in particular by extending opportunities to women and men from non-elite backgrounds (McDowell, 1997), there is already anecdotal evidence that in response to the current crisis City firms are taking the opportunity to churn their labour force, picking up the 'talent' let go by failed firms and using them to replace those existing employees deemed to be underachieving. Moreover, many of the firms that were bailed out have also suffered a loss of senior bankers, who have left due to their

'very pessimistic outlook about roles and pay in state-influenced organisations' (Saigol, 2009).[4]

3. Quotidian Geographies of Money

Turning now to the question of the everyday geographies of the crisis, one of the remarkable things about this financial crisis has been the manner in which it has appeared to take nearly all practitioners and commentators close to the industry by surprise (for an exception see Lewis, 2008). Although there was clearly a significant social rupture in processes of recruitment within leading international financial centres in the 1980s and 1990s, manifest in the widespread adoption of Americanised and more meritocratic employment practices, the inability to predict the crisis suggests that financial centres and their participants continue to occupy a very insular world. There are a number of reasons for this state of affairs, of which three are particularly important. First, there is the very power and influence of neo-classical economics and of the idea of self-regulating markets. Economic theory has failed to adequately theorise the role of asset-price inflation, which is often dismissed as a relatively unimportant part of forecasting models in that it is comprehended as a market-clearing mechanism which induces short-term periods of disequilibrium, and yet the crisis hinged in large part upon exactly this phenomenon especially within the housing sector within financialised economies such as those within the US and the UK (Erturk et al., 2008). Second, as a system, the world of money and finance has become an ever more complex, intricate and technical field which means that it is increasingly difficult for those who are not embedded in financial epistemic communities to understand, let alone be able to intervene in. In this respect we are reminded of debates in critical geopolitics about the increasingly insular and self-referential nature of international deliberations on nuclear proliferation and defence strategy during the Cold War (Dalby, 1990). As a highly technical and opaque set of epistemic communities and discursive fields the world of finance, like that of post-war nuclear defence strategy, has effectively been placed beyond democratic scrutiny. As such the world of money and finance that has dominated since at least the 1980s might be considered, in the terms of neo-Gramscian theory, to be a distinctive historic bloc, the 'ethical' power of which was at least partly derived from the

[4] This begs the questions as to the extent to which the actions and decisions of the senior investment bankers leaving nationalised banks for less restrictive work environments had something to do with state having to step in the first place.

market-based solutions it appeared to offer to the perennial problem of financial exclusion (Leyshon and Tickell, 1994). A third reason was the relationship that existed between the world of finance and the 'real economy' which increasingly became one in which the financial system extracted value out of other sectors, its ability to do so being founded in the power of money, which strengthened considerably over the latter part of the twentieth century. Traditional views of the role of the financial system within the economy saw it as a source of capital investment to be used in long-term productive growth, whereas in truth in recent years the power of the financial system has enabled it to see the rest of the economy as a repository of assets that can be acquired, sweated and leveraged to generate income streams (Leyshon and Thrift, 2007; Erturk et al. 2008).

This divide was particularly manifest in the days during and immediately after the crisis. In the United States at least, there were public declarations of two worlds working in opposition to one another, these being Wall Street and Main Street. To some extent this is entirely understandable given the egregious injustices and 'quiet violence' (Tickell, 1996) meted out to many ordinary savers and borrowers, ranging from forced foreclosures of homes to general anxiety about the safety of hard-earned money placed on deposit to secure financial futures. However, it is important to recognise that amidst the many examples of predatory lending, reckless risk taking, the craven pursuit of bonuses by many participants in the financial sector and, in the case of the Madoff Hedge Fund, out and out fraudulent behaviour, some of the financial instruments developed in recent years have had the capacity to bridge the divide between Wall Street and Main Street and in so doing bring about socially progressive outcomes. Thus, despite the very real problems that have beset the sub-prime mortgage market in the US, it is important not to lose sight of the fact that for many Americans the sub-prime mortgage offered the only route to home ownership (Dymski, 2008). In focusing exclusively on the dark side of sub-prime lending there is a danger that we unwittingly reinforce right wing critiques of financial inclusion which insist that people are excluded from the market for very good reasons: they do not and cannot conform to the normative and linear borrower subjectivities expected and demanded by financial providers (French, et al. 2008; Langley, 2008; Seabrooke, 2006). Although in the way in which it has been prosecuted, sub-prime lending has often led to socially regressive outcomes (Wyly, et al, 2006; 2007; 2008), it did not have to be this way and this particular financial technology has the capacity to recycle funds in such a way as to underwrite more progressive and sustainable forms of financial citizenship (see Shiller, 2008). In

many respects, the orgy of sub-prime lending in the United States represents a high tide mark of a particular form of market-based financial inclusion. However, given that the boom in sub-prime lending was driven more by commission-based selling and the search for short-term bonuses rather than a genuine desire to broaden financial citizenship in the long-term, it is perhaps hardly surprising that the tide of financial inclusion has dramatically ebbed leaving even more people stranded at the margins of the financial system. A new class of financially (re)excluded is now forming for whom there is little hope of gaining access to mainstream financial products anytime soon, their only alternative being exploitative and largely unregulated providers.

4. Global Geoeconomics and Geopolitics

The geographical recycling of surpluses and deficits has always been critical to the production of financial booms and their eventual collapse. A particularly important historical example was the breaking of the Less Developed Countries debt crisis in the early 1980s, which had been fuelled by the recycling of euro- and petrodollars during the preceding decade, as sovereign borrowers found the terms and conditions offered by commercial banks easier and less draconian than those insisted on by the IMF and the World Bank. In the wake of the crisis, caused by the spiralling of interest rates in response to the anti-inflationary policies of Thatcherism and, in particular, Reaganomics, the subsequent inability of sovereign borrowers to be able to service their loans saw a dramatic reversal in the geography of recycling. Funds now began to flow not from more to less, but from less to more developed countries, as elites in the former countries sought safe havens for their funds and exported their savings from the collapsing economies in which they were based. The current crisis, meanwhile, was facilitated by a more recent episode of recycling, which has been driven by the rise of sovereign wealth funds, based in the Middle East and Asia in particular. Sovereign wealth funds in the Middle East are a continuation of the long-term strategies of oil-producing nations to maximise the returns of their revenues and to build sufficient assets to ensure a successful post-oil future. Asian sovereign wealth funds became significant in the aftermath of the Asian financial crisis of the late 1990s and in the wake of the ensuing intervention of the IMF (Dickenson and Mullineux, 2001; Kelly et al., 2001; Webber, 2001). Although the success of the Asian economies in the post-war period had clearly been based on export-oriented growth, as levels of personal income and GDP grew, so

increasingly money began to be diverted into internal consumption and housing, a process that was exaggerated by the traditional low levels of interest maintained in these economies to assist industrial growth, as well as geo-economic intervention led by the United States to open up and liberalise their financial markets. This potent combination of low interest rates and rapid financial liberalisation led to asset price inflation, especially in property markets, and the bursting of this particular bubble was the catalyst for the Asian financial crisis in general (Stiglitz, 2002). In the wake of the crisis, and following emergency assistance from the IMF in some cases, these economies refocused their efforts once again on export led growth and in so doing generated considerable financial surpluses. The building up of financial reserves was in part a deliberate policy to try and ensure that these economies would never again be subject to the indignities of IMF conditionality requirements[5].

The one Asian economy that was relatively unaffected by the Asian financial crisis was China, due to the strong controls exercised by the state over capital flows in to and out of its borders (Stiglitz, 2002). Throughout the 1990s and 2000s China added considerably to the financial surpluses being produced in Asia as a result of its dramatic progress towards economic superpower status (Figure 2). According to Wade (2008), for example, China's exports were worth $70million in 1990, but by 2005 these exports had risen to over $800million, a more than ten-fold increase. As a result, China has been able to generate a staggering volume of financial reserves, estimated in 2005 to be as much as $1,066 billion (Wolf, 2007) a large proportion of which is held like that of the other Asian economies in US Treasury bonds. This reflects the structural dependency of China and the United States upon one another. On the one hand, China is clearly the workshop of the World, a status that it has been able to achieve by deeply undercutting its global competitors in terms of labour costs, providing China with considerable geoeconomic and geopolitical power. But, on the other hand, China remains dependent on the United States being willing and able to fulfil its role as 'consumer of last resort', and thus to provide a market for goods 'made in China' (Hutton, 2007).

This relationship has been actively managed by China, both directly and indirectly. First China has, over a long period time, steadfastly ensured that the Renimbi has been pegged to the value of the US dollar. Although this means that as the Chinese economy has grown so the Renimbi has been progressively undervalued, this is more

[5] An Asian Monetary Fund was also proposed by Japan at this time to counter the structural power of the US dominated IMF (Stiglitz, 2002).

than made up for by the competitive advantage it confers on its indigenous, export-oriented manufacturing sector. That is, parity with the dollar ensures that Chinese goods have not become more expensive to US consumers despite the staggering advances made in the Chinese economy and which would normally have brought an expectation of the revaluation of the Renimbi. Second, the investment decisions of the Chinese state have also facilitated the eager consumption of Chinese goods in the US economy, because of the Chinese government's enthusiastic purchase of US Treasury bonds, which now make up a significant proportion of China's financial assets (Figure 2). The high demand for bonds enabled the US Treasury to maintain a relatively low interest rate regime, which in turn has underwritten the so called 'NICE' decade of growth and the long run consumer credit boom in the US and across the leading economies more generally. On the surface this might appear to be a mutually beneficial relationship that would enable China to continue to grow its productive capacity, provide a cheap manufacturing base for Western transnational corporations, enable North American and (some) European consumers to continue to spend now and pay later, and provide Western financial institutions with considerable opportunities to make money from the intermediation of these funds at different spatial scales. However, the breaking of the sub-prime crisis ensured that this was not to be the case.

The way in which this mutually beneficial relationship broke down has some striking similarities to the factors that, in the end, brought about the Less Developed Countries crisis in the 1980s. First, existing financial markets were insufficient to absorb the sheer volume of money being recycled through Western financial centres. In the 1970s, this led to the production of an entirely new market, which was making large loans to sovereign borrowers based in the most part in the less developed economies of Latin America and sub-Saharan Africa. After the late 1990s, financial institutions sought out new markets wherever they might be, which included a return to those developing economies which had for so long been embargoed from lending in the wake of the debt crisis of the 1980s, but now re-imagined as 'emerging markets' (Sidaway and Pryke, 2000; Sidaway and Bryson, 2002). But most of the new markets after the late 1990s were developed within the leading economies themselves, mainly through the device of securitised lending to both prime and, significantly, sub-prime borrowers. Indeed, Reinhart and Rogoff (2008) have made an even more direct parallel, by arguing that the sub-prime crisis can be seen as one that is predicated upon the recycling of funds to a 'less developed economy' within the boundaries of the United States itself; that is, to the

spaces of urban poverty and deprivation that were previously beyond the purview of the mainstream financial system. Through the lens of Harvey (1982), both the Less Developed Countries Debt Crisis and the financial crisis of 2007-08 are examples of the ways in which financial capitalism uses space and time in an attempt to develop new markets offset a decline in profit levels and a destruction of value. Second, in addition to being newly emerging markets, both sovereign lending in the 1970s and sub-prime lending in the 1990s were attractive in a period of financial expansion because they offered potentially high returns on investment precisely because they did not have the same risk profile as standard markets. Such markets were not merely attractive, but were also necessary in order to realise the high returns that have been demanded under general conditions of financialization (Erturk et al. 2008). Third, just as in the 1970s and 1980s, the attempt to displace risk through practices of syndicalisation was undermined by the volume of lending and inevitable entanglement of all the leading financial institutions. In the current crisis there was an analogous attempt to displace and disperse risk, but this time through sophisticated and complex processes of securitisation including the creation of consumer asset-backed securities, derivatives such as credit default swaps and new financial entities such as special purpose vehicles and so on. Once again, assumptions that such practices somehow dissipate and distribute risk through out the international financial system to such an extent that individual financial institutions were insulated and protected from default proved catastrophically misplaced. The sheer complexity and opacity of many of these devices meant that the risk assessment systems implemented both within organisations and imposed upon them by external regulators such as bond rating agencies were simply not up to the task (Langley, 2008c).[6]

A further consequence of the crisis has been to remind us that beneath the veneer of an open, liberal and globalised economy, economic nationalism remains very close to the surface. One example was the rapid breakdown in the relationship between the UK and Iceland. Iceland was among a number of small countries which during the NICE decade took advantage of having relatively high rates of inflation and even higher interest rates to attract to it flows of investment looking for high rates of return (Wade, 2008). Its banks, in turn, turned the economy into something akin to a national hedge fund, as the funds drawn to it were used to leverage investments elsewhere. However, as the crisis broke these positions began to unravel, and one after another Icelandic

[6] For example, Langley argues that risk technologies ironically led to the manufacture rather than the reduction of uncertainty (2008c).

banks collapsed only to be rescued via nationalisation. One of the ways in which these banks had attracted money onto their balance sheets was through the creation of retail subsidiaries in a number of European states, including Britain. As the Icelandic banks collapsed, so the savings of thousands of British investors evaporated as it was discovered that they were not covered by UK deposit insurance. In order to protect these deposits, the UK government mobilised anti-terrorist legislation to freeze the UK assets of Icelandic banks, causing a deep rift between the nations and Iceland to consider initiating legal action against the UK (Ibison, 2008). Similar tensions have emerged even between EU partner countries, such as that between the UK and German over the size and scale of fiscal stimuli packages, as policy makers struggle to frame and make sense of the crisis and its aftermath (Parker et al, 2008).

5. The Financial Media

The final element which we need to add into the spatial jigsaw is the media, the key means by which the power of what Marazzi (2008) has called a 'mimetic rationality' has been strengthened, the imitative herd behaviour which is based on the information deficits of individual investors and which produces both market momentum and liquidity (also see Parenteau, 2005). The various financial media are concentrated in international financial centres. Over the past twenty years, they have increased substantially in quantity and coverage, becoming an important constituent element of the markets. That is, they are themselves constitutive (Clark, et al. 2005). That fact is acknowledged in the guise of the burgeoning literature in financial and behavioural economics which has examined the impact of the media on market movement, as well as the number of financial media companies which are now directly linked with the markets through various market- making systems. But, at the same time as they have been expanding their influence in the markets, the financial media have been making more and more links out to the general media, producing means of imitative contagion that were not present before and the linked capacity to influence the economy more generally. Those links have been of several kinds. First, there has been the fact that the media at large have been reporting more and more financial affairs. This is in part a reflection of the growing recognition of the importance of financial matters generally, but is also self-reinforcing as it brings the workings of the financial world to a larger audience and the financial specialist is now an established part of mainstream media outlets. Second, as a result,

financial reporting has become a viable career, producing a horde of so-called specialists Third, even specialist financial media are often a part of larger media combines, which facilitates the ability of this kind of reporting to become headline news. Fourth, reacting to financial media attention has become a key part of what the economy does – from presentations to potential investors and briefings for media representatives to the growth of specialized in-house media experts or the hiring of media consultants and public relations firms..

The result has been that in this crisis the financial media have played a more than active role. For one thing, financial journalists were remarkably negligent in reporting on the rise of securitised finance. This because of the numerical complexity of these markets and the fact that stories about them lacked traditional narrative appeal (particularly when compared to 'heroic' stories about merger and acquisitions, equity trading and even foreign exchange markets). For another thing, financial media have not just reported the crisis. They have become a part of the story itself, and in several ways. First, they have produced affective fuel. They have been one of the key producers of gloom and doom and, ultimately, of panic. By using the standard tropes of press reporting, especially analogies with previous awful events, use of individual examples of ill fortune in order to get maximum emotional effect, and the deployment of statistics in the worst light, the media have generated self-confirming fear. Second, they have concentrated remorselessly on negative stories, in ways which might well be regarded as irresponsible. Indeed, the chief of the Confederation of British Industry argued that they should have been referred corporately to the Press Complaints Commission (Wilman, 2008), with the BBC's Business Editor, Robert Peston, emerging as a particular target of the financial industry's ire.[7] Indeed, the UK Treasury Select Committee even raised the question of whether temporary restrictions should be placed on (financial) media freedom where there was a risk that a story would cause global financial instability and/or the collapse of a particular firm or institutions (House of Common Treasury Committee, 2009). Third, the financial media have produced a spotlight on institutions in difficulty which has itself produced further difficulties. Whatever the exact case, the markets, and then the general population, were sure that they were suffering a financial blitzkrieg, with immediate results for liquidity and subsequently general consumer confidence.

[7] As a further indication of the industry's attempt to place blame on Peston, he was also fingered as a main culprit in the collapse of Northern Rock by no less than the Chair of the British Bankers Association in a letter to the UK government's Select Committee for Culture, Media & Sport (House of Commons Treasury Select Committee, 2009).

Not the least of the difficulties that the media produce is their inability to consider their own situation, either their own inherent excitability which comes from the need to sell stories into a market for attention, boosted by the power of images to affect the public mood, from their role in using privileged access to act as a conduit for government or corporate spin, even including actions like forcing down share prices, and from their general closeness to government and finance. Their defence is usually the public interest. Of course, there have been instances in the last crisis when the media have shown restraint, for example, over the rescue of Northern Rock, but these have been few and far between. And it is often a close-run judgement as to where such restraint becomes a blight on the public interest, a situation made much more difficult by the rise of the so-called 24 hour news cycle which has consisted not only of a general speed-up in the transmission of news but equally the rise of new 'fast' news channels (typified by operations like CNN and CNBC), and the veritable host of often non-transparent means of 'instant' reporting and comments born out of the internet. These new channels often disseminate rumour at great speed as though it were verified news, so-called 'churnalism' (Rosenberg and Feldman, 2008).

6. Conclusions

The current crisis is a crisis which has arisen from an active use of space at a range of scales and along networks of varying length which connect individuals and institutions to, and enrol them within, the financial system. The crisis has been a map of financial flows, of differential wealth effects, of areas hardest hit, and of crises of actors of various kinds. These range from politico-jurisdictional spaces at one level– think only of the dire financial condition of New York state or of the Icelandic economy – through institutions such as universities and local governments at another – think only of North American private Universities whose endowments have been hard hit and whose students can no longer access the loans they were used to getting on a semester by semester basis, and UK local authorities who lost money deposited in high interest savings accounts in Iceland who are now forced to cut jobs and down services to reduce costs – to the myriad individuals affected by the fall out from problems such as these as well as those directly involved with predatory lenders, and subsequent acts of delinquency, default and foreclosure (Langley, 2008). But, more than that, space has been a constituent factor in the formation and unfolding of the crisis. As we have tried to

show in this paper, space has acted as a means of both identifying and accelerating markets and investments which can then bite back as the geographies of markets and investments are quite literally unravelled. There has been a geographical calling to account, the costs of which have still to be fully reckoned. In the lead up to the crisis, during the long-run financial boom, places were increasingly linked to one another through transfers of surpluses gleaned from production and the build up of deficits generated through consumption; layers of promises to pay were piled on top of one another and then stretched across the world in apparently endlessly elastic ways. However, for reasons that we have outlined in this paper, the confident organized uncertainty of the financial boom (Power, 2007) has been transformed into a reduced world of disorganized uncertainty, and not a little fear. In a remarkably short period of time, the horizons of the world economy appear to have been reduced, as exports and imports, and the economies that they both supported, have shrunk. There has been a new focus on national economies, and in particular on the powers of salvation vested in the fiscal state and ability of individual taxpayers to rescue financial capitalism. In all this, geography not only matters, it hurts, and will continue to do so for a considerable time.

However, what we should also be attuned to is the way in which the financial system may already be reinventing itself in the midst of crisis. It was during the turmoil of the Less Developed Countries Debt Crisis that the financial system moved strongly towards securitisation in response to the damage down to the balance sheets of major banks and the fact that many leading companies and governments found themselves with much strong credit ratings, making it possible for them to find their activities in ways that circumvented traditional intermediation altogether. It is precisely at such moments of crisis that new forms of activity are forged and given momentum as established paths and procedures are closed off, and its highly liked that a new financial paradigm is already in the making.

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Table 1: The ranking of Global Financial Centre, 2009: by a composite index of factors linked to labour, business environment, market access, regulation, infrastructure and general competitiveness (Source: Yeandle, et al, 2009).

London	1(1)	781 (791)	London remains in the top place, closely followed by New York, separated by 13 points, down from 17 points in GFCI 4. In spite of the current economic climate, London is again in the top quartile of nearly all instrumental factors as well as the overall GFCI. London still leads New York in all areas of competitiveness, and in four of the five industry sector sub-indices, although respondents expressed continuing concerns about the likelihood of increased regulatory burden, and a less predictable tax-regime.
New York	2(2)	768(774)	New York remains in second place, and dropped only 6 points since GFCI 4 in spite of a host of financial turmoil: government support of Fannie Mae and Freddie Mac, bankruptcy filings for Lehman Brothers, the sale of Merril Lynch to Bank of America and the US Federal Reserve bailout of AIG. New York moved marginally ahead of London in the Banking sector sub-index.
Singapore	3(3)	687(701)	Singapore has dropped 14 points, but retains the number 3 ranking over Hong Kong that it gained in GFCI 4. It is now 81 points behind New York. It remains a solid centre, as evidenced in its continuing high performance in all industry sector sub-indices and in all areas of competitiveness, taking 3rd or 4th place across the board.
Hong Kong	4(4)	684(700)	Hong Kong remains a strong financial centre and is in 3rd or 4th place in all industry sector sub-indices, except Insurance, and in all areas of competitiveness. With only a few exceptions, most Asian banks continue to be able to finance loans with deposits, insulating Hong Kong from some of the direct impact of the current financial crisis.
Zurich	5(5)	659(676)	Zurich held steady at 5th place in GFCI 5 due both to its deep-rooted market niche in the private banking and asset management sectors, and the early moves by Swiss banks to cut back on exposure prior to, and early in, the current financial crisis.
Geneva	6(6)	638*(645)	Geneva has remained at 6th place as investors move to find firm ground amidst the tumult. This has helped the city's score in the Business Environment sub-index move up 5 points.
Chicago	7(8)	638*(641)	Slipping only three points from GFCI 4, Chicago remained relatively stable in a market that saw most other centres suffer far more. Chicago remained in 6th in the General Competitiveness sub-index.
Frankfurt	8(9)	633(636)	Frankfurt is in 8th place, up one rank from GFCI 4. The financial system in Germany has been more stable than in London or New York over the past six months. Frankfurt also did very well in certain industry sub-sectors, rising five places to 7th among Government & Regulatory respondents, and three places to 9th among Professional Services respondents.
Boston	9(11)	618*(625)	Boston has historically moved in and out of the GFCI top 10, and is ranked 9th in GFCI 5. It showed a strong increase in average assessments among respondents, rising from 628 in GFCI 4 to 699 now. It was hit by a falling performance in some of the instrumental factors, however.
Dublin	10(13)	618* (622)	Dublin has benefited from the Irish government's investment over the past decade which has made Ireland a cost efficient location for banking operations. Dublin is also an attractive destination for investment and corporate tax residence. Dublin has climbed three places in the rankings despite recent worries about the Irish economy as a whole.

Figure 1: Bound by red-tape: The Economist's verdict on the problem with the competitiveness of Wall Street just as the sub-prime crisis was about to break (Source: *The Economist*, November 25th, 2006)

Figure 2: Global current account balances, 1993-2008 (Source: Financial Services Authority, 2009).

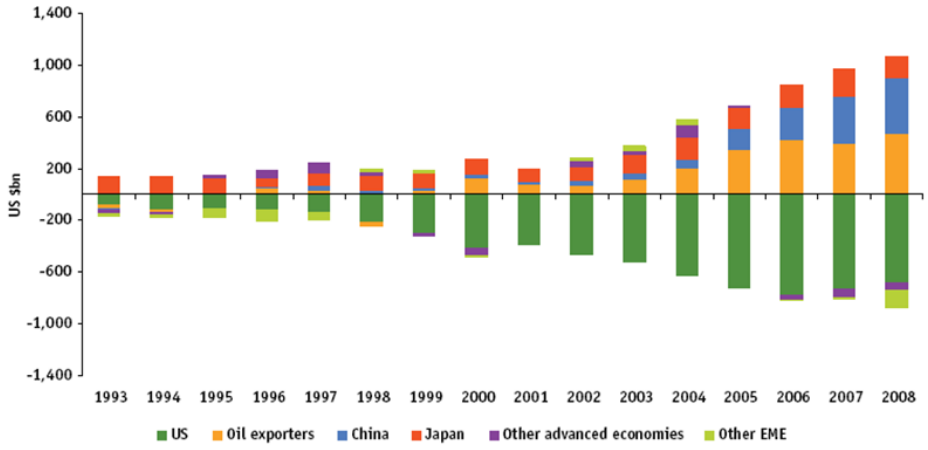
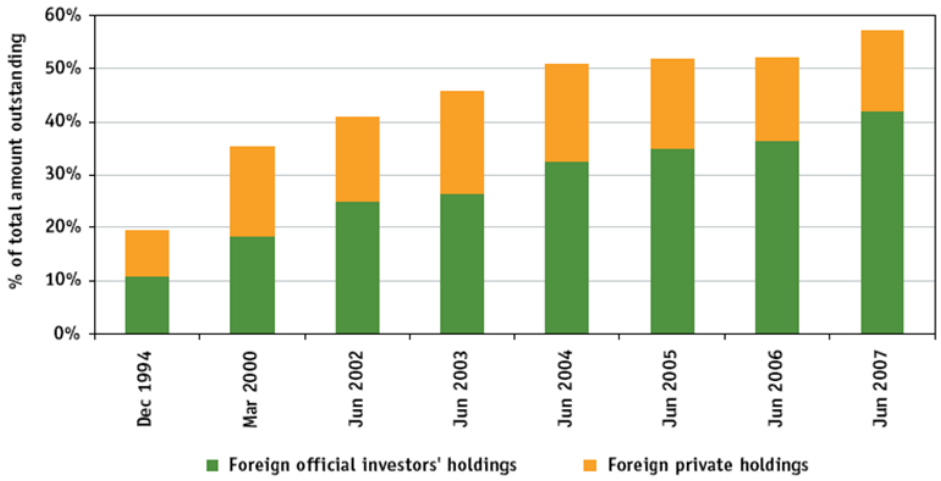


Figure 3: Foreign ownership of marketing US Treasury Bonds as a percentage of total amounts outstanding (Source: Financial Services Authority, 2009)



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