

- *Financial crisis – Critical social theory – Glocalisation – Research agenda*

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The Economic Crisis and the Reshaping of Geography

Die Wirtschaftskrise und die Umgestaltung der Geographie

An exploration of roots and effects of the recent economic and fiscal crisis reveals temporal and spatial characteristics which are used in this paper in order to discuss concepts and explanations from Economic Geography. In general, we may observe a transformation of Western economy and society which, labeled as financialisation, has increasingly structured spatial development on different scales recently. The paper explores (a) more systematically when, where and to what extent geographical elements accelerate crisis developments. These arguments build on the theoretical explanation brought forward by *David Harvey* and the French regulation school. These insights form (b) a background for arguments for an economic geography of “glocal” crisis in order to improve our explanatory abilities. Strong geographical components become obvious in the causes of the subprime crisis – an issue which reflects the ways the built environment is organised. Furthermore, effects of the crisis reinforce processes of uneven development on both international and sub-national scales.

1. Introduction

Talking about crises of the financial and economic system these days, headlines, experiences and processes come to mind which include serious shocks, strong turbulences, substantial devaluations and structural changes of the financial system and the economy as a whole. In contrast to earlier financial crises which were bound to certain regional settings (e.g. Mexico 1994, Asia 1997, Russia 1998) the recent disturbances have demonstrated an outreach on a world scale. Since the beginning of 2007/08, crisis phenomena within different segments of the

economy conjoined in a highly dynamic fashion leading to complex and far-reaching effects.

All these dramatic changes within a short time period have led to a variety of research inquiries for economic geographers and the social scientists. Some are addressed in the following chapters, which have a provisional character for at least two reasons: First, our academic ability to approach crisis phenomena from a perspective within economic geography is restricted. There is a broad debate whether the social and economic sciences as a whole have been misguided in the last years because these disciplines have missed early warn-

ing signs that a crisis might occur and have failed to give sufficient explanations. The same holds true for Economic Geography, even though the relationship between economic structures and processes on the one hand and political interests and conflicts on the other hand are a common subject of our discipline. Most of the authors who have already given comments and delivered papers on topics about the recent crisis complain about deficits and conceptual blind spots. The condition of the 'geography of finance' is seen as being poorly developed and it has been stated that there is no 'geography of economic crisis' (Martin 2011, Schamp 2011). Without debating why these disciplinary shortfalls have evolved in detail, we should look for heterodox building blocks which might be helpful to get a better understanding of recent events. Second, our empirical insights to roots, driving forces and consequences of the crisis are still weak and partly opaque. Of course these deficiencies illustrate the 'nature' of especially this crisis, its complexity and outreach as well as its sometimes surprising victims. This leads to demands to write about the crisis in a descriptive way, to outline geographical narratives which help to understand ongoing processes in more detail. French et al. (2009: 289) call this "near-event description" which is seen as appropriate because the results are still unfolding (similar Langley 2008: 5).

According to these preliminary thoughts, the paper is divided into three sections. In the beginning, crisis phenomena and the debate about causes, research perspectives and examples of general explanations are outlined. Without intending to review the narratives about the economic crisis comprehensively (see Castree 2010), those features are highlighted which are of geographical importance. Some particular geographies of the crisis are presented in the second section with special reference to the urban roots of the crisis. This is an exercise to combine a relational 'glocalisation' argument with a territorialised multi-level perspective in order to permit a synthesis between global-local interplays and geo-economic power

games. Finally, further research tasks are elaborated in order to overcome the present situation which is unsatisfactory not only from an academic but also from a political perspective.

2. Global Economic Crisis: End of the Finance-Dominated Accumulation Regime?

2.1 Crisis phenomena and research questions

Though economic crises are phenomena which occur 'overnight' without being anticipated by the majority of the actors involved, they usually have a particular history. If we look at the recent crisis in a chronological perspective we may delimitate periods where different drivers have accelerated risks and have led to synergetic and powerful effects. In so doing, it becomes possible to underline specific features of the crisis which will be used subsequently to outline research perspectives which may guide us in order to answer the question whether processes of financialisation, which will be described in the next section, have structured the global economy in the last decades, and if so, will they be changed gradually or fundamentally in the future.

Four features will be highlighted here which should be included in further reasoning: (1) the microeconomic and urban roots of the fiscal crisis; (2) the global outreach of the crisis and internal dynamics within the financial system; (3) the relationship between the financial and the 'real' economic sector, and (4) the relationship between the state and the financial sector.

- (1) The origins of the present global turbulences are not only, but predominantly, 'made in the USA'. They were formed by a complex interaction between a politics of 'cheap money' on the one hand and a boom of residential investment on the other hand. Between 2001 and 2003 federal prime rates dropped from 6.5 % to 1 % in the USA in order to stimulate eco-

- conomic activities after the dot-com crisis and the 9/11 downturn. Among other causes, this led to a further increase in mortgage lending of private households stimulating a demand-driven economic upswing. Because households could rely on rising home prices in order to refinance their mortgages, at least until 2006, the boom continued though prime rates rose again by up to 5 % between 2004 and 2007. In this period the first signs of the beginning of a crisis became obvious and the first warnings had been put forward announcing that credit and finance institutions inside the USA would face major problems. In 2007 the so-called subprime crisis took off when the home price index began to drop sharply.
- (2) In 2008 the possible collapse of Fannie Mae and Freddie Mac, two of the most important mortgage lenders in the U.S. and, greater still, the breakdown of the investment bank Lehman Brothers & Co marked the beginning of the ‘hot period’ of the present crisis. The problems of the housing market and deriving effects on mortgage lending led to dramatic effects on the trade of derivatives with major turbulences and devaluations for various financial institutions. Furthermore, the serious situation of Citigroup, which still is one of the biggest U.S. commercial banks and a so-called systemically important financial institution, reflects the growing problems of the ‘credit card economy’, revealing that not only the credits of home owners were at risk but also consumption credits in general. The ‘European experience’ of the crisis set in during the summer of 2007 when the German IKB (Internationale Kreditbank) and Sachsen LB (Sächsische Landesbank), Northern Rock in the UK and UBS in Switzerland were faced with major problems due to their intensive investment in ‘toxic assets’ of American asset-backed securities, sometimes leading to insolvency or takeover by other parties or even by the state.
- (3) Due to the credit crunch, the decline of consumer demands and the growing general uncertainty of the financial sector, the crisis overflowed into the ‘real’ economy in early 2009 starting with a sharp decline of export-driven activities, e.g., in Germany or China. A temporary downturn of prices for raw materials followed which included strong effects on resource based economies in developing countries. The substantial decline of the transport sector caused major problems, e.g., in port areas. Even more, the crisis accelerated already existing problems in the automotive industries and its supply chains. The financial crisis turned into a general economic crisis.
- (4) Finally, at the time of writing, the crisis has forced the international community to support certain states, like Greece, because of their growing debt issues. Iceland, Ireland, Portugal, Spain, Italy, the UK and others are faced with similar troubles. The discussion in the U.S. concerning budget deficits and how to overcome debt problems as well as the European debate about the future of the Euro in the face of asymmetries between economic strong member states, like Germany, and weak ones in the southern fringe characterise the present situation as a wide-ranging debate about re-regulation of the financial system on both the national and the global scale. Three years after the outbreak, the financial system is still in a volatile and crisis-driven condition.

Though financial and economic crises may be seen as a common feature of capitalist market economies, the impacts of recent turbulences seem to be much stronger and indicate fundamental problems as well as the beginning of structural transformations. Perhaps there is a certain metropolitan bias in this perception because the U.S. and the European economies have been affected the most (Oke 2009). But these regions still contain the majority of economic assets and a crisis in this

centre of global business would be expected to have structural impacts all over the world.

If we are to summarise the recent events in order to derive research tasks for the social sciences in general and Geography in particular, the following topics must be highlighted. First, looking at the crisis, it has become clear that there are highly complex interactions within the finance system which are not (fully) understood by the economic and political actors involved, especially in respect to their inherent crisis potentials. Deeper insights into the global finance system are necessary in order to understand recent changes. Second, the dynamics of the crisis reveals strong dependencies between the financial and the productive sectors which are strongly interconnected and where the latter seems to be dependent on the former. The terms ‘finance-dominated accumulation regime’ or the shorter ‘financialisation’ (Tabb 2010, French et al. 2011) are used here in order to underline the importance and structure that the power of the finance system has in relation to other economic sectors and everyday life. This implies that today a financial crisis is automatically a general economic crisis.

Third, an important result of the crisis has been the reappearance of the state within economic markets. The financial and regulatory power of the state, which was at least partly put aside under neoliberal hegemony, is back on stage in order to ‘rescue’ the capitalist market economy. This will inevitably lead to a new interpretation of the relationship between the state and the private sector. Crucial fields of interaction are the intervention and regulation of currencies and debt policies. Especially the eurozone is confronted with new experiences on how to deal with inequalities and asymmetric patterns within the new currency community. Moreover, questions of global geo-economic relations, which are mirrored in currency markets especially between Dollar, Euro and Yen, have been put on the agenda.

Fourth, taking the antecedents of the crisis into account, certain features of micro-macroeconomic interaction have come to light which have been labeled “residential capitalism” (Schwartz and Seabrooke 2008) and ‘privatised Keynesianism’ (Crouch 2009) and which address a form of development that Harvey has called a ‘spatial fix’ in order to establish a Post-Fordist structural coherence. To put it differently: Geography matters obviously in both directions, to reveal the causal mechanism and to differentiate effects of the crisis. The crisis has revealed strong global-local tensions, thus illustrating that we have to build upon so-called ‘glocal’ perspectives, especially in Geography. The origins of the recent crisis are to a remarkable extent based in local housing affairs. Furthermore, those processes which could be called ‘the going global of local mortgage financing’ or the ‘micro-globalisation of finance’ (Dymski 2005) might reveal important features of the crisis dynamics. These distinct forms of local-global interplay are embedded in a multi-level political organisation of space which includes different outreaches of political actors and respective different interests and regulative capacities. While the term ‘glocalisation’ highlights the global network character of the crisis in relational perspective, the subdivisions of political space ranging from global to local modes of governance emphasise the territorial dimension of political reaction and intervention.

These topics form promising research questions from a geographical perspective in order to advance a disciplinary viewpoint of the roots, dynamics and outcomes of the global economic crisis. Of course this is not a stand-alone property of the discipline but should be embedded in a general frame of recent capitalist development.

2.2 *The crisis of the finance-dominated accumulation regime*

Despite the sceptical views of various authors concerning a ‘crisis-blind’ discipline, there was a

remarkable tradition of research in the late 1970s and 1980s within the social sciences and Economic Geography which tried to understand the crisis of Fordism. Topics of economic restructuring, regional and urban crisis as well as their political implications were common research fields at that time (examples are *Fröbel et al. 1981*, *Carney et al. 1980*, *Mayer et al. 1978*). This body of literature emerged in the face of different but related events and shifts, like e.g. the oil-price shock, rising unemployment rates in highly industrialised economies, the break-down of the Bretton Woods system and pressures of inflation, the cut-backs of the Keynesian welfare state, the shift to neoliberal ideologies and the rise of the social-ecological movement. A broad variety of crisis phenomena formed a new basis for conceptual thinking in political and economic geography. Perhaps we are at a starting point of a similar wave right now.

In these early contributions to crisis phenomena a cyclical conception of history was often used which interprets crisis as a recurrent phenomenon and as a period of fundamental transformations. Such a mode of thinking requires some theoretical underpinning of concepts related to stability and abrupt change which leads us to the long and controversial debate over time-space relation in Economic History and Geography (*Wallerstein 1998*). Without going into a more detailed reflection here (*Jessop 2001*, *Oßenbrügge 2008*), some attention should be given to the debate about long waves in the world economy. Based on observations of cyclical movements in the capitalist economy *Nicolai Kondratieff* put forward the idea of ‘great cycles’ or ‘long waves’ which last up to 40 or 60 years. The *Kondratieff* cycles have become a common, often heuristically used concept in, for example, Economic History (*Braudel, Wallerstein*), neomarxist Political Economy (*Mandel, Kleinknecht*), regulation theory (*Aglietta, Boyer, Lipietz*) as well as Political and Economic Geography (*Taylor, Agnew, Knox*).

A prominent narrative in this discussion is marked by the transformation from Fordism to Post-Fordism. Within the last two decades much has been written about these changes; sometimes with strong links to regulation theory and neighbouring concepts (social systems of accumulation, varieties of capitalism; *Jessop and Sum 2006*, *Kotz and McDonough 2010*) which forms one of the conceptual platforms of institutional Economic Geography today. The literature covers primarily: a) new organisational modes as alternatives or modifications to Fordist production, e.g., the debate about industrial districts, clusters, science-based economies or innovation systems; b) the new role of politics and the function of the state in globalisation processes, e.g., the competition state, ‘de-statism’ or new governance modes; and c) the characteristics and spatial organisation of the finance sector but with only little reference to its structural power to influence economic activities in general, e.g., finance geography and the world city system, organisational aspects of the finance industry, the relationship between unbounded money flows and regional development.

Though this research has accumulated far-reaching knowledge about a multitude of new, transformed and restructured forms of capitalism in Economic Geography, the dominating role of the financial system was not reflected seriously (for exceptions, see *Corbridge et al. 1994*, *Clark 2005*, *Klagge 2009*). Periodically, the macro-conditions of the financial system have been discussed but this did not guide empirical work in a consistent and systematic way. The relationship between the growing finance systems with the so-called ‘real’ economy and its spatial implications have remained unexplored to a large extent, perhaps with the exception of the shareholder value concept and its impact on restructuring processes of companies listed at the stock exchange (*Froud et al. 2000*). Consequently, the same holds true for the risks deriving from turbulences of the financial sector. As we have seen, some research is being

carried out regarding the recent crisis and its enormous impacts. In any case, this paper is a plea that these questions will become a major research task in the future, looking out for promising starting points. In so doing we should consider in more detail the long wave which started at the end of the 1960s and ended recently.

An interpretation of the recent crisis is offered here, which follows regulationist thinkers like *Boyer* (2000) and *Aglietta* (2000). The basic question is whether the events between 2007 and 2009 mark an end of the formative period of the 'finance-dominated accumulation regime' (FDAR) or of 'global neoliberalism' (*Kotz and McDonough* 2010). This system evolved as a new mode of capitalism out of the crisis of Fordism in the late sixties and early seventies; Fordism had been dominant since the end of World War II. The period of Fordism depended on combinatory effects like the redistribution of productivity gains through the wage system which, in turn, secured the purchasing power and the demand for industrial products by households. Furthermore, the combination of mass production and mass consumption was embedded into both an active state which used Keynesian interventions and a pronounced social welfare system.

The Fordist mode of accumulation came under growing pressure in the late 1960s due to the oil crisis, profit squeeze and organisational lock-ins. Big companies started far-reaching restructuring programs which were accelerated and pushed by early neoconservative and neoliberal agendas of prominent political leaders like *Ronald Reagan* in the US or *Margaret Thatcher* in the UK. The deregulation of institutionalised work relationships, the undermining of the political positions of trade unions and the establishment of a new international division of labour were characteristic topics of this transformative period (*Roth* 2009).

In addition, in the 1970s the international money system experienced profound changes. After

World War II the Bretton Woods system, which proposed a gold-dollar exchange standard, formed the financial basis of Fordism in the Western world in which the USA and its money politics had a hegemonic role (*Strange* 1986). The final breakdown of the gold standard in 1973 and further operations led to various problems, e.g. inflation – not only in the developed world but in the underdeveloped world, too. A new geography of international finance emerged, e.g., the Petro-dollar and the Euro banking phenomena, and profit-seeking capital moved to states of the Third World. Confronted with ongoing crises of the national and the international money system, a so-called 'monetarism' came up which included high interest rates, tight money supply and fluctuating exchange rates. These attempts to re-regulate the system led to the debt crisis in the developing world because the money which had flowed to the global South in the late 1970s and early 1980s at floating interest rates became liable for repayment at high real interest rates (*Corbridge* 1993). Additionally, policies of structural adjustment controlled and implemented by the International Monetary Fund (IMF) 'disciplined' development strategies in favour of international markets and metropolitan creditors.

While in this way the global periphery experienced a financial subordination by international agencies, the international money system in the Western world was transformed in a market-led way, where state interventions were still operating in order to resolve national payment disequilibria. This includes geo-economic regulation systems like the emergence of regional 'money powers' like Japan and the Yen zone in East Asia or Germany and the DM zone in Central Europe. And there were other important factors relevant to understand the present situation: the upswing of the financial economy itself based on deregulation of national institutions, the availability of venture capital, the creation of new financial markets through the process of securitisation, the rise of institutional investors and the percep-

tion that stock markets were the most important economic indicator both for growth and for the need to intervene in markets (Corbridge et al. 1994). Another important driving force was the invention of new forms of risk management: “After the final collapse of Bretton Woods ... the financial business was confronted with new uncertainties. It was not only the exchange rate volatility that increased dramatically but, as the liberalisation of capital movements progressed, investors also started to look at opportunities offered by financial markets abroad. Accordingly, a demand for effective hedging and arbitrage instruments developed which can be used for protection from, as well as speculation with, risks. What these instruments have in common is that they are based on the anticipation of future developments and, to some extent, make the expectations of expectations tradable” (Strulik 2006: 11).

This transformation from a Fordist accumulation system towards a finance-dominated one was described by, among others, *Michel Aglietta*, whose analysis of the Fordist mode of regulation in the US, published in 1976, may be seen as one of the groundbreaking works in regulation theory. Nearly thirty years later he outlined important features of the new accumulation regime and gave clear expectations as to what might happen. In his view, increasing risks are not only a possible outcome of the FDAR, but a systemic component which will grow in time. That is to say that the new FDAR has led to an emergence of intermediating financial organisations and a significant employment growth. Furthermore, the extension of financial products which are offered in new markets have created an autonomous field of competition, speculation and profit-making within this sector without significant feedback loops to productive sectors. Finally, the FDAR is also restructuring economic activities on the corporate level leading to the shareholder value strategy and on the private level with growing consumer credits.

In this way a complex network of dependencies has emerged with new modes of product standardisation and expectations toward increasing returns – often ‘out of nothing’. The enormous extension of the securitisation business and the extraordinary increase of trade with derivatives are indicators of this change. Whereas in earlier times business banks handled credits more or less ‘indoor’ with their clients without offering them to other financial organisations, today financial risks are divided into basic elements. These are transferred into special investment vehicles which allow trading and which become a new source for growth and profit. Within this process organisational limits of the bank business are blurred and other actors enter the financial market. Step by step microeconomic innovations have transformed macroeconomic structures and institutions: a multitude of financial dependencies between different organisations in different countries in different financial markets on different scales. The strife for profit and speculative expectations have led to the globalisation of the money system in a way which has penetrated the strategies and operational aims of companies, states and the everyday life of private households (Aglietta 2000, similarly Huffschmid 1999, Windolf 2005).

Finally, the diffusion of the FDAR, which can only be touched on here with some general arguments, has led to a changing role and growing income inequalities of private households. On the one hand, the earnings of the majority of employees could realise only a little or moderate growth of income often below inflation whereas on the other hand asset owners and the employees of the so-called FIRE sector gained significantly from the growth of the finance economy. *Langley* (2008: 2) presents interesting figures showing that the proportion of private households participating in the stock market in the US rose from 3 % in 1930 to about 25 % in 1987 and up to 52 % in 2001. This indicates a diffusion of the finance system and reveals that, in the meantime, the process of financialisation

incorporates not only the professional FIRE sector, but includes a relevant share of the society. What seems to be even more interesting related to the credit crunch is the observation that development enforced a ‘privatised Keynesianism’ (Crouch 2009, Young 2011) with an enormous rise of mortgage and consumer credits in economies like the US and the UK. One could even argue that this ‘democratisation of finance’ (Langley) has been a necessary condition for the successful empowerment of the FDAR.

Such hypotheses have to be further elaborated and evaluated than it is possible here, but we should keep in mind that this requires a better understanding of the various features of the finance system like “the intersection between changes in the capital markets, on the one hand, and transformations in everyday spaces, practices and identities on the other” (Langley 2008: 7). Within regulationist thinking this view is especially challenging because the strength of this theory lies in macro-level interpretations of the national scale in relation to global economic changes. Though the concept of regulation implies a self-organised reproduction of practices leading to a certain stability of the accumulation regime (Danielzyk and Oßenbrügge 2001, Jessop and Sum 2006), the tools to analyse the relationship between structure and agency are as weak as those which take the relationship between micro and macro conditions into account. To move beyond these restrictions there are promising conceptual proposals which are derived from actor-network theory and governmentality studies. Those authors who work with the everyday life of global finance, like Langley, Mackenzie and others, have explored the ways the FDAR has integrated ordinary people and penetrated investment decisions by private households. ANT tells us something about the diffusion and growing spatial outreach of the financial system based on new forms of socio-technical interaction (Berndt 2011). Combined with the neo-institutionalist concept of isomor-

phic learning and adaptation one can realise how rules of deal-making and risk evaluation have spread across the globe, including the underscoring of financial dangers. As Haldane – a leading manager of the Bank of England – emphasised: “Until recently, mathematical models of finance pointed to the stabilising effects of financial network completeness. Connectivity meant risk dispersion. Real-world experience appeared to confirm that logic. Between 1997 and 2007, buffeted by oil prices shocks, wars and dotcom mania, the financial system stood tall; it appeared self-regulating and self-repairing. The past 18 months have revealed a system which has shown itself to be neither self-regulating nor self-repairing. Like the rain forest, when faced with a big shock, the financial system has at times risked becoming non-renewable” (Haldane 2009: 9, quoted in French et al. 2011: 16).

In conclusion, one might argue that those forms of financial networks which emerged in the last decades are responsible for the crisis. In contrast to the common perception which assumes that decentralised networks obtain resilient characteristics against booms and busts the recent crisis has revealed that the contrary is the case. A deeper understanding of the actors and networks is therefore a necessary precondition for further theorising. Moreover, Langley’s conceptual themes are convincing, i.e. what he calls ‘financial power, identity and dissent’ and which are based in Foucauldian thinking in order to explain the social acceptance of the neoliberal FDAR and the broad participation in financial transactions. In a simplified way one could argue that the FDAR runs smoothly only under the condition that it is broadly accepted in social arrangements as well as practiced in everyday financial transactions. This includes a willingness and interest to participate in financial affairs as well as a subordination under rules of this sector and, in so doing, to legitimise this ‘financial way of life’. Therefore processes of a ‘neoliberal subjectivisation’ have been in operation which illustrate that the FDAR

is not a system 'out there', uncoupled of everyday social relations, but a growing component of everyday practices. Conceptualised in this way the financial crisis is not only an economic bust, but a crisis also of identities and social stability.

3. Urban Roots of the Financial Crisis

From the general background presented in the previous section, roots of the financial crisis will be analysed focusing on perspectives of Social and Economic Geography. In so doing, two different views are important. The first one intends to link the local to the global level, e.g. when we take the practice of subprime lending and the mortgage market, especially in the US, into account. This perspective on the micro level illustrates the way hopes and desires of private households and ordinary people have been incorporated into the FDAR on a macro level. Based on financial innovations leading to new investment vehicles, the multitude of individual actions has been the raw material for profit seeking of financial actors throughout the globe. That means that "an understanding of the mortgage crisis and the credit crunch is ultimately a spatialised understanding of the linkages between local and global, between space of places and spaces of flows" (Aalbers 2009a: 34, similarly Clark 2005 and Martin 2011). In contrast to this bottom-up perspective the second one is more top-down and links the global to the local level on the background of structural relations, geo-economic competition and power. This includes the actors and their networks within the financial system and looks at global cities which serve as local innovation centres of financial opportunities and risks.

3.1 Subprime lending, mortgage claims and foreclosures

Recently there have been reports in newspapers that several state institutions within the US, e.g.

offices of justice, the general attorneys and the Securities and Exchange Commission (SEC) which overlooks interactions at the stock exchange are investigating into bank activities which are seen as having been responsible for the outbreak of the crisis before 2008 (Henkel 2010). In the centre of juristic interest is the trading of such 'collateralised debt obligations' (CDO) which are derivatives of building mortgages or even synthetic obligations of these derivatives. CDOs have enabled financial actors to incorporate the dynamics of the residential and commercial housing markets into global financial circuits. The growth of the US mortgage market has been estimated from US \$ 35 billion in 1994 up to over US \$ 600 billion in 2006 (Avery in Aalbers 2009a: 36). Through the practice of bundling and securitising mortgage loans to so-called 'residential mortgage-backed securities' (RMBS) lenders of money were able to create a second mortgage market and collect fresh money in order to offer it to satisfy the increasing credit demands of potential homeowners. In this way the creation of an urbanised landscape and the creation of a bubble economy went hand in hand, organised by a variety of actors, but especially by banks and rating institutions that have been responsible for this mortgage-based speculative financial market. One outcome in California is well described by Burkhalter and Castells: "Entire metropolitan and suburban areas, especially along the sunbelt, were built as giant Ponzi schemes. These places never offered anything else other than the promise of profit. Profit to the developers and the banks first and foremost, and profit to the contractors, the builders, the loan brokers, lenders, real estate agents and home buyers and sellers. Other than the now busted promise of instant profit these vast spans of new homes sprawling in a boundless territory had no *raison d'être*. They brought no quality of life to the individuals that dwelled in them, yet downgraded the quality of the existing cities, diluted infrastructural resources and most of all, destroyed the environment" (Burkhalter and Castells 2009).

Geography obviously matters, both as cause and effect of the financial crisis. It is, therefore, reasonable to have a closer look at the subprime and mortgage crisis in order to reveal the links between local production of urban space and the global credit crunch (*Aalbers 2009b*).

The relationships between housing and mortgage credits may be divided into two different but interconnected aspects. The first one points to the practice of subprime lending which has a longer crisis-ridden tradition. Subprime lending is directed to motivate those groups to take over credits for housing in which financial vulnerability is obviously high. "Over a trillion dollars was channelled into the sub-prime mortgage market, which is comprised of the poorest and least credit worth borrowers within the United States" (*Reinhart and Rogoff 2008: 12*). High-cost refinancing loans are common and satisfy profit expectations of the financial institutions. The term 'predatory lending' is used to characterise this kind of financial exploitation of the urban underclass of Black or Hispanic Americans (*Wyly et al. 2009*). Problems occur when the economic situation of homeowners comes under stress due to regional economic decline, growing unemployment and downward movement of housing prices. These had been typical problems of the 'rustbelt' already in 1997/98. In 2004/05 a remarkable rise of foreclosures could be observed in cities like Detroit indicating a possible crisis to come. According to *Harvey (2011)* this has been broadly neglected within expert circles and the media because it was seen or defined as a problem of a marginal group on the credit market.

The spatial distribution of subprime lending reveals a strong correlation between urban marginality and predatory lending practices. But the mortgage crisis was also fed by a second process. In the years before the crisis a growing housing market based on credits at risk evolved in the US sunbelt, esp. in Florida, California, Arizona and Nevada. This implied an enormous

boost of credit supply for the middle classes. Small interest rates compared to increasing prices for houses led to huge investments and demands for mortgages, creating new urbanised landscapes as described by *Burkhalter and Castells* (see also *Hesse 2008*). The symbiosis between the need for a home on the one hand and the production of a home as an interesting capital investment on the other hand have been at the roots of the recent crisis on the household level illustrating a concrete form of *Harvey's* concept of urbanisation of capital (*Harvey 1985*). Similar processes were operating outside the US, too, for instance in Ireland or Spain. Furthermore, privately owned houses are an important asset for large groups of the population in Western societies, and rising house prices have been at least partly responsible for overcoming the dot-com and 9/11 economic bust (*The Economist 28/03/2002*). Some authors even argue that a concept of residential capitalism, which puts housing policies, property rights or housing finance systems into the centre of the analysis, is able to explain a lot of variation of welfare distribution in North America and Europe (*Schwartz and Seabrooke 2008*). But it would be a misunderstanding to regard the micro-level of housing and individual mortgage demands or even housing policies on a macro-level as the key to an understanding of the global crisis. The crucial question is: Where did the huge amounts of capital come from which were necessary in order to satisfy the demand for mortgage and to build the suburban environments which formed a precondition for the bubble?

Since lending for a growing mortgage market is a very interesting business, actors in the financial market created new sources for attracting capital. Housing markets were included as a new segment of the FDAR through residential mortgage-backed securities (RMBS), real estate investment trusts (REIT) or other derivatives. The process of standardisation through securitisation opened up a secondary mortgage market which spread over the world and offered mortgage lend-

ers increasing returns. Securitisation as an act to convert “opaque and illiquid assets into liquid and transparent securities” (Gotham 2009: 357) was the principal mechanism to incorporate local property business into international capital markets. In so doing, the immobile character of private homes was transferred into an exchangeable, marketable and liquid commodity. Money, now sourced on a global scale, could be offered to potential homeowners at low interest rates. In this way a built environment was created which visualises the material form of the international liquidity of money and its strife for high returns on investment. Accordingly, as the housing bubble burst, the crisis was an international problem from the very beginning. “Secondary mortgage markets are global markets, which means that a crisis of mortgage securitisation implies that investors around the globe, and therefore economies around the globe, are affected from Chinese sovereign wealth funds to Dutch pension funds and from Swiss investment banks to Norwegian municipalities” (Aalbers 2009b: 287).

3.2 Fordist accumulation and FDAR suburbanisation

Though it sounds banal, it is important to note that houses are material products with a lifespan of decades. Because of this fact certain geographical forms of the finance crisis which are related to the subprime and mortgage crisis will be persistent. This is the case of housing and urban extension. The production of suburban landscapes was already an important component of the Fordist regime of accumulation, because the process of suburbanisation in the fifties and sixties had led to a combinatory effect of mass production and mass consumption. The construction of standardised housing schemes in line with typical suburban consumption norms based on an industrialisation of household work and car dependency had been a ma-

ior feature of those years. Furthermore, the state invested huge amounts of money into programs such as the highway system to support this Fordist way of life and to accelerate economic growth in a Keynesian manner.

The subprime crisis reveals that these ‘old’ patterns have continued to be in operation. The strife for homeownership of the masses leading to economies of scale was again a starting point for huge investments into the housing market. But this time the spatial fix was not included in such a type of accumulation in which the relationship between capital owners and the productivity gains of the employees had at least partly been balanced. On the contrary, under the FDAR, suburbanisation is a form of redistributive growth and, to follow *Tabb* (2010) who applies arguments delivered by *Harvey* (2007), a kind of ‘accumulation by dispossession’ of those who subscribed to the lending offers, which was typical for subprime lending, or of those who are now paying the costs of the credit crunch worldwide. In this way the logic of the financial system, where money is not a medium to facilitate the exchange of goods and services but has become a commodity itself, is still strongly interlinked with ‘real’ persons and with the material world in the form of urban space. Modern processes of suburbanisation are expressions of a bubble economy built on dreams already created in the Fordist era. The financial system and those who deal with money as a commodity have demonstrated in which way illiquid, spatially fixed assets may be transformed into fluid ones in order to raise returns of investments and how this money creates new urban space (*Gotham* 2009, *Dymski* 2009).

3.3 Financial crisis, geo-economics and the role of financial centres

In order to introduce the global-local link we may use the results of judicial investigations again. Two years after the outbreak of the mortgage de-

derivatives crisis, actors and organisations of the securitisation business are confronted today with the accusation of having been active in heating the markets of CDOs. Investment banks which offered high-risk derivatives are accused of having manipulated information and rating agencies are blamed for their evaluation practices leading to AAA scores of bad obligations. Furthermore, it is investigated whether there has been an ongoing interchange of employees between financial businesses and rating agencies. Research about creative milieus and territorial innovation systems seems to show that spatial proximity does matter. This underlines the argument that the FDAR has further specific geographical forms which may be uncovered if we look at leading financial centres like New York and London and the financial managers located there or, more generally, at deriving local and national varieties of financial capitalism.

Though it has become rather obvious that the FDAR is operating on a global scale through a highly interconnected network of financial relationships, this does not mean that national differences or arguments emphasising the varieties on the state level do not play a significant role. On the contrary, one may assume with some plausibility that dominant institutions in major nation states show greater variation in the era of the FDAR than in previous regimes (*Kotz and McDonough* 2010: 96). This argument points to work relations, fiscal policies, welfare programs and social control. Without going into a more detailed discussion about the importance or even predominance of the global versus a 'national' scale or vice versa it is worthwhile to consider geo-economic variations and to look at the role of financial centres before and during the crisis.

There is a longer history of geographical forms of how to recycle money. The flow of the euro and of the petrodollars in the late seventies and early eighties and the resulting debt crisis of the global South have already been mentioned. More

recent geo-economic dependencies include the role and strategies of wealth funds coming from oil-producing nations and Asian export-based economies. Specifically, the interdependencies between China and the USA have received special attention. This relationship has ensured the Chinese strategy of export-driven development on the one hand, where the US market has played a major role, and the use of the export income to invest in US Treasury Bonds on the other hand, which facilitates American credit-based consumption habits. After the outbreak of the crisis further geo-economic relations have become obvious. Examples include national protection against foreign banks which have collapsed, e.g. in the case of Icelandic banks, or measures to reduce the effects of CDS trade against indebted European economies in order to stabilise the eurozone. Within the crises and their geo-economic implications the nation-state reentered the stage as an interventionist actor with the demonstrative will to contain and hedge the so-called 'Masters of the Universe'. But this interpretation remains superficial because it assumes that the FDAR followed pure market logic and did not have a political side. We prefer the assumption that a successful regime is always reflecting political powers and power relations between opposing social groups, movements and parties. Seen from this angle the emergence of the FDAR and its institutions includes and depends on state operations.

From a geographical perspective, financial centres come in at this point as clusters of experts and influential 'money movers.' These centres are places where the complexity of the global financial system was invented and where the narratives about the advantages of this kind of economic regulation had their major sources. *French et al.* even argue that "the primary roots of this crisis can be traced back to competition between leading international financial centres over a long period of time" (*French et al.* 2009: 290). This argument can rely on well-known

research results of urban clusters because financial centres combine structural advantages (quantity and size of financial organisation), cognitive advantages (inventions and early introduction of new financial products) and symbolic advantages (opinion leadership capacity and the location of media centres).

Whereas these centres are undoubtedly global hubs of the financial systems and therefore nodes in networks of money, abstracted from territory, they are still embedded in national or regional contexts. The term 'Wall Street-Washington Corridor' may serve as an example. It illustrates the importance of the banking elite of New York for the elaboration of US money policies (*Johnson* 2009). The same holds true for London and the UK, Frankfurt and Germany, Tokyo and Japan. In this way geo-economic competition structures the role of the respective financial centre whereas national financial interests are at least partly a reflection of the power of 'their' urban financial centres. This is another geographical component of the FDAR which should be researched in more detail in order to figure out the inherent politics of scale and the role of single urban centres for defining money policies (*Schamp* 2009).

4. Future Research Questions

There are already very different implications and observable effects which may re-stimulate geographical research on crisis phenomena and, in so doing, take up the academic tradition of the 1980s. Respective research efforts will hopefully clear up the nature and form of the recent crisis in more detail. But besides a deeper understanding and better theoretical insight, it would be of high value to focus on different crisis outcomes using approaches which are called 'near-event description'. It is easy to justify this exercise because the crisis and its implications are still unfolding (*French et al.* 2009: 289). Some examples may illustrate an outline of such a research program.

a) Because subprime lending stands at the root of the recent global crisis it is important to address the socio-spatial impact on its victims. For example, what happened to those homeowners who were affected by the downward movement of house prices and upward movement of interest rates, or whose inability to pay the mortgage loans resulted in forced migration? We should continue and intensify existing research which is directed at subprime and predatory lending. This research is strongly linked to questions of social, racial and gender inequalities in the housing and credit market (*Wyly et al.* 2009). Because the practice of subprime lending has not been bound to the territory of the USA but has led to precarious housing booms in other world regions as well (*García* 2010), this topic is related to transnational perspectives about accumulation by dispossession (*Harvey* 2007, *Tabb* 2010), which should include those small investors who bought recommended papers without knowing their speculative nature. Furthermore, the urban form is at question because the credit crunch is an urban and suburban crisis, too. What perspectives do we have for speculatively built-up areas? Which ideas and concepts do we offer in order to transform these towards a more sustainable development? Within the financial system there is the motto 'too big to fail' in order to legitimise state intervention. We should ask what this may mean in relation to urban forms created in boom times.

But we should not concentrate on suburban housing markets exclusively in order to explain the roots of the recent crisis from a geographical standpoint. A recent report of the 'Congressional Oversight Panel' emphasises the risks coming from credit schemes for inner-urban residential and commercial housing investments. There is a latent danger of growing foreclosures and a further credit crunch of some billions of US dollars. As it had been the case with RMBS for suburban lending, 'commercial mortgage-backed securities' (CMBS) exist as special investment vehicles containing office

buildings, shopping centres and hotels in US cities and elsewhere (Pitzke 2010). Though it is yet to be seen which problem will be attached to these speculative activities, it is clear that the diffusion of the crisis is still uncovering new aspects of the urban financial problem.

b) A second perspective is related to labour market problems as a result of the crisis where different topics have come up. Because the credit crunch has fierce implications on urban labour markets especially within the FIRE sector, e.g., the breakdown of companies, sudden dismissals and growing job insecurity, the question of urban economic development is emerging. At the outbreak of the crisis this was a prominent topic in the mass media. But the picture is far from clear. *Richard Florida* argues, for example, that global financial centres will finally be a winner of the credit crisis: “With the hegemony of the investment banker over, New York now stands a better chance of avoiding that sterile fate” (Florida 2009: 7). Big and talent-attracting places will benefit from the crisis because the economy will shift to idea-driven, creative industries during and after the crisis. Despite acute and highly visible problems Florida promotes dense and vibrant places as cores of the future economic landscape. Consequently, he argues against suburbanisation and housing schemes in the countryside: “The solution (of the crisis, *J.O.*) begins with the removal of homeownership from its long-privileged place at the centre of the U.S. economy” (Florida 2009: 16) and consequently he advocates for better rental markets in cities. Though this optimistic perspective does have certain evidence in its favour, growing financial problems of cities are to be expected leading to dramatic cut-backs of social and cultural achievements and even those amenities which Florida and others believe are the most important locational advantages for the creative economy. Moreover, labour market problems and regional employment crises have followed the

credit crunch. Even in Germany this has become obvious in export-specialised regions and transport hubs in the last years, and in the future economies in more peripheral regions are expected to be the losers of the crisis (ARL 2010).

c) We have already outlined the geo-economic dimensions of the crisis including the global city network. In general, new dynamics, power shifts and disparities on different scales are likely to emerge. At the global level this will lead towards a redefinition of the US’s hegemonic position and its ability to receive credits to counteract current account deficits. Within this context the future position of China and Asian economic performance will be a crucial factor. A shift away from American and European power centres, favouring Asian global cities as command centres could reinforce tendencies towards a more multi-polar world with disputed hegemonic claims. But we should be aware that crisis-led development will destabilise geopolitical relations and affect international relations not only within the financial system.

d) A further chapter of near-event description should be directed towards the role of the state on the local, national and international levels. From a superficial perspective the state has put itself on stage as the remaining organisation which is able and capable of acting towards a regulation of the crisis. This has led to the position that the term ‘neoliberalism’ as the characterising description of the state concept within the FDAR is no longer accurate. The realignment of decision-making power away from autonomous financial actors and towards state institutions implies a reassessment of political control leading not only to a ‘strong’ state, which would be in line with conservative and liberal ideologies, but also to a ‘big’ state which is more linked to social-democratic and further left thinking. Due to the implication of recent state intervention, especially due to the growing debts, the question of distributive jus-

tice will emerge in a mid-term perspective. Perhaps a rather paradoxical situation may come up: The state, which has shown its strength and interventionist power during the last months, will be driven by debt payments to serve those obligations in order not to let the existing accumulation regime collapse. Perhaps global neoliberalism has disappeared but the state ability to shape the future will decline too.

e) Finally, there is the question of the next growth model. If the cyclical interpretation holds true, we have to think about the coming regime of accumulation. Will this still be finance-driven or will we enter a new period? On the one hand there are a lot of indications that the crisis has lost its power and that the economy is in a process of recovery. But, on the other hand, there are discussions that severe effects of the bubble are not yet clear, like the CMBS and the growing debt problem right now. A crisis-driven development with all its instabilities might be a realistic vision for the next few years leading to exceptional politics and further democratic weaknesses. Furthermore new accumulation models are not in sight or are still not so powerful that a new structural coherence might derive from it. This includes the vision of 'green capitalism'. But this question is not primarily an academic issue but one of political debate, social struggles and innovations. In retrospect we know that capitalism is able to reproduce itself in new and unexpected forms but, as has been outlined above, the concrete forms are a result of social struggles and political power relationships.

5. Conclusion

In this paper we have argued that the time since 2007/08 may be characterised as a global crisis with qualities of a format which may be compared with the world economic crisis in 1928 and the so-called crisis of Fordism in the late

sixties/early seventies of the last century. In these crises, capitalist economies not only passed through major economic disturbances but transformed themselves in a fundamental way. The politics of the 'new deal' in the USA introduced a Keynesian style to regulate economic processes leading to the different forms of Fordism after World War II. The crisis of Fordism in 1970s, in turn, led to a neoliberal version of the economy and society in which market organisation was seen as the most effective and promising way for ensuring economic growth and general welfare. During the eighties and nineties a finance-dominated accumulation regime emerged as the structuring power of the world economy.

If it is appropriate to adopt an interpretation of economic processes which distinguishes between periods of structural stability (including minor crisis phenomena) and times of interruptions and deep-rooted changes, the historical dimensions of recent events indicate the end or at least a fundamental transformation of global neoliberalism and the undisputed US hegemony. This includes further spatialities of the crisis like spatial disparities and forms of uneven development on the global scale where old geo-economic patterns persist and new ones evolve, e.g., in the role of financial centres or in the interdependencies between the US and China and other rising economies respectively (*French et al. 2009, Zeller 2011*). This research, which is often combined with discussions about varieties of capitalism, with a certain concentration on the Anglo-American neoliberal model (*French et al. 2011, Pike and Pollard 2010*), has to be carried on and expanded. Beside the ongoing reception of influential work like *Harvey's* (2011) with a strong Marxist position or the more heterodox concept of 'variegated capitalism' by *Peck et al. (2010)* or *Dixon (2011)*, it should be recommended here to make more use of actor-network theory and governmentality studies in order to follow the causes and effects of the credit crunch in everyday life (*Langley 2008, MacKenzie 2011*).

In the immediate future, crisis management will dominate, leading to institutional innovations and change. These transformations will prepare a platform of a new accumulation regime. As we could observe in the past, such times are strongly affecting our thinking about political, social and economic geographies in at least two directions: as impulse to think about new or advanced theoretical approaches about the meaning of the crisis, and as a call to point out inherent inequalities and injustices. In this sense the crisis offers a challenge to rethink Human Geography.

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Summary: The Economic Crisis and the Reshaping of Geography

The years since 2007/08 may be characterised as a global crisis comparable with the world economic crisis in 1928 and the so-called crisis of Fordism in the late sixties/early seventies of the last century. At that time, capitalist economies not only passed through major economic disturbances but transformed themselves in a fundamental way leading to the 'new deal' or, later, to different forms of Fordism. During the eighties and nineties of the last century a finance-dominated accumulation regime emerged as the structuring power of the world economy. Financialisation has become a process which has not only led to new forms of "shareholder value management", but also to an autonomous financial sector with enormous growth patterns. Furthermore financialisation is penetrating everyday life leading to growing dependencies of ordinary households to global financial markets and disturbances. A spatialised perspective at the finance-driven accumulation regime draws attention to the mortgage crisis as part of the urban roots of the recent financial crisis. Focusing on US experiences one can observe the ways the production of space is both a driver for and an object of financialisation processes. Though the geography of the finance crisis is still in a juvenile state, the urban perspectives allow us to outline some heterodox building blocks which might be helpful to get a better understanding of recent events. Finally, this exercise leads to several future research tasks and demands to write about the crisis in the form of "near-event description" which is seen as appropriate because the events are still unfolding.

Zusammenfassung: Die Wirtschaftskrise und die Umgestaltung der Geographie

Die Zeit seit 2007/08 lässt sich als globale Krise charakterisieren, die vergleichbar mit der Weltwirtschaftskrise 1928 und der sogenannten Fordismuskrise der späten sechziger und frühen siebziger Jahre des letzten Jahrhunderts anzusehen ist. In jenen Zeiten durchlief die kapitalistische Wirtschaft nicht nur grundlegende Erschütterungen sondern transformierte sich in weitreichender Form beispielsweise durch den „*new deal*“ oder in verschiedenen Formen fordistischer Akkumulation und Regulation. Während der achtziger und neunziger Jahre entwickelte sich dann ein finanzdominiertes Akkumulationsregime als strukturierende Kraft der Weltwirtschaft. Finanzialisierung ist seitdem zu einem Prozess geworden, der nicht nur neue Formen der Unternehmensorganisation nach dem Muster des „*shareholder value management*“ erzeugt hat, sondern auch zu einem autonomen Sektor der Finanzwirtschaft geführt hat, der sich durch enorme Wachstumsraten auszeichnet. Weiterhin penetrieren Finanzialisierungsprozesse das Alltagsleben und haben eine sich verstärkende Abhängigkeit der Privatpersonen und Haushalte von Entwicklungen auf den Weltfinanzmärkten erzeugt. Eine räumliche Perspektive der Finanzkrise lässt sich durch Beobachtungen der US-amerikanischen Hypothekenkrise herleiten, die einen wesentlichen Bestandteil in dem Beitrag in den Vordergrund gestellten städtischen Ursachen der Krise darstellt. Damit wird die Hypothese aufgenommen und vertieft, die Produktion von urbanem Raum sei gleichzeitig Antriebsfaktor und Ergebnis der Finanzkrise. Obwohl der generelle Zustand der Finanzgeographie noch als sehr jung und unvollkommen bezeichnet werden muss, ergibt die urbane Perspektive einige konzeptionelle Bausteine, die hilfreich sind, die gegenwärtige Krise zu verstehen. Schließlich werden diese Einsichten genutzt, um einige zukünftige Untersuchungsaufgaben zu formulieren. Zunächst sind beschreibende Aufgaben, die krisennah umgesetzt werden sollten, vorzuziehen, da sich das Krisengeschehen nach wie vor entfaltet.

Résumé: La crise économique et le remodelage de la géographie

Depuis les années 2007/08, l'économie mondiale fait face à une crise comparable à celle de l'année 1928

et à celle de la fin des années soixante et du début des années soixante-dix, dite la crise du fordisme. L'économie capitaliste parcourait à ces époques non seulement des bouleversements profonds, mais se transformait aussi de longue portée, dû par exemple au « *new deal* » ou aux régimes différents d'accumulation et des régulations fordistes. Pendant les années quatre-vingt et quatre-vingt-dix, un régime d'accumulation dominé par les finances se développait comme force structurante de l'économie mondiale. Devenu le processus, la financiarisation dès lors n'eut pas seulement produit de nouvelles formes d'organisations d'entreprises, selon le modèle des « *shareholder value management* », mais eut aussi pour résultat un secteur autonome de l'économie financière, qui se détermine par ses taux de croissance considérables. Pénétrant la vie quotidienne, les processus de financiarisation suscitent dès lors une dépendance croissante des personnes privées et des foyers envers les développements sur les marchés financiers du monde. Un aspect spatial s'en déduit en observant la crise des hypothèques aux États-Unis, qui à sa tour représente un élément essentiel des causes urbaines de la crise mises au premier plan ici. En conséquence, l'article se penche sur l'hypothèse que la production d'espace urbain soit en même temps moteur et résultat de la crise financière. La géographie financière est une science encore très jeune. Néanmoins, la perspective urbaine offre quelques éléments conceptuels qui améliorent la compréhension de la crise financière actuelle. Les résultats obtenus ainsi peuvent être utilisés pour formuler de nouvelles hypothèses de travail. Face à cette crise financière, qui n'a toujours pas cessé de s'étendre, des tâches descriptives, qui seront dès aujourd'hui réalisables, sont à favoriser.

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