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COMMENTARY

Making sense of the uneven geography of urban and regional growth in the era of financialization: financial intermediation, institutions and markets

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ABSTRACT

This critical engagement with Gordon Clark's inspirational (re)interpretation of uneven urban and regional growth in the era of financialization calls for a wider concept of financial intermediation that embraces not just the linking of savers and investors but more importantly the development of securitized products. Special attention is drawn to the economic, social and political conditions enabling financial intermediation and investment in urban infrastructure to assume a prominent position. Appraisal of the role played by financial intermediation in urban and regional growth needs to be mindful of the values and perspectives not just of elites as winners of the game but also of ordinary citizens and of the losers and victims of globalization, neoliberalization and financialization.

ARTICLE HISTORY

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KEYWORDS

Financialization, financial intermediation, infrastructure investment, uneven development, urban and regional growth

摘要

理解金融化时代下城市与区域增长的不均衡地理分布：金融中介、机构及市场. *Area Development and Policy*. 本文就Gordon Clark对金融化时代下城市与区域增长不均衡分布极富启发性的阐释进行评论，呼吁赋予金融中介更广义的概念，它不应只是联接储蓄者与投资者，更应包含证券化产品的发展。本文特别关注可以促使金融中介及投资在城市基础设施领域占据显著地位的经济、社会和政治条件。评价金融中介在城市与区域增长中的作用，不仅需要考虑作为赢家的精英们的价值观与视角，也需关注普通市民和全球化、新自由主义化及金融化中的失败者与牺牲者。]

关键词

金融化, 金融中介, 基础设施投资, 不均衡发展, 城市与区域增长

RESUMEN

Dar sentido a la geografía desigual del crecimiento urbano y regional en la era de la financialización: intermediación, instituciones y mercados financieros. *Area Development and Policy*. Este compromiso crítico con la (re)interpretación inspiradora de Gordon Clark del crecimiento desigual en zonas urbanas y regionales en la era de la financialización aboga por un concepto más amplio de la intermediación

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financiera que adopte no solo el vínculo entre ahorradores e inversores sino, lo que es más importante, el desarrollo de productos titularizados. Se presta especial atención a las condiciones económicas, sociales y políticas que permiten que la intermediación financiera y la inversión en infraestructura urbana se sitúen en una posición destacada. Al evaluar el papel desempeñado por la intermediación financiera en el crecimiento urbano y regional deben tenerse en cuenta los valores y las perspectivas no solo de las élites como vencedores del juego sino también de los ciudadanos corrientes, los perdedores y las víctimas de la globalización, la neoliberalización y la financialización.

PALABRAS CLAVE
Financialización, intermediación financiera, inversión en infraestructura, desarrollo desigual, crecimiento urbano y regional

АННОТАЦИЯ
Осмысливая неравномерную географию городского и регионального роста в эпоху 'финансиализации': финансовое посредничество, институты ирынки. *Area Development and Policy*. Эта статья является критическим ответом на сформулированную Гордоном Кларком (ре)интерпретацию неравномерного городского и регионального роста в эпоху финансиализации и призывает к более широкой концепции финансового посредничества, которая включает не только взаимодействие вкладчиков и инвесторов, но, что более важно, развитие секьюритизированных продуктов. Особое внимание уделено экономическим, социальным и политическим условиям, обеспечивающим эффективность финансового посредничества и инвестиций в городскую инфраструктуру. Оценка роли финансового посредничества в городском и региональном росте должна учитывать ценности и интересы не только элиты, как выигрывающей в игре, но и обычных граждан, а также проигрывающих жертв глобализации, неолиберализма и финансиализации.

КЛЮЧЕВЫЕ СЛОВА
Финансиализации, финансовое посредничество, инвестиционная инфраструктура, неравномерность развития, городской и региональный рост

If the 1973 oil crisis were considered a significant turning point in the globalization of the world economy, then the 2008 financial tsunami and its long aftermath could be seen as another historical milestone having equally profound, if not greater, impacts upon not only the nature and dynamics of global economic transformation but also the way in which an increasingly financialized world is perceived. Whereas the crisis of the 1970s was temporarily and spatially 'fixed' through a 'global shift' of manufacturing activities from the industrial heartlands to many emerging economies in search of lower production costs, the recent global financial crisis has been followed by an injection of all kinds of money (M1, M2 and M3) accelerating (and exacerbating) the trend of financialization characterized by 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005, p. 3). Just as globalization was heavily criticized as 'a chaotic concept' when it was first introduced, financialization has already been crucified for its many 'limits' even before sufficient studies have been carried out (Christophers, 2015). Yet despite some hasty and premature criticism, there exist courageous attempts to break new ground and venture into the terrain of knowledge production concerning the emerging geography of financialization as exemplified by Gordon Clark's inspirational and provocative paper (Clark, 2017).

The evolving and mutating nature of financialization has been addressed and indeed debated in a burgeoning literature produced by scholars holding different values and perspectives. Two important strands of research can be easily identified: a macro-level

theorization making special reference to the switching of circuits of capital accumulation, changing regulatory environments, and state fiscal and monetary (mis)interventions; and alongside it, micro-level empirical studies of how financialization has played out in different cases (New York, London, Detroit, Atlanta City etc.) (Arrighi, 1994; Boyer, 2000a and 2000b; Davis & Kim, 2015; French & Leyshon, 2004; French, Leyshon, & Wainwright, 2011; Harvey, 1985; Peck & Whiteside, 2016; Weber, 2010). Clark's work is to be especially appreciated as it provides a different angle to examine the dynamics of financial intermediation, institutions and markets at the regional scale using investment in urban infrastructure as a case. The paper is conceptually inspiring and methodologically innovative. In contrast to contemporary theories of regional resilience that highlight the role of flexibility, innovation, technology, local culture and institutional milieu in the adaptation of regional industrial structures and the local workforce, Clark identifies 'the capacity of firms and financial institutions to invest in a future' that is subject to both risk and uncertainty as an absolutely crucial driver of regional resilience. In the current era of financialization, the success or failure of financial intermediation can have direct consequences not only for the success or failure of urban and regional growth (and resilience) but also for the (re)production of financial hubs and 'financial deserts'. This is an extremely illuminating point that is very well made and demonstrated in the paper.

Any pioneering work must lead into a new terrain of not just fascination and excitement but also of anxiety and curiosity and Clark's work is no exception. The paper has obviously broken new ground, but it is a ground where great potentials for theoretical exploration and cultivation have yet to be fully and completely realized. In the interests of critical engagements and being mindful of the specified word limit, this commentary identifies several issues raised in the paper that require further clarification and elaboration. These issues range from the scope of the concept of financial intermediation to the causes and consequences of this phenomenon and its future prospects.

SCOPE OF THE CONCEPT OF FINANCIAL INTERMEDIATION

The main argument made in the paper is that there has been a significant shift of emphasis in the investment of savings 'from the more conventional forms of intermediation that have their roots in particular cities and regions, such as banks, mutual societies, and savings and loan organizations' towards 'other forms of finance, including pension funds, mutual funds, and certain types of insurance companies', and that the results of this shift include a new search for superior risk-adjusted rates of return that has in its turn 'prompted a shift in investment strategy towards opportunities either at the margins of public markets or in untraded commitments' such as urban infrastructure holding long-term value. This argument is made on the basis of analyses of the 'functions and organizational forms' of conventional vis-à-vis modern intermediation defined as 'the existence of an institution or set of institutions that collects, holds, and distributes savings within and between sectors and investment opportunities'. Here, the scope of analysis has clearly been focused on the institutions of financial intermediation that deal with savings (i.e., 'retained earnings deposited in a bank or similar organization for safekeeping').

What has been left out of the analysis is the financial intermediation that does not deal with savings but turns all kinds of debts into tradable assets. This includes the many kinds of financial intermediation services that are concerned with capital asset pricing and valuation, valuation of viaticals, securitization of mortgage-based bonds, loans, insurance, pensions, debts and business receivables as well as the new technologies and tools of financial engineering that increase the tradability (for cash) of all kinds of previously untradeable assets (and debts). It is

this variety of new financial intermediation services that has had profound effects upon the relationships between financial institutions and borrowers, the structure and strategies of corporations, and the everyday life of individual households. I can see the reason for confining the scope of the analysis to savings and leaving debts out of the discussion, possibly in the interests of consistency and comparability. Without a serious consideration of the financial intermediation services that deal with the securitization and trading of assets and debts, it is not possible to make sense of the recent global financial crisis and its long aftermath not to mention the new geography emerging out of the crisis. While the story told sounds logically coherent and self-contained, the extent to which the information analyzed and presented adequately represents the complex and sophisticated processes of uneven urban and regional growth (and decline) in the new era of financialization is an issue that requires further elaboration.

ENABLING ECONOMIC, SOCIAL AND POLITICAL CONDITIONS

Clark's paper provides a 'stylized account' of investment in urban infrastructure as a result of the emergence of 'new' financial intermediaries in search of long-term value and superior risk-adjusted rates of return. While this appears to be an interesting and innovative perspective, the examination of the necessary and sufficient conditions for the emergence of this phenomenon requires further clarifications. It has been well recognized that the increasing role played by financial intermediation in urban and regional growth is inseparable from the recently fashionable ideology and practice of 'profiting without producing' that has prompted a shift of investment strategy from manufacturing toward financial intermediation (and speculation) (Krippner, 2005; Lapavitsas, 2013). In other words, the growing role played by financial intermediation and investment in urban infrastructure cannot be fully understood without making references to the declining and indeed diminishing returns to investment in manufacturing. This trade-off between investment in manufacturing as opposed to investment in financial markets and infrastructure plays a crucial role in understanding why 'the global savings glut' is no longer translated into investment in the manufacturing sectors. Moreover, the changing 'functions and organizational forms' of financial intermediation discussed in the paper are clearly the results of special state fiscal and monetary policies, new fashions of corporate governance, and a new culture aiming at the maximization of shareholder value which are collectively characterized by Marxists and neo-Keynesians as the characteristics of late capitalism or the autumn of neoliberalization. Yet these enabling economic, social and political conditions seem to have been taken for granted in Clark's theoretical articulation. As a consequence, the impression generated is that financial intermediation and investment in urban infrastructure have functioned and operated on their own as if they were self-contained, self-sustained and self-isolated forces independent of state (mis)intervention and changes in culture and society.

GEOGRAPHY OF FINANCIAL INTERMEDIATION

An important but unspecified mandate was to address the new geography of uneven urban and regional growth (and decline) at the dawn of a new era of financialization. Interestingly enough, this issue turned out to be the one that has received the least attention from the author. After all, talking about how money has been and can be made is more exciting than mapping out a boring and disturbing new geography of money making. The paper introduces an interesting set of binary concepts (e.g., conventional/modern intermediation, long/short-term investment, high/low-income earners, large/small financial institutions, developed/developing markets, financial centres/financial deserts) to sort out cause–effect relationships.

However, the focus of the analysis was on 'how economic agents and organizations respond to these conditions', that is, how financial intermediaries have changed their recipes for money making in the context of a global savings glut and in response to 'the map of economic stagnation and growth [that] is highly differentiated both within and between countries'. Analysis of this issue is of course highly inspirational for financial specialists. However, students of geography and of global development would also want to learn more about the relationships working in the other direction: how (speculative) financial intermediation and investment in urban infrastructure have profoundly changed the landscape of uneven urban and regional growth 'both within and between countries'. To be fair, the paper does address the spatiality of investment in urban infrastructure by highlighting that '[T]his type of infrastructure investor is often anchored in a specific locality or region and enjoys certain advantages'. What then is the new geography emerging out of 'this type of' infrastructure investment? The answer is that '[T]his process is underway around the world including Australia, Canada, the Netherlands, the UK and some US states'. Students of geography and international development would probably want to see a discussion in greater breadth and depth.

FUTURE PROSPECTS

The paper raised the highly controversial issue as to whether financial intermediation is the solution to the problem of global economic stagnation or the root cause of the problem itself. The paper provides an extremely positive and enthusiastic appraisal of financial intermediation arguing that 'the global financial crisis and mismanagement of its aftermath are evidence of a profound failure of intermediation' and that 'if urban and regional growth is to be sustained, new kinds of intermediaries will be required based on innovative ways of designing and managing the investment process'. Clearly, 'innovative' financial intermediation is identified as the recipe to rescue urban and regional economies that 'are in the midst of an economic depression'. It remains uncertain how this view would be taken by those ordinary UK citizens who voted to leave the European Union and those grassroots American citizens who voted for Donald Trump to become their president. Moving further, what exactly is the role played by financial intermediation in a model of development that has been referred to as neoliberalization and has been strongly contested by the majority of ordinary citizens not just in countries on two sides of the Atlantic but across the entire globe as well? Are those people who contested neoliberalization frustrated because of inadequate and undeveloped financial intermediation? Would the 'innovative' (financial) intermediaries help solve the problems of economic stagnation, intensified income disparity, regional inequality, and escalating and widespread social discontent, or would it further exacerbate these problems? Obviously, these issues are highly controversial and can be addressed from different angles and perspectives. This is an interesting paper that has arguably raised more questions than answers. It is a pioneering piece of work breaking new ground for further adventure and exploration.

DISCLOSURE STATEMENT

No potential conflict of interest was reported by the author.

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