

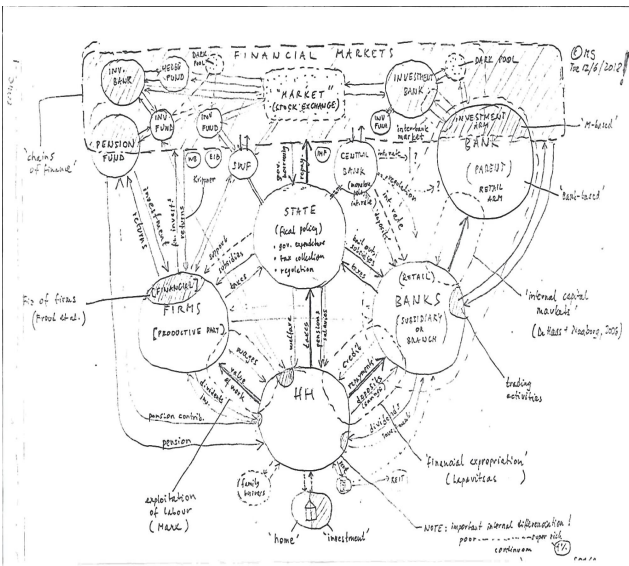
# 6th FinGeo Global Seminar

## Geography, Finance and Uneven Development

15-17 May 2019, Sao Paulo, Brazil



# Networks of 'Financial Chains': Linking Finance, Geography and Uneven Development



**Dr Martin Sokol**

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# INTRODUCING GEOFIN



**Western Banks in Eastern Europe:  
New Geographies of Financialisation**



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# INTRODUCING GEOFIN

## “Western Banks in Eastern Europe: New GEOgraphies of FINanancialisation” (GEOFIN)

5-year European Research Council (ERC) funded project

Exploring financialisation... using **East-Central Europe (ECE)** as a ‘laboratory’

Exciting empirical terrain:

- Imposition of financialising capitalism over economies previously built on an opposite logic (state-socialism) → ‘financialising post-socialism’

Conceptual development:

- Testing ‘**financial chains**’ concept
- Implications beyond ECE



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# INTRODUCING GEOFIN

Financialisation in/of East-Central Europe:

- **Fascinating**, yet still relatively **under-researched**
- Few exceptions: e.g. Zoltán Gál, Zsuzsanna Pósfai, Csaba Jelinek, Agnes Gagyí, Manuel Aalbers (geography); D. Bohle (political economy), B. Karreman (business studies)
  - + previous work of current GEOFIN team members:  
Marek Mikuš (anthropology), Petra Rodik (sociology)
- Both: **(a) operation of financialisation in post-socialist contexts**  
and **(b) geographical implications / uneven development**

GEOFIN perspective: the collapse of state-socialism in ECE:

- not a simple change from 'planned economy' to 'market economy'
- dramatic **financial change**
- **Western (European) banks** = key drivers



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# INTRODUCING GEOFIN

GEOFIN research project:

- **financialisation** in/of East-Central Europe
- new **geographies** of financialisation
- **wider implications for finance-geography-uneven development**
- Exploring financialisation through the lens of:
  1. **households** ('financial exploitation'/'expropriation' - Lapavitsas)
  2. **states**
  3. **banks**[leaving **firms** aside for the moment]
- using '**financial chains**' concept  
(Sokol, 2017)



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# INTRODUCING SESSION



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# INTRODUCING SESSION

## **Session: Finance and uneven development in Eastern Europe**

4 papers – GEOFIN team members:

1. Networks of 'Financial Chains': Linking Finance, Geography and Uneven Development (Sokol)
2. Western European Banking Groups in East-Central Europe: A Preliminary Overview (Dal Maso & Sokol)
3. Public Debt, Capital Flows and Financialisation of the State in East-Central Europe (Mikuš)
4. Chaining Households to Financial Markets: Micro-level Interest-Bearing Strategies of Western Banks in Croatia (Rodik)



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# PAPER 1 : AIMS

PAPER 1:

**Networks of 'Financial Chains':**

**Linking Finance, Geography and Uneven Development**



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# PAPER 1 : AIMS

PAPER 1:

## **Networks of 'Financial Chains': Linking Finance, Geography and Uneven Development**

Aim:

contribute to the debate on **geography,  
finance/financialisation and uneven development:**

- further elaboration of the '**financial chains**' concept (Sokol, 2017):
- introducing the idea of '**networks of financial chains**'



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# THE DEBATE

The debate on **geography, finance/financialisation and uneven development**:

- **‘dependent’ financialisation** (Gabor, 2013)
- **‘peripheral’ financialisation** (Becker et al., 2010)
- **‘subordinated’ financialisation** (Lapavitsas, 2013; Kaltenbrunner & Paineira, 2018)
- **financialisation in emerging economies** (Bonizzi, 2014; Karwowski & Stockhammer, 2017; Annina Kaltenbrunner; Ivana Socoloff; Fabio Contel + 6<sup>th</sup> FinGeo Global Seminar...)
- **finance & financialisation in post-socialist economies** (Bohle, Gál, Pósfai, Gagyí, Jelinek, Karreman, ...)

BUT ALSO:

- **‘anaemic geographies of financialisation’** (Christophers, 2012)
- **GFN – Global Financial Networks** (Coe, Lai & Wojcik, 2014)
- **flows of finance/circulation of capital...**  
(...in financialising economies)

# Flows of finance / circulation of capital

## Flows of finance / circulation of capital

(in the economy and between economies)

= key to understand the links between **geography – finance/financialisation – uneven development**

### Uneven development - scales:

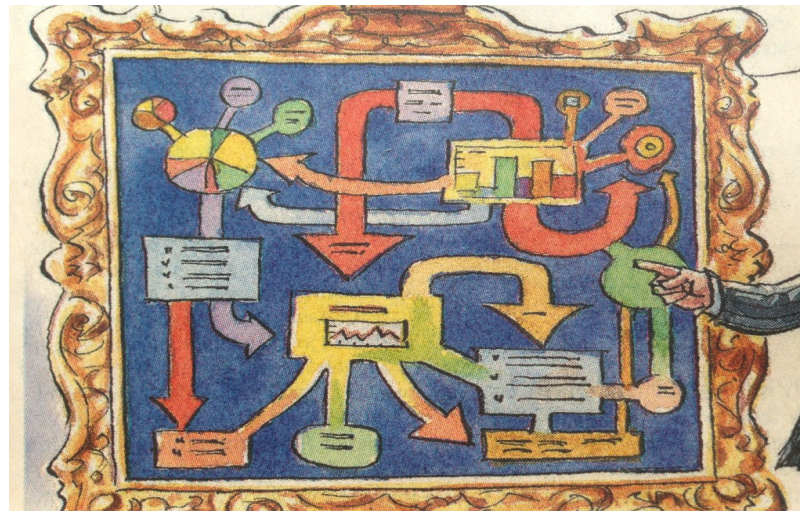
- **Macro** (Global North / Global South / 'Global [post-communist] East')
- **Mezzo** (*within* Global North; *within* EU etc.)
- **Micro** (local/regional development *within* countries)



# Flows of finance / circulation of capital

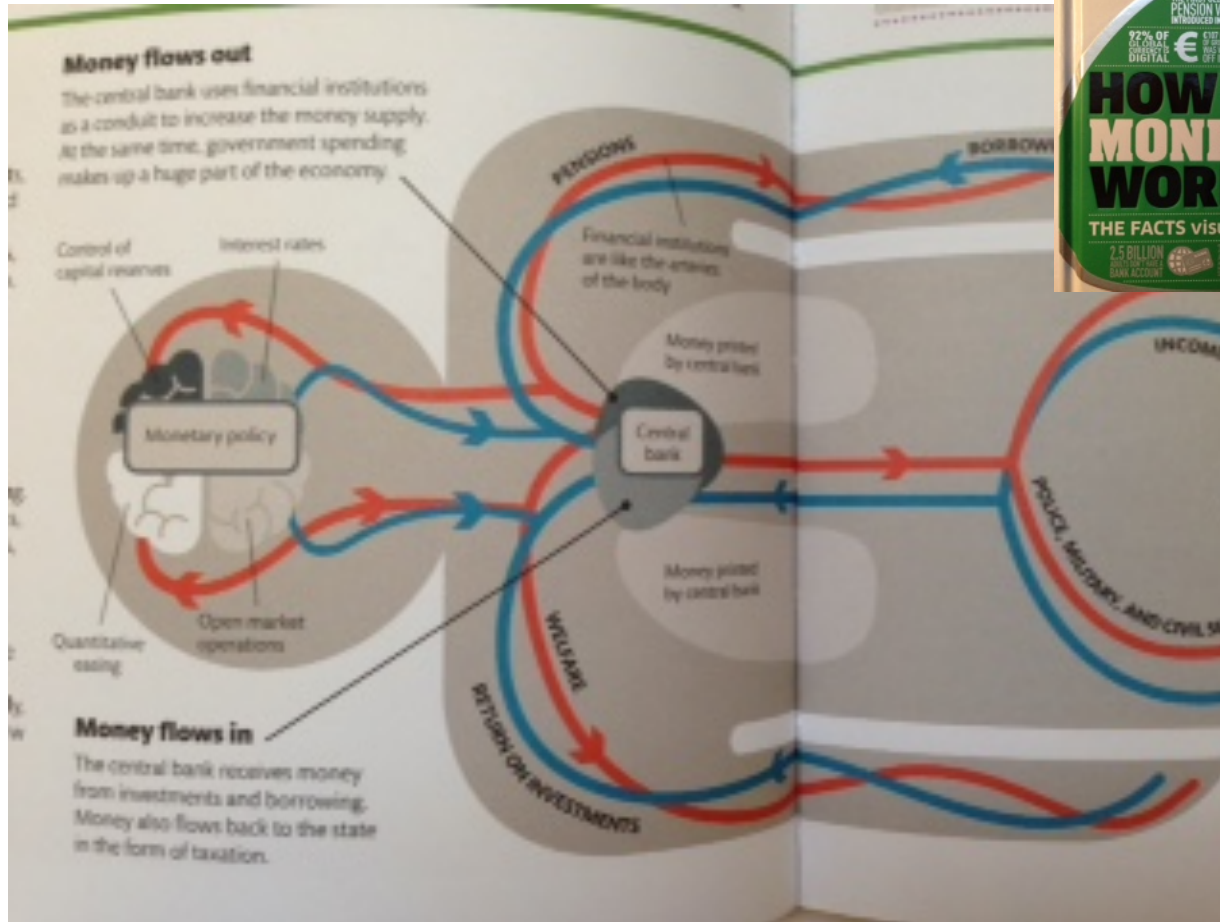
Understanding the **flows of finance / circulation of capital** (in the economy and between economies) is crucial...

BUT: we don't even have a good grip on the **circulation of finance** *within* economies!



# Flows of finance / circulation of capital

## One popular account:



# Flows of finance / circulation of capital

Key theoretical approaches:

- Mainstream economics
- Marxist (D. Harvey)
- Post-Keynesian

(Sokol, 2018, GCEG Cologne):

- each: strenghts and weaknesses
- some crutial omissions, e.g.:
  - creation of money
  - reverse flow of value  
(debt repayments)

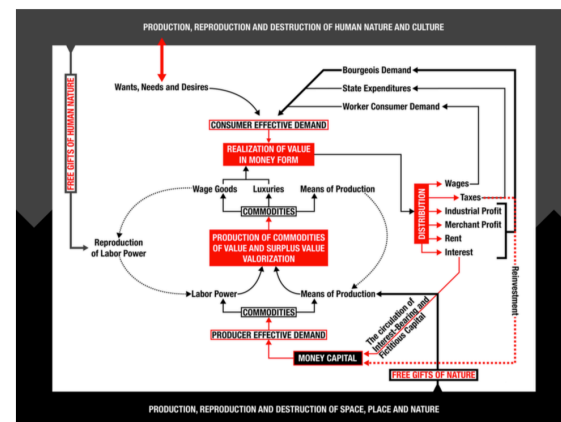
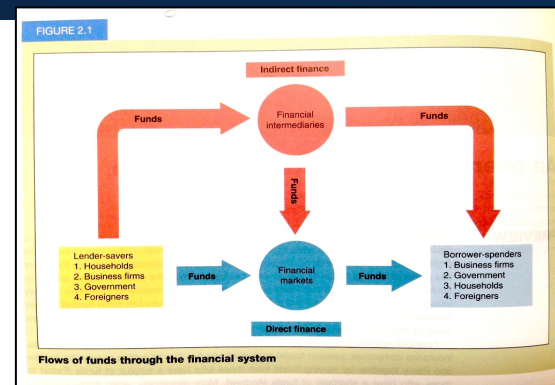
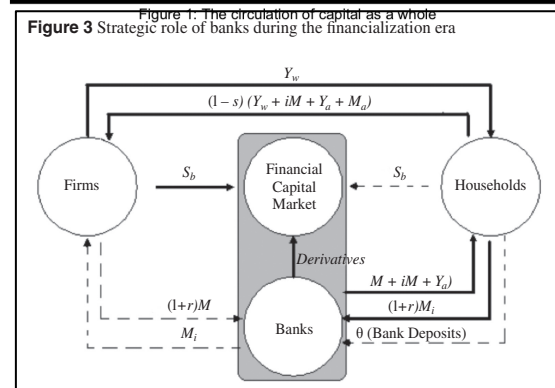


Figure 1: The circulation of capital as a whole  
Figure 3 Strategic role of banks during the financialization era



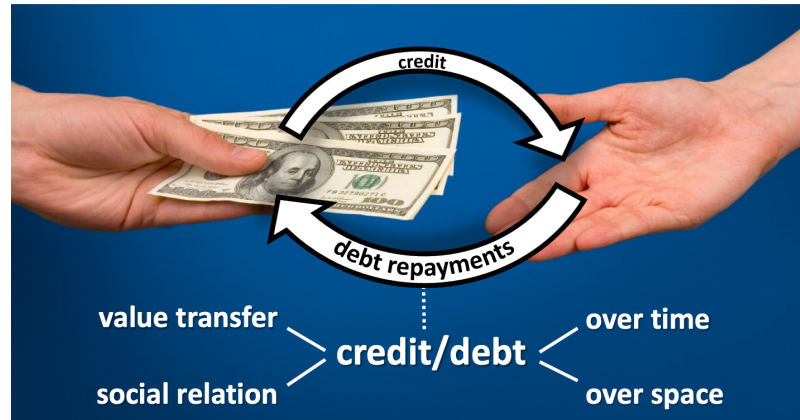
# **‘FINANCIAL CHAIN’ CONCEPT**

# 'FINANCIAL CHAIN' CONCEPT

**Financial chain** based on **credit-debt** relationship  
(Sokol, 2017):

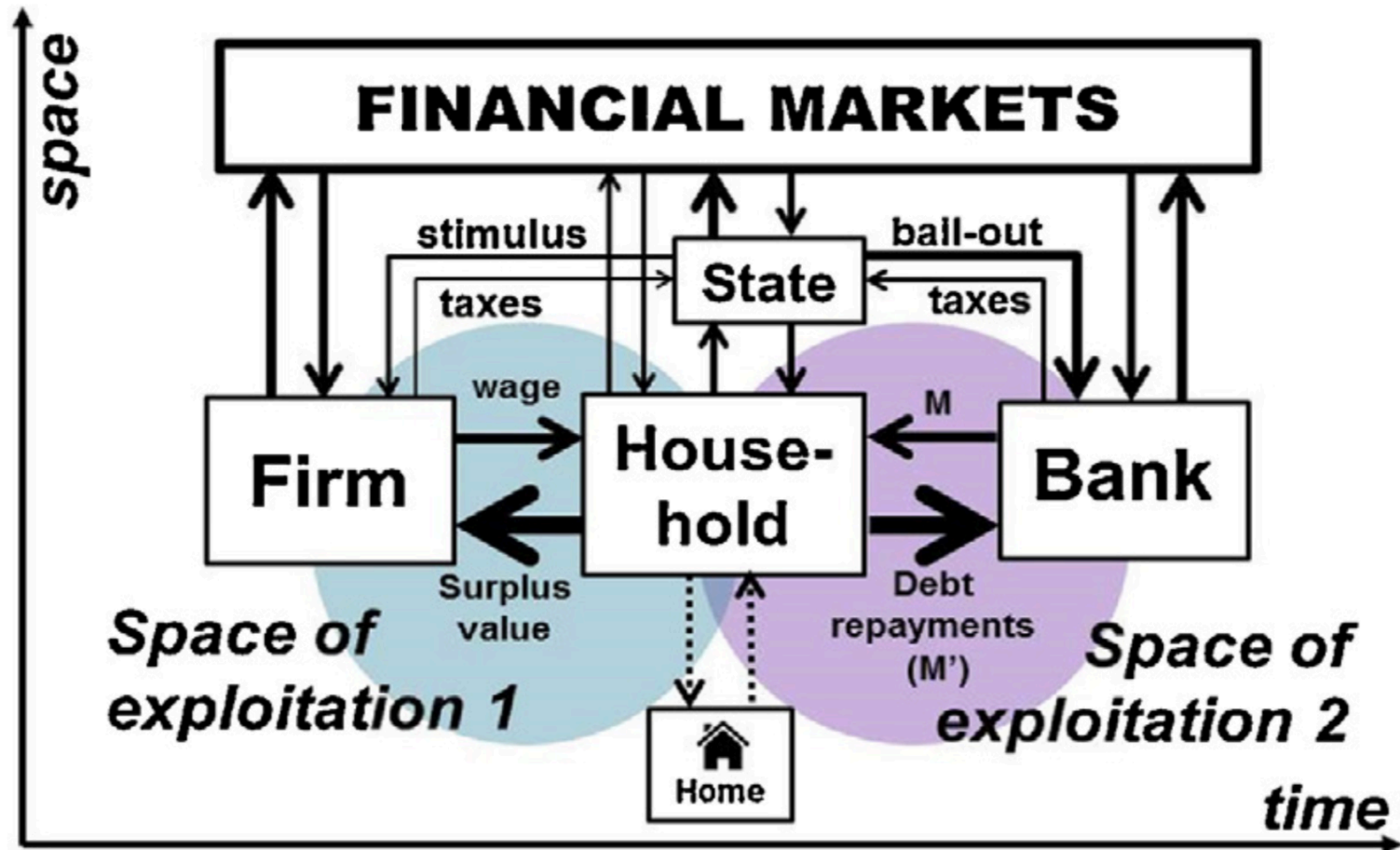
# 'FINANCIAL CHAIN' CONCEPT

**Financial chain** based on **credit-debt** relationship  
(Sokol, 2017):



- **lender** (bank)  $\leftrightarrow$  **borrower** (e.g. household; state)
- **value flow** and power-laden **social relation**
- stretched over **time** and **space**
- power dynamic (often skewed towards a lender):
  - ➔ **value extraction** (financial expropriation)
  - ➔ **uneven development**

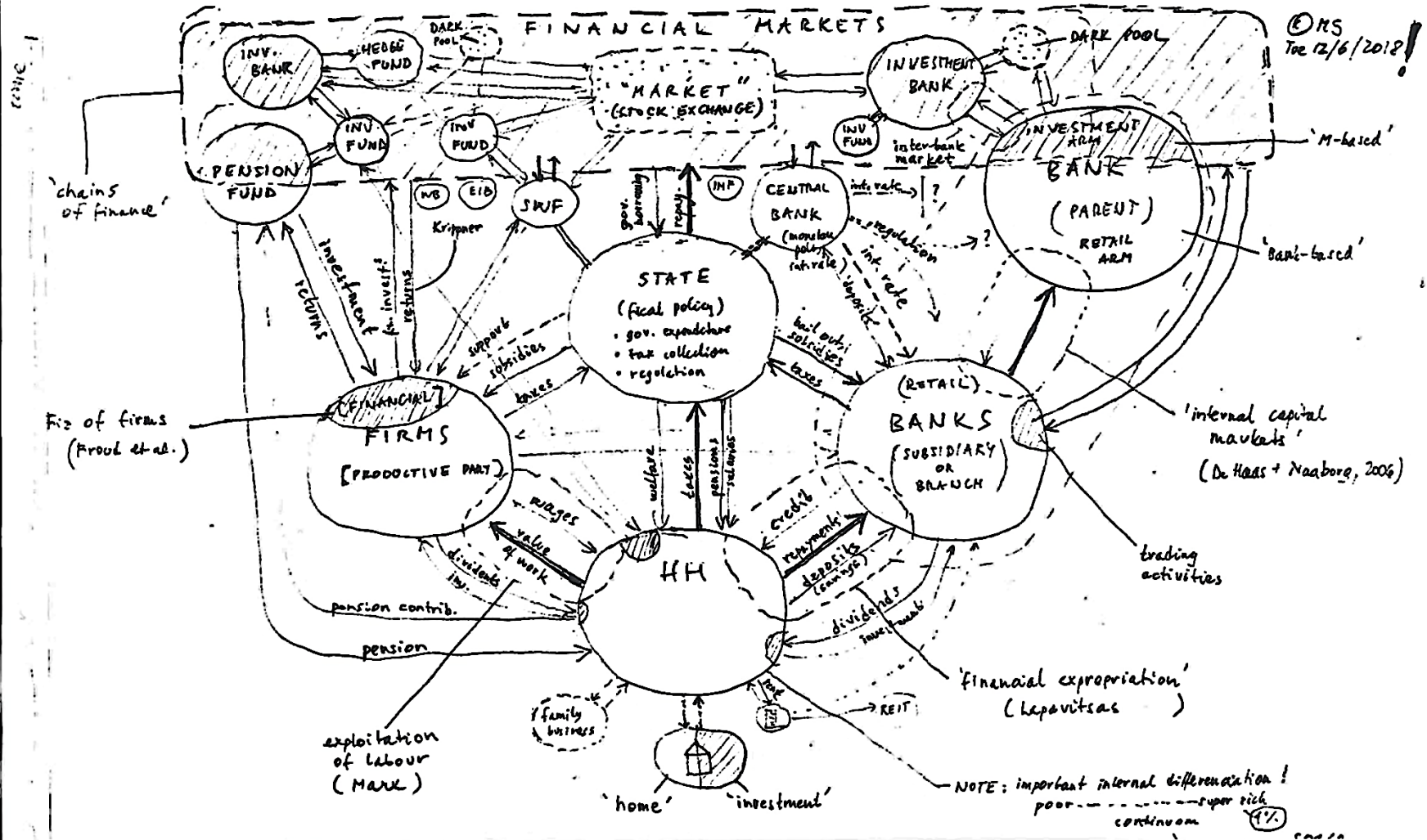
# 'FINANCIAL CHAIN' – Version 1.0



Financial chains in the 'debt economy' (Source: Sokol, 2017)



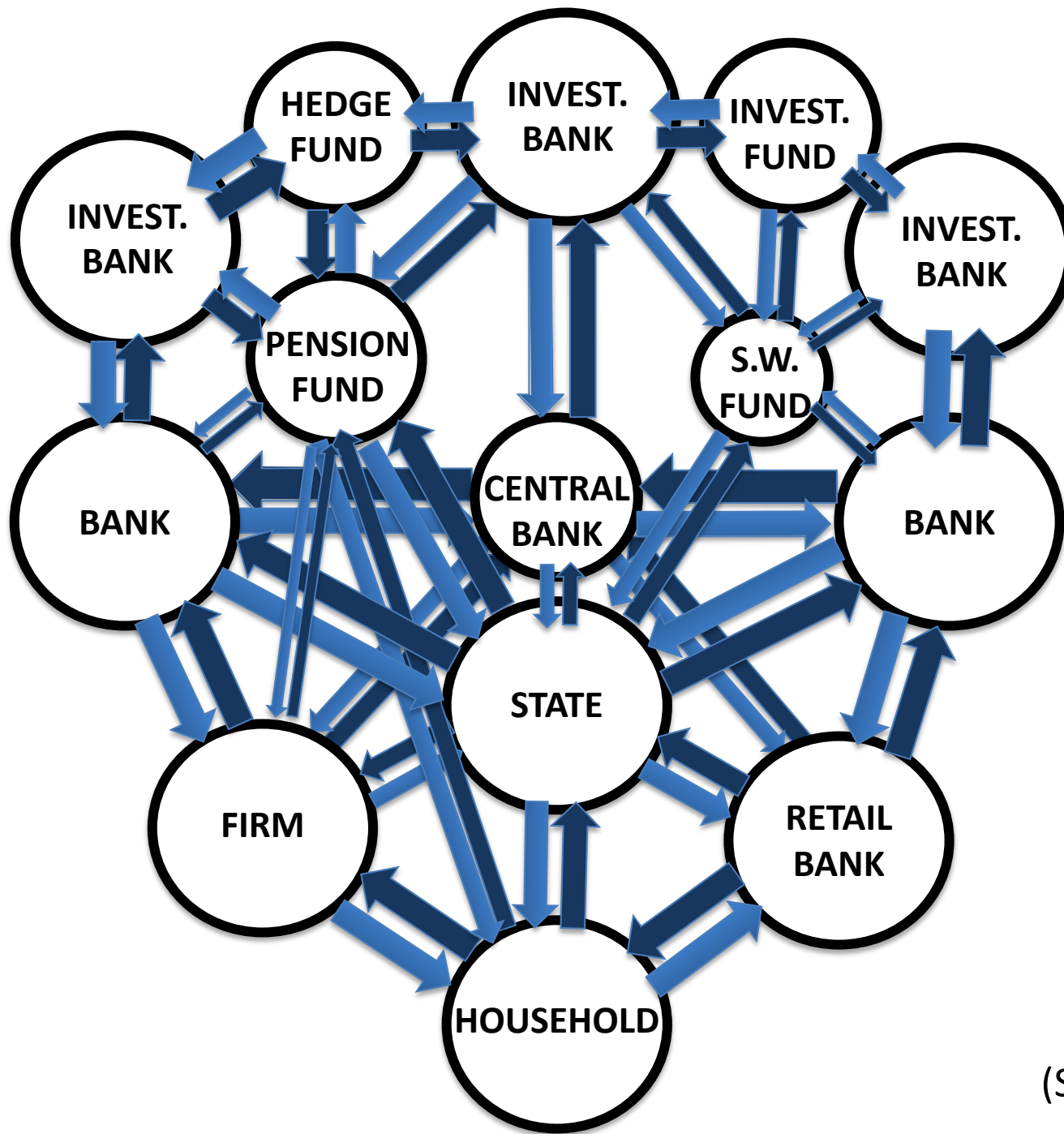
## 'FINANCIAL CHAIN' – Version 2.0



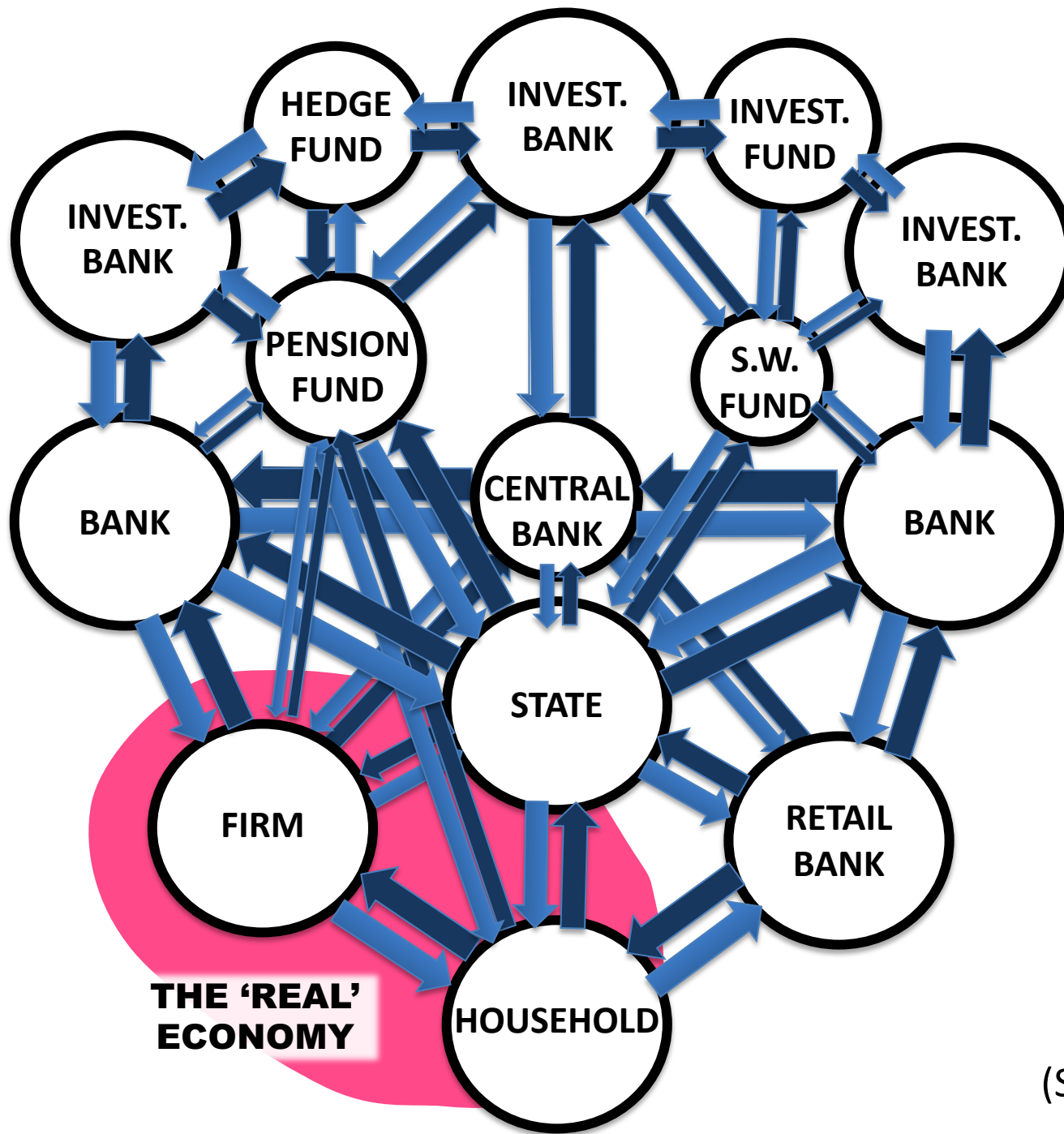
(Sokol, 2018)



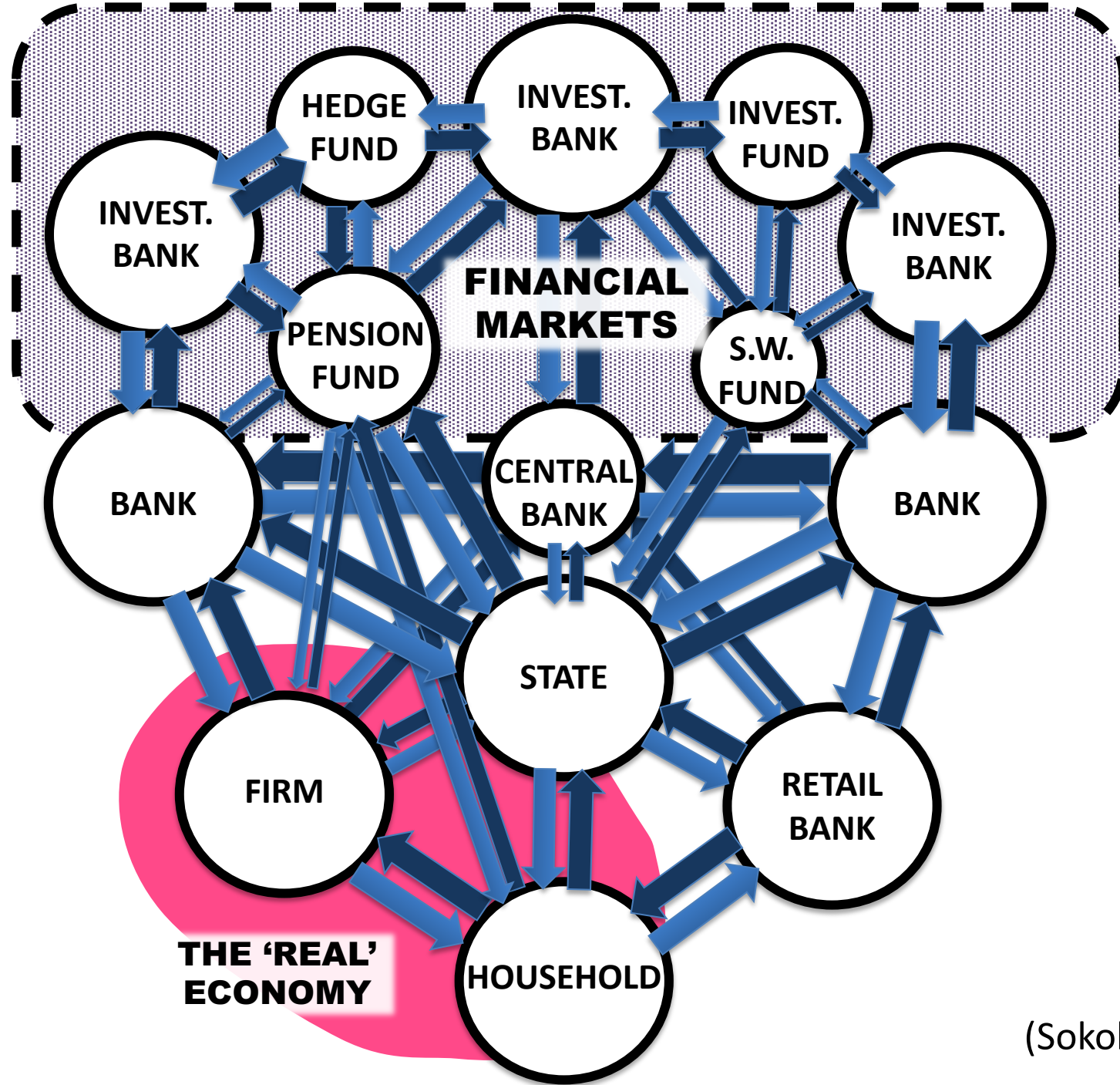
# **‘FINANCIAL CHAIN’ – Version 2.5**



(Sokol, 2019)

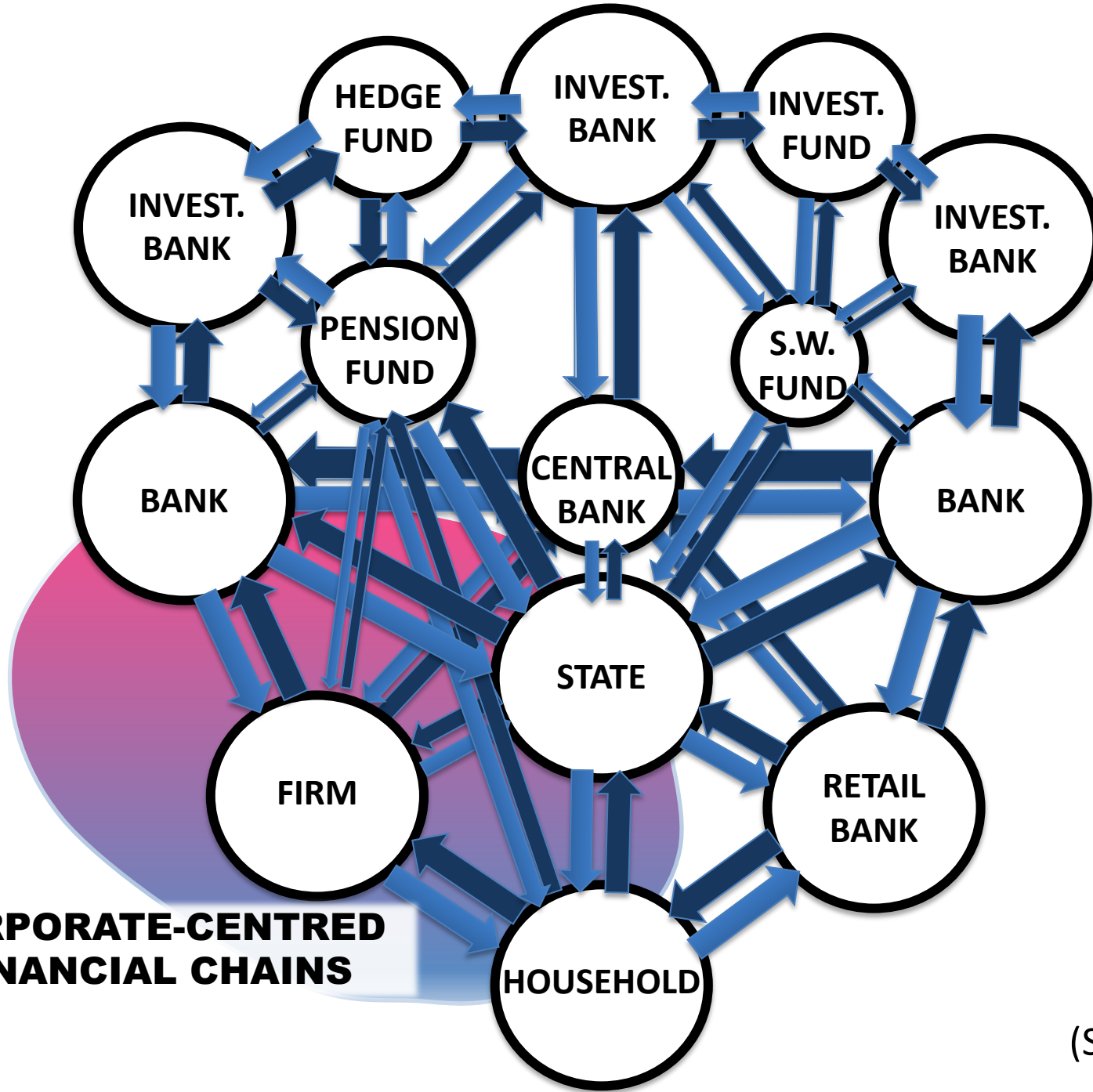


(Sokol, 2019)



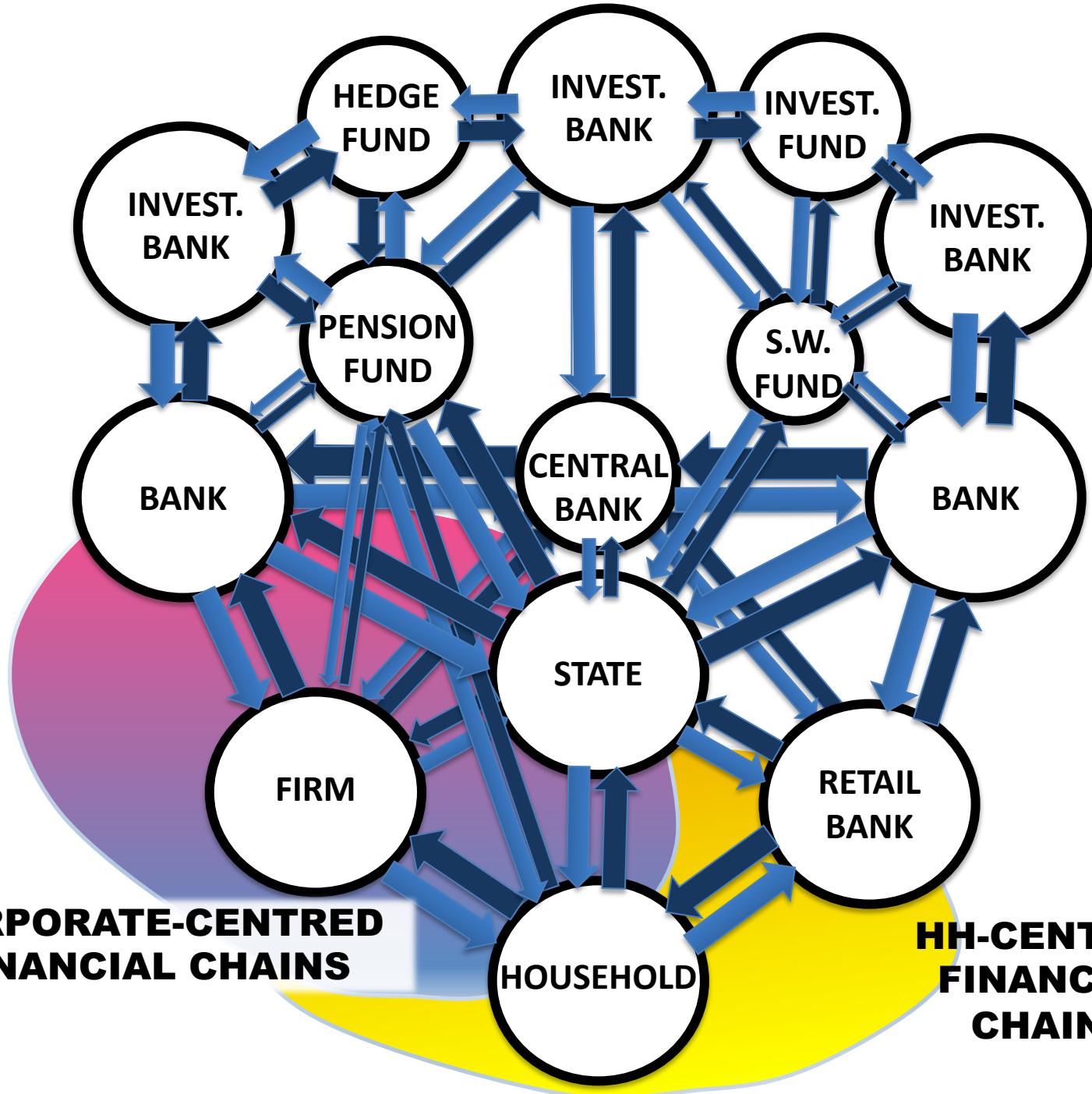
(Sokol, 2019)

**CORPORATE-CENTRED  
FINANCIAL CHAINS**



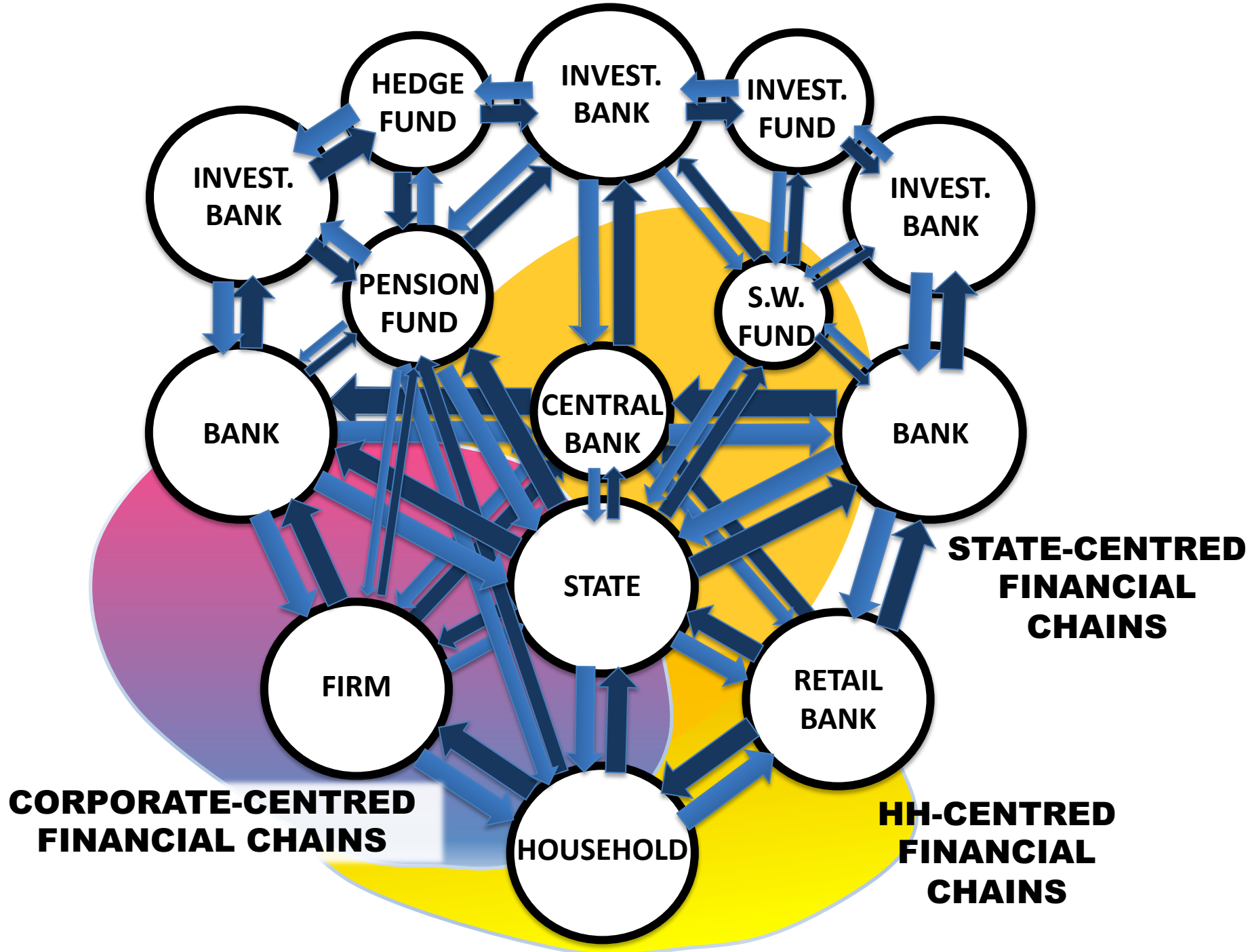
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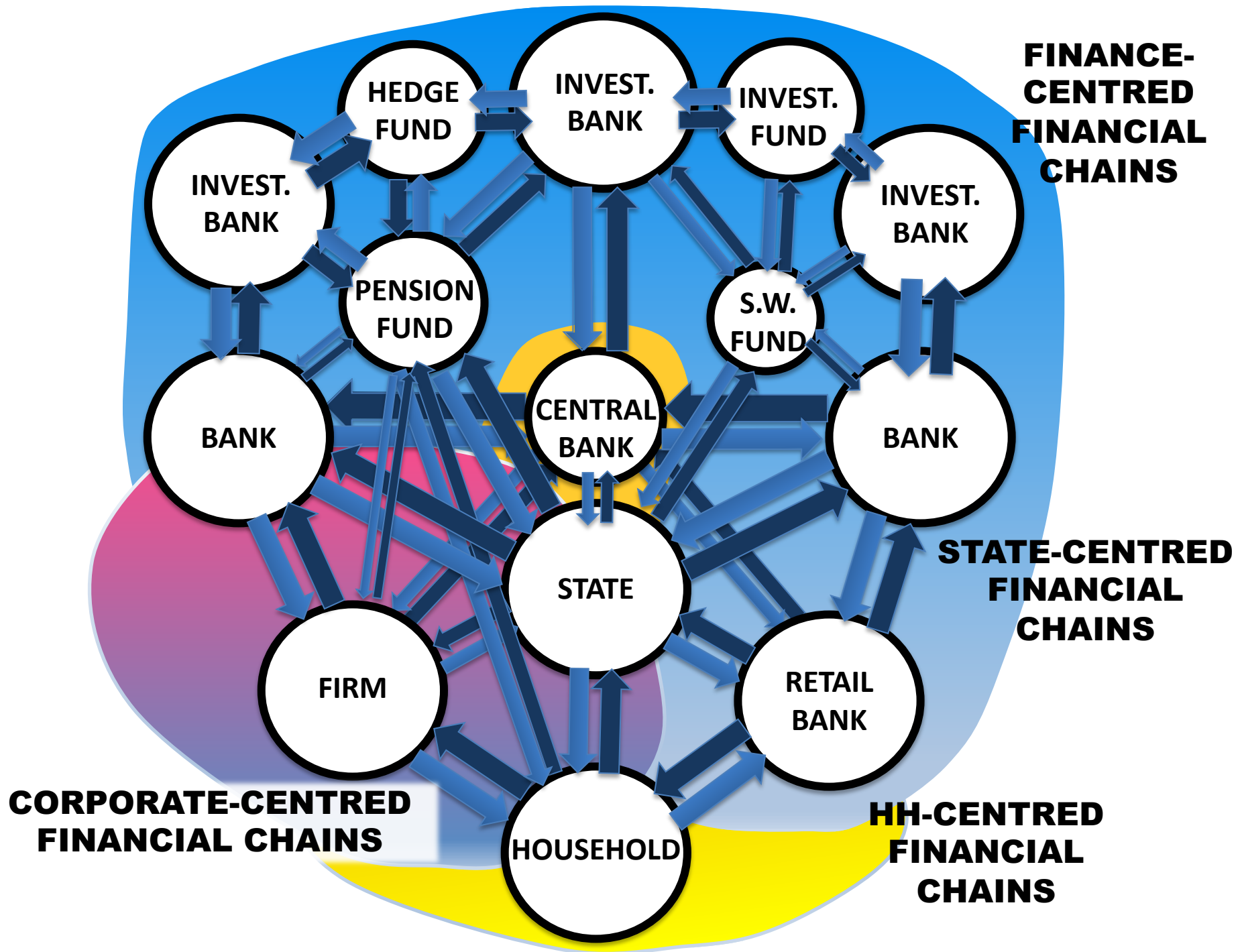
**CORPORATE-CENTRED  
FINANCIAL CHAINS**



**HH-CENTRED  
FINANCIAL  
CHAINS**

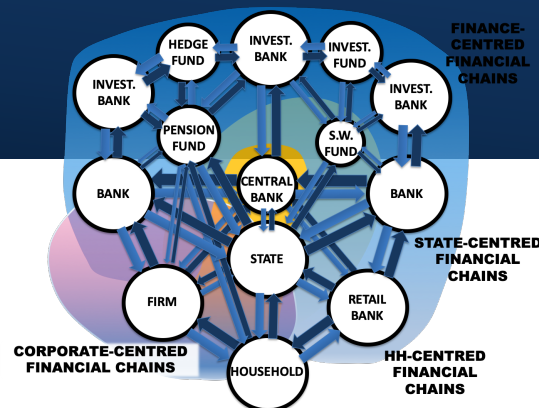








# CONCLUSION



- We need a better grip on the flow of finance in the economy
- Further elaborating the '**financial chains**' concept (v 2.5)
- Introducing the idea of '**networks of financial chains**'
- Interplay between these networks of financial chains:
  - **(in)stability**
  - **uneven development**
- Uneven development: **micro/mezzo/macro scale**
- Macro scale: **international/global dimension**

# *Thank you!*



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# ABSTRACT

Martin SOKOL

## **Networks of 'Financial Chains': Linking Finance, Geography and Uneven Development**

### **Abstract:**

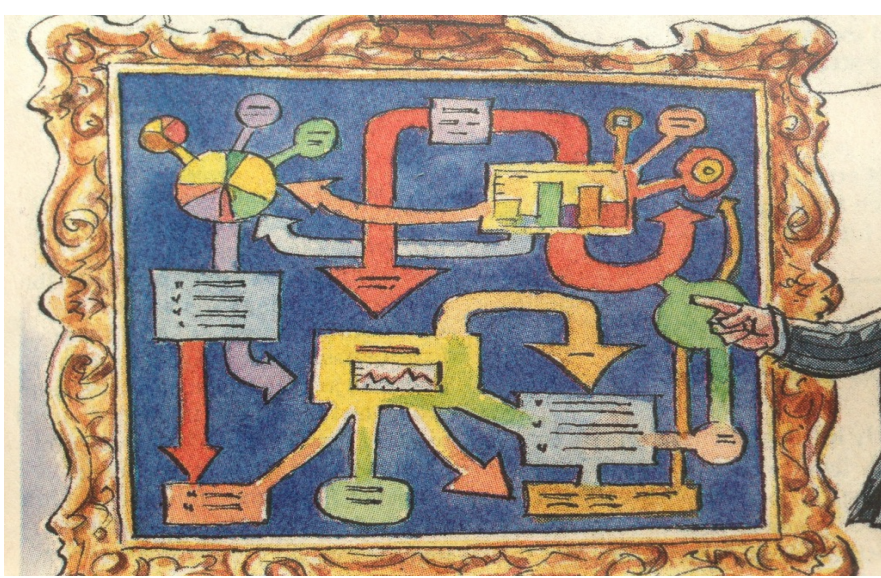
This paper aims to contribute to the debate on geography, finance and uneven development by further elaborating on the concept of 'financial chains'. Financial chains can be described as being, at the same time, channels through which value flows between economic actors, and as power-laden social relations (chaining the economic actors together). A good example of a financial chain is a credit-debt relationship between lenders (creditors) and borrowers (debtors). Within such a credit-debt relationship, value flows between a lender (e.g. a bank) and a borrower (e.g. a household or a state). At the same time, a credit-debt relationship creates a power dynamic between those involved. Far too often this power dynamic is skewed in favour of a lender, helping to ensure that, ultimately, the value flows in its favour too. The extraction of value through financial chains, in turn, can contribute to uneven development – a point that is often overlooked in economic geography.

This paper explores the ways in which the concept of financial chains can be applied to a wider economy. From this perspective, an economy can be seen as being made up of a myriad of financial chains – linking households, firms, states, banks and other financial institutions together. In effect, what we have is a complex 'network of financial chains' stretched over time and space. Examining how such 'networks of financial chains' are implicated in uneven development requires an empirical examination. The paper argues that the new financial geographies created in Europe in the last few decades offer an excellent opportunity to do so. Indeed, the expansion of Western European banks into East-Central Europe (and their engagement with households and states there) provides a unique terrain to study networks of financial chains in a context of a highly uneven economic landscape (within an on-going GEOFIN research project).

**Key words:** Financial chains, uneven development, Europe.



# Flows of finance / circulation of capital



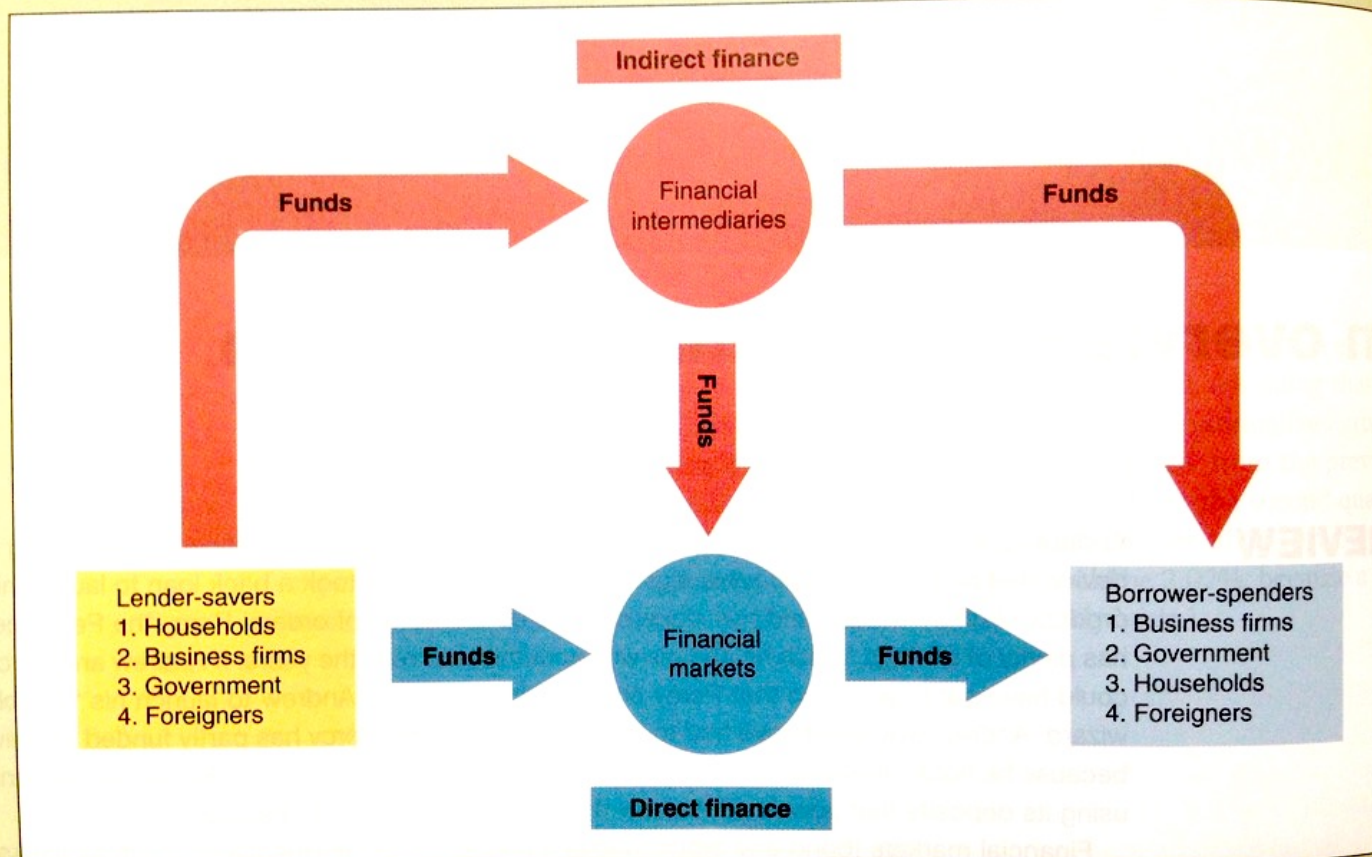
## 3 views:

- **Mainstream economics**
- **Marxist**
- **Post-Keynesian**

- Strengths / weaknesses
- Towards a **‘financial chains’** approach

# A MAINSTREAM ECONOMICS VIEW

FIGURE 2.1



Flows of funds through the financial system

Source: Mishkin et al. (2013, p. 24, Fig 2.1)

# A MARXIST VIEW

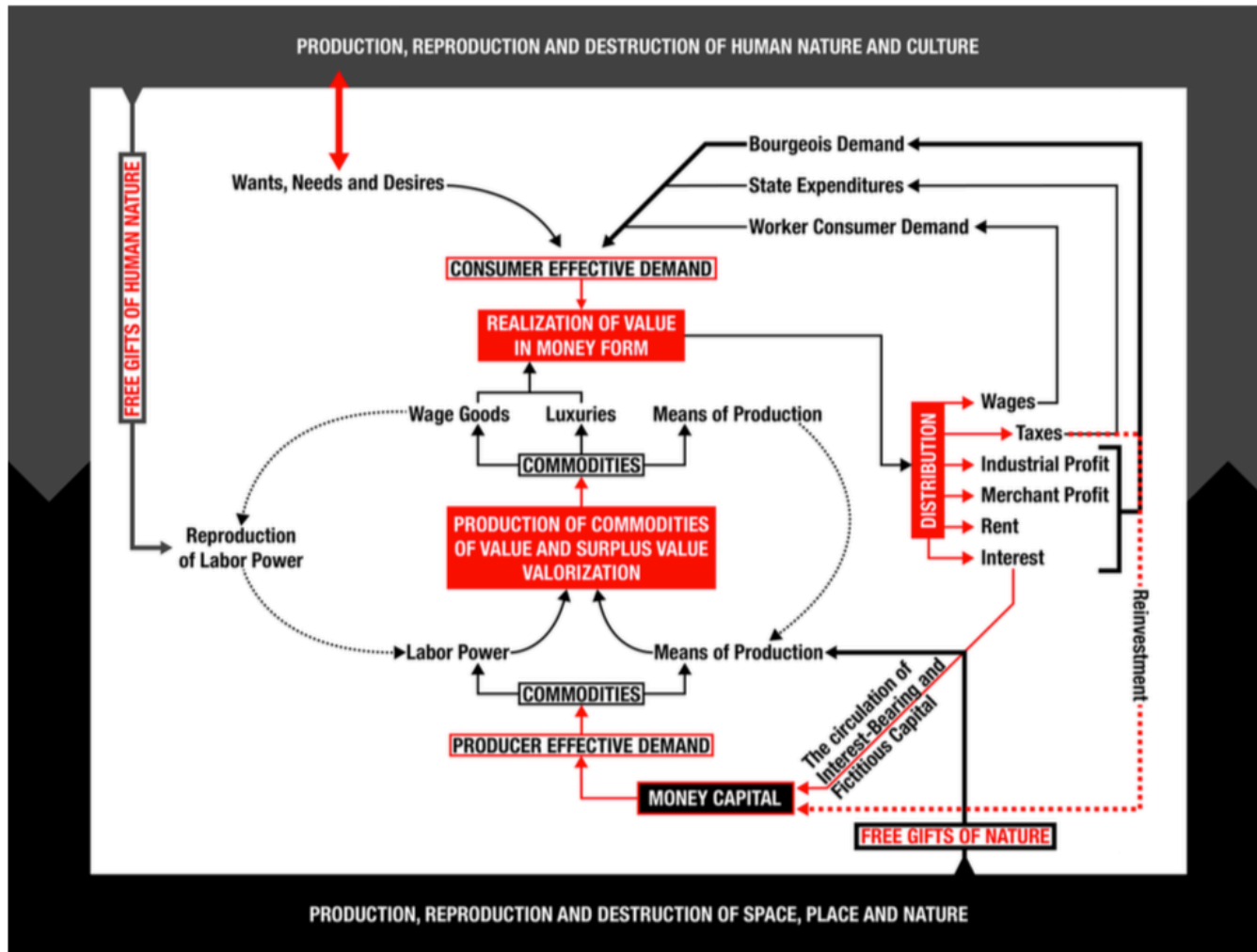
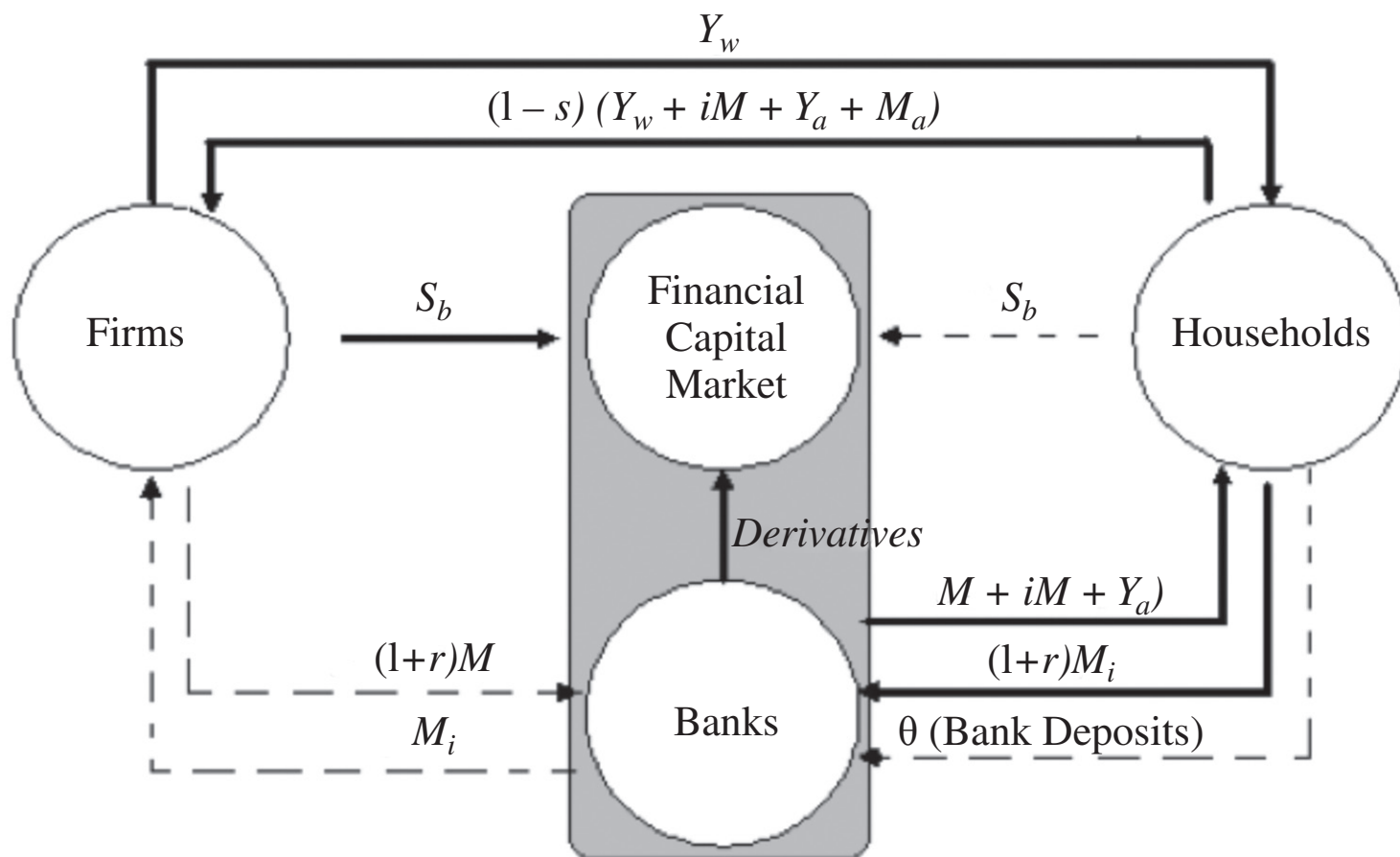


Figure 1: The circulation of capital as a whole

Source: Harvey (2018, p. 433, Fig. 1)

# A POST-KEYNESIAN VIEW

**Figure 3** Strategic role of banks during the financialization era



Source: Seccareccia (2012, p. 284, Fig. 3)