

INCREASED CAPITAL MOBILITY/LIQUIDITY AND ITS REPERCUSSIONS AT REGIONAL LEVEL

SOME LESSONS FROM THE EXPERIENCES OF SWITZERLAND AND THE UNITED KINGDOM (1975–2000)



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Abstract

The most significant structural change undergone by the British and Swiss economies during the past 25 years (1975–2000) is indisputably the development of their financial systems. From this point of view, the two countries show a number of similarities: the presence of one or more international financial place(s), large enterprises which expanded greatly on the international front during that period, the decline of their industrial regions, a monetarist-type monetary policy that involved floating their currency on the external market, a more or less enthusiastic policy of liberalizing their financial markets, etc. In these two countries, the development of international financial centres and the decline of the

industrial regions took place in parallel. The question that remains is: are these developments linked? There have been many studies dealing with the relationship between finance and industry. But this article is original in that it approaches the question principally from the spatial angle (by contrasting the evolution of the financial centres with that of the other regions) and from the sectoral angle (by making a distinction between finance and the industrial activities).

KEY WORDS ★ capital mobility/liquidity ★ exchange rate ★ financial centres ★ industrial and tourist regions ★ Switzerland ★ United Kingdom

Introduction

The most significant structural change undergone by the British and Swiss economies during the past 25 years (1975–2000) is indisputably the development of their financial systems. From this point of view, the two countries show a number of similarities: the presence of one or more international financial market(s), large enterprises (LEs) which expanded greatly on the international front during that period, the decline of their industrial regions, a monetarist-type monetary policy that involved floating their currency on the external market, a more or less enthusiastic policy of liberalizing their financial markets, etc. In these two countries, the development of international financial centres and the decline of the industrial regions took place in parallel. The question that remains is: are these developments linked?

There have been many studies dealing with the relationship between finance and industry. This article is original, however, in that it approaches the question principally from the spatial angle (by contrasting the evolution of the financial centres with that of the other regions) and from the sectoral angle (by making a distinction between finance and the industrial activities).

Theories that deal with these problems while taking the spatialities of finance into account are rare. But can it not be argued that the liberalization of capital movement corresponds, first and foremost, to an increase in their *spatial* mobility? Is *liquidity* not the capacity of financial players to withdraw their capital and reinvest it *elsewhere*? Starting from this premise – that liquidity and spatial mobility of capital are one and the same concept – this article will call on various theoretical approaches while focusing on the way in which they deal with capital mobility/liquidity.

The first section compares the evolution of the Swiss and British economies over the last 30 years or so. The two countries have been marked by economic and spatial changes which are relatively comparable, even though significant institutional differences still existed in the 1990s.

The second section introduces the notions of *mobility* and *liquidity* and sets out the reforms that were intended to increase that capital mobility/liquidity in the UK and in Switzerland. Capital mobility is central to the *neoclassical approach* – neoclassical economists maintain that all the economic players benefit from the increased mobility of capital that ensues from a process of liberalization. But the notion of liquidity has not been the subject of any particular development in that theory. We will see that others put forward competing explanations, liquidity playing, on the contrary, a major part in economies dominated by financial markets and reforms being undertaken to promote it.

The third, fourth and fifth sections set out a number of theories and some explanatory lines of thinking that enable those similarities in evolution and those institutional differences to be understood. In fact, no single theory completely succeeds in satisfactorily accounting for the spatial and sectoral evolution observed in the UK and in Switzerland. For this reason, three different theoretical approaches are called on, each from the viewpoint of mobility/liquidity, in order to shed some light on one or other particular aspect of this evolution.

- The *endogenous money* approaches place the emphasis on the banking sector and its power to create money. The banking sector has a vital role to play as it opens up the economic circuit and creates the loan money required to get the production process started. That being the case, it is important to know where, and when, the money filters into the economy. Sheila Dow had the original idea of linking the endogenous money concept to spatial issues. She argues for the idea that the liberalization of capital movements and a preference for liquidity have important consequences for the spatial evolution of the financial system and its capacity to supply, on an indiscriminate basis, all categories of player and all regions.
- The increase in mobility/liquidity occurs not only within a national space, but also between

national spaces. The enormous increase in international capital movements has considerable repercussions at sectoral and regional levels via *exchange rates*. Regional economists have studied the sectoral and regional consequences of exchange-rate variation.

- Finally, for *regulationist and/or conventionalist approaches*, increased capital mobility/liquidity is broached via the evolution of the institutions that control the relationship between financial markets, banking system and large enterprises. By taking into account specific national characteristics, these studies bring to the fore the influence – marginal or dominant – that liquidity/mobility exerts in two stylized models of capitalism.

To conclude, we assess the part played by the financial sector in the deindustrialization of countries such as Switzerland and the UK.

Comparison of evolution of Swiss and British economies

The Swiss and British economies have undergone comparable economic and spatial evolutions, despite some marked institutional differences at the start of the 1990s.

Comparable economic and spatial evolutions

The rapid development of international financial metropolises Switzerland and Great Britain have economies which house a sizeable banking sector. Thus in 1995, based on an international comparison, the banking sector in both countries had a very high share of the total gross added value created: the figure was 9 percent in Switzerland and 7.2 percent in Great Britain. And this took place while countries such as the USA (4.6 percent), Germany (4.1 percent), France (4 percent) and Italy (2.8 percent) struggled to reach the 5 percent mark (BAK, 1998).

The Swiss financial market really took off during the First World War, profiting mainly from the country's political neutrality (Guex, 1993). But it

was during the 1960–70s that the market expanded once again and confirmed its specialization in international financial activities.¹ In particular, the Swiss financial centre exports private asset management services (Blattner et al., 1996). Thus, according to estimates by Chase Manhattan Bank, Switzerland manages 35 percent of the world's transborder asset management involving private customers, while, comparatively, Great Britain has to be content with 21 percent and the USA with a mere 12 percent. The UBS, the country's largest bank, is in fact the world's leading asset manager.

Moreover, financial activities, particularly international activities, are not spread homogeneously throughout the national space but are generally concentrated in a limited number of metropolitan regions. If regional participation in the creation of the banking sector's gross added value is measured, large variations appear. In Switzerland, in 1995, almost 60 percent of the added value created by the banks originated in the regions of Zurich and Geneva. Of those, Zurich is clearly dominant, with a 37.4 percent share (BAK, 1998).

Although the financial centre of London played a central role within international financial business at the time when the United Kingdom controlled a major part of the globe, it lost importance during the first part of the 20th century in parallel with the decline of the British Empire and the rise of new, hegemonic nations. It was only in the 1960s, with the creation and development of the eurocurrency markets, that it began to re-emerge as a leading international centre (Roberts and Kynaston, 2002). For Great Britain, therefore, the importance of London as a financial centre surpasses that of Zurich for Switzerland, since it is estimated that it concentrates 41 percent of the gross added value that is created by the banking sector (BAK, 1998).

The internationalization of large enterprises During the past 30 years, the large Swiss and British companies have been heavily internationalized; they have opted for a relocation of production and for multinationalization by taking over foreign companies.

Thus, at the end of 1995, the 108 largest listed Swiss companies employed 79 percent of their personnel (1.17m people) abroad. But it was mainly the large groups that were getting a foothold on the global ladder, while the small and medium-sized

enterprises (SMEs) remained confined to the local level. In 1995, SMEs and public administration together only employed 265,000 people abroad and provided the bulk of the positions on Swiss soil (over 90 percent of jobs) (Kaufmann, 1997).

Switzerland's outflows of foreign direct investment (FDI) have been growing fast during the 1990s and confirm the process of internationalization which is impacting on the Swiss economy, and more particularly its large industrial enterprises. From this high level, an uninterrupted period of expansion in foreign investments began in 1993, reaching hitherto unheard of levels. During the second part of the 1990s this growth was primarily due to the large service enterprises.

In the United Kingdom, the movement is identical. At the beginning of the 1990s we witnessed a strong growth in outflows of FDI. If we compare now the levels attained by outflows of FDI in relation to the GDP in Switzerland and the United Kingdom we can note that these levels are higher than in countries such as France and Germany (Figure 1).

Concentration and dualization in the banking sector In Switzerland, the financial sector experienced stability until the end of the 1980s. The start of the 1990s was marked by major structural transformation, in particular the disappearance of some regional banks, an accelerated internationalization of the major banks and the closure of local stock exchanges. In Switzerland, the banks, and primarily the major banks, carry the financial market (Guex and Pasquier-Dorthe, 1996). They were the root cause of several transformations.

First, there has been a major reduction in the number of regional banks since the start of the 1990s. The number of regional banks and savings banks, which stood at 216 in 1985, fell to 204 in 1990 and then plummeted to 127 in 1995. They numbered just 117 in 1997 (BNS, various years). In concrete terms, half the regional banks that disappeared were taken over by another bank in the same category; and the remainders were acquired by the major banks and the cantonal banks (ASB, 1999). In this way, the major banks markedly strengthened their presence in the Swiss market. Lusser (1996) observes a dualization within the banking sector itself, between banks with a regional

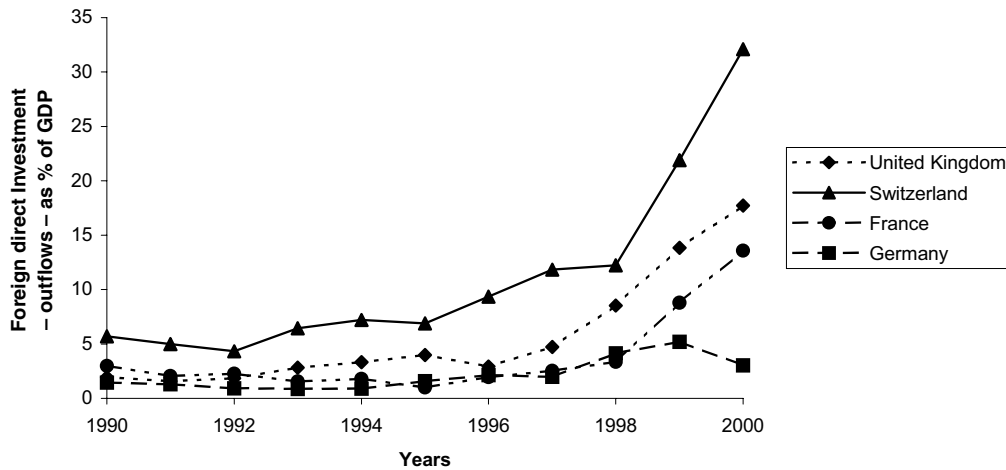


Figure 1 Evolution of foreign direct investment – outflows – to GDP (%) in Switzerland and in the UK (1990–2000)
Source: OECD.

vocation and those operating at international level. By way of comparison, the foreign banks (for example) had continued to grow. They, being basically oriented towards international asset management, saw their numbers rise from 120 in 1985 to 142 in 1990, reaching a figure of 155 in 1995.

Second, at the same time, the major Swiss banks accelerated their process of internationalization by taking over numerous financial institutions, in particular Anglo-Saxon ones; their objective being to become global players in world finance. The largest cantonal banks followed close on their heels.

Third, the local stock exchanges, which existed in most Swiss towns, were all closed down. Until 1990, Switzerland still had seven securities exchanges. Four of those closed in the space of two years. So, in 1992, only three trading floors remained – Zurich, Geneva and Basel. Even those ceased to exist with the introduction of on-line dealing in 1996 (Guex and Pasquier-Dorthe, 1996). From then on, the majority of transactions took place in Zurich.

Generally speaking, the 1990s saw the Swiss banking sector concentrated in the hands of a reduced number of players, principally through mergers and takeovers of struggling regional banks. The number of branches – all banks included – fell

from 4,397 in 1990 to 3,435 in 1997 (ASB, 1999). In parallel, the leading banks internationalized and operations in Switzerland became concentrated in Zurich.

In the United Kingdom, the restructuring of the banking sector began during the second half of the 1980s – i.e. just a few years ahead of Switzerland – and tended to accelerate during the 1990s (Leyshon and Thrift, 1997). Generally speaking, phenomena identical to those described in Switzerland could be observed. In fact, the British banking institutions tended towards rationalization and did not hesitate to close a number of branches; the growth in financial activities being particularly marked in London; the local stock exchanges entered into a decline; the move to mergers and acquisitions grew; and power was concentrated in the hands of a limited number of players.

We should note, however, one element that distinguishes the case of Switzerland from that of Britain. In Switzerland, penetration from abroad remained low, and the major Swiss banks continued to carry the financial centre. The City, however, underwent a far-reaching transformation as foreign players began to acquire increasing power (Roberts and Kynaston, 2002). At the end of the 1970s, the City consisted of a multitude of independent British actors. At the dawn of the 21st century, most of the

prestigious British merchant banks had been bought by the major foreign banks. Power, as at this point, was concentrated in the hands of around 15 major foreign banks – American, Japanese, German and . . . Swiss.

The decline, or difficult reconversion, of the traditional productive regions In Switzerland, since 1975 the industrial regions had moved into new high-added-value activities or had declined. All mass production had disappeared. In sectors where there was a lot of international competition, such as chemicals and watch making, there were massive job losses and major relocations. The LEs had extricated themselves in good time, often to the detriment of their native region (Corpataux and Crevoisier, 2001; Crevoisier et al., 2001; Corpataux et al., 2002).

Three main developments can be noted in the traditional industrial regions:

- A move to high-added-value activities. The traditional industries (pharmaceuticals, watch making, machine manufacture, textiles) all developed new products. In this way, watch making increased the average price of its watches considerably. For the year 1995, with almost 40m finished watches exported, Switzerland's share of the world market by volume was under 10 percent, but the corresponding share by value stood at over 65 percent of export sales achieved by the world market (F.H., 1997).
- The disappearance of many SMEs and a marked reduction in the number of jobs. The watch-making industry, very concentrated spatially, saw its jobs vanish. In the Jura Arc, a space which in 1995 contained almost 65 percent of jewellery and watch-making jobs, the workforce went from over 48,000 jobs in 1975 to around 23,000 in 1995.
- Finally, the relocation of activities abroad was very marked across the whole industrial sector. This relocation was marked in the regions with high numbers of LEs which, in contrast to SMEs, had the capacity, organizationally and financially, to internationalize. In the Basel region, for example, the numbers of those working in the chemical industry, which underpinned the whole region, fell by 12 percent between 1975 and 1995, while Basel's LEs in this sector increased their international

competitiveness by specializing in high-added-value finished products. Rising research and manufacturing costs in Switzerland coincided with the attraction of relatively low foreign investment costs. Acquisitions and direct investments had multiplied since the end of the 1970s, to a point where jobs abroad were in a large majority.

The tourist regions had not evolved in the same way as the industrial regions because it was not possible to increase productivity to the same degree. By its very nature, tourist activity has little scope for automation, for example. Plus, the potential for innovation by establishments (hotels, restaurants, etc.), was not as great as in industry.

Competitiveness was therefore mainly sought by squeezing costs and this was done in two ways. First, by huge recourse to poorly qualified, poorly paid foreign labour, which explains the relatively good performance of these regions on employment. The second approach to reducing costs was a move from hotel-based tourism to non-hotel-based accommodation and services, which was cheaper. However, this evolution came to an abrupt halt at the start of the 1990s, when the structural limits of this development were reached. It was no longer possible to avoid crisis by squeezing costs. These regions entered a period of crisis, with particularly serious repercussions for the construction sector.

Although most Western countries saw the proportion of jobs in the manufacturing industries compared to the workforce as a whole decrease during the 1970s, this movement was particularly marked in the United Kingdom. While this proportion varied between 35 and 45 percent of the total workforce on average between 1860 and 1970, it did not exceed 30 percent in 1980 and dropped to below 25 percent at the beginning of the 1990s. Sectors such as the automobile industry, mechanical construction, metallurgy, textiles and clothing were hit particularly hard (Esposito, 1993).

This movement went hand in hand with an increase in regional disparities. To the traditionally peripheral regions (Scotland, the north of England, Wales, Northern Ireland) – specialized in the production of coal, steel or textiles and which were already in decline in the 1960s – were added the regions of central England (the Midlands, Yorkshire, Humberside, etc.). From the 1970s onwards, regions

Table 1 Employment by sectors in the UK and Switzerland (1980–2000)

Years	Primary sector, % of the total employment in the country		Secondary sector, % of the total employment in the country		Tertiary sector, % of the total employment in the country	
	UK	Switz.	UK	Switz.	UK	Switz.
1980	2.3	6.9	34.8	38.1	62.9	55.0
1990	2.2	4.2	27.5	32.2	70.3	63.6
2000	1.8	4.5	21.6	26.4	76.7	69.1

Source: OFS (Swiss Federal Statistical Office), ONS (Office for National Statistics).

that specialized in sectors such as automobiles or chemistry experienced difficulties (Esposito, 1993).

In terms of employment, a short comparison between the UK and Switzerland from 1980 to 2000 shows that the shares of the primary and secondary sectors were at any time more developed in Switzerland. As a corollary the part of tertiary sector was more important in the UK (Table 1). Thus the process of deindustrialization seems especially severe in Britain (for a more detailed analysis of such transformations at a national as well as at a regional scale in the UK, see Mohan, 1999).

Concentration of activities and economic power in international financial metropolises During the past 30 years, Switzerland has been evolving towards a 'head office economy' that specializes in managing and organizing multinational production and controlling the flow of international funds. As a result, beyond the apparently satisfactory macro-economic indicators, some considerable regional imbalances appeared. There was the development of a financial 'head office' economy in the metropolitan regions and the successful internationalization of the country's largest enterprises. But corresponding to this was either the disappearance of industrial, and to a lesser extent tourist, SMEs or a concentration of businesses in activities which were very high added value, but involved considerable job losses. Moreover, in cities such as Zurich or Geneva, the rising real-estate price resulting from the expansion of the financial centre and other related services accelerated the relocation of industry outside the urban centre. In this perspective the Swiss economy's export base has evolved considerably in economic and spatial terms.

The dual evolution experienced by the UK was

even more marked. One region in the South-east that houses a world-scale financial centre prospered, while the rest of the country had been crying out for industrial redevelopment for several decades. This provoked a 'north-south divide' (Martin, 1988). The economic power was also concentrated in the South-east, as 182 out of the 300 leading British firms had their head office in London (Farnetti, 1996).

Significant institutional differences

Some studies give an account of the institutional differences displayed by the two countries. Until the early 1990s, two important differences were evident: first, the two systems for controlling listed companies differed; second, the ties binding LEs and national territory were looser in the UK than in Switzerland.

The system for controlling listed companies According to David et al. (2001), the Swiss model had three characteristic features until the early 1990s: first, the power of control was highly concentrated and spread among a small number of shareholders; second, there were well-established, long-term relationships linking banks and industry; third, there were measures aimed at protecting LEs from hostile or foreign takeovers.

By comparing six countries (Switzerland, the Netherlands, Germany, France, the UK, USA), Windolf and Nollert (2001) show that, at the beginning of the 1990s, the proportion of shareholders holding 50 percent or more of share capital was still very high in Switzerland (31.1

percent). Only Germany had a higher percentage (51 percent). Moreover, a high proportion of Swiss multinationals were still in the hands of one person or a limited number of people. The proportion of LEs controlled by one individual, or a single family, was very high (31.1 percent) and even higher than the figure observed in Germany (18.9 percent).

In the UK, the situation was different because shareholdings were much more scattered: the figure for shareholders holding less than 25 percent of share capital was over 90 percent, a percentage exceeded only by the USA, with 99.9 percent. In Germany and Switzerland, the figures for shareholders holding less than 25 percent of share capital were far lower – they stood at 53.3 percent and 35.1 percent respectively.

The relationship between banks and industry was more significant in Switzerland than in the UK. At the beginning of the 1990s, in the UK and in the USA, the banks held less than 1 percent of the shares in listed companies, compared to 4.7 percent and 10 percent in Switzerland and Germany respectively (Birchler, 1995). Moreover, the banks had an important role to play in managing companies because in Switzerland there was a system of proxy voting which authorized the banks to represent minority shareholders at shareholders' meetings (David et al., 2001).

There were additional measures to protect Swiss LEs and make them highly 'invisible' to foreign investors. For example, the share capital of public limited companies is made up of bearer shares, registered shares and participation certificates. These different categories of stock each bestow distinct rights. Until very recently, Swiss law allowed boards of directors a free hand, as long as the statutes permitted it, to accept or refuse – often arbitrarily – the registration of new investors in the register of members. It was equally easy to exclude minority shareholders from the decision-making process (Guex and Pasquier-Dorthe, 1996). It should also be added that, unlike Germany, there was no law obliging companies to involve their employees in the decision-making process, as the principle of employee involvement and co-management was not institutionalized. Moreover, when compared internationally, Swiss companies had, until recently, a reputation for being among those whose policies on information about performance and results were the least transparent (Guex and Pasquier-Dorthe, 1996).

These various institutions made the country's LEs unattractive to foreign investors and so protected them from 'unfriendly' takeover bids (David et al., 2001). The Swiss model may have changed little before the start of the 1990s, but the rest of that decade was to prove rich in reforms.

Articulation between LEs and national territory In the UK, the relationship between LEs and national territory was very loose. Numerous economists and historians have highlighted the very early-flowering internationalization of British capitalism.

Nevertheless, Farnetti (1995; 1996) argues that the liberal policies of the 1980s, which had resulted among other things in the liberalization of the financial sector, made the dual development of the British economy even more pronounced. He puts forward as evidence the parallel between, on the one hand, the good performance of Britain's largest companies, particularly their internationalization and their good stock-market performance, and, on the other hand, the decline in the rest of the country's economy. Farnetti dissects the sources of finance for the main mergers/acquisitions in recent years. Strictly speaking, he does not construct a theory, but simply defends the thesis that the competitive advantage of British firms stems primarily from having privileged access to financial markets that are particularly well developed and liquid. This privileged access to financial markets had favoured the move towards internationalization of the British multinationals via mergers/acquisitions, to the detriment of areas such as investment in research and development. To sum up, although the British multinationals remain connected to the City of London and to the economy of the South-east because they have their head offices there, they are no longer truly linked to the rest of the British economy because they hardly invest there. Other authors put forward the argument that under-investment is structural and cripples any industrial renewal (Hutton, 1995). Thus, gross fixed-capital formation compared to GDP is traditionally lower in the UK than in Switzerland (Figure 2).

How can these similarities in evolution between the two countries be explained? Let us now consider the interpretations that can be made using the theories.

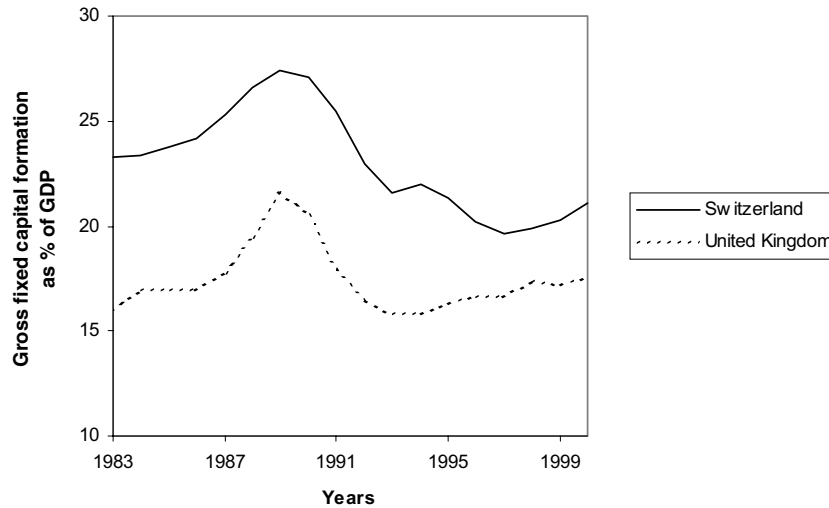


Figure 2 Evolution of gross fixed capital formation compared to GDP (%) in Switzerland and in the UK (1983–2000)
Source: Eurostat (various years).

Financial markets and capital mobility/liquidity: the theoretical positions and the reforms undertaken in the UK and in Switzerland

Reforms aimed at liberalizing capital movement, at national and international level, and at improving the operational efficiency of the financial markets had increased the mobility/liquidity of capital. Liquidity – i.e. the capacity that allows economic (particularly financial) players to withdraw their investments at any time and re-invest them elsewhere – is actually the corollary of mobility. But do such reforms then mean that this increased capital mobility/liquidity has homogenous, beneficial repercussions for all the players comprising a national economy? The theoretical positions diverge. For some, financial markets exist solely to enable an optimal allocation of productive capital and everyone is in a position to benefit from the perfect, free circulation of capital. For others, financial markets were invented quite simply to make capital-ownership rights liquid and mobile. The relationship between the financial markets and the actual economy is, moreover, complex and *contradictory*. We will present these two positions and comment on the reforms undertaken in Switzerland and the UK.

Financial markets and capital mobility/liquidity: the theoretical positions

The neoclassical theory of efficient financial markets assumes that the perfect, free circulation of capital leads to the optimal allocation of productive capital. That being the case, completely deregulated financial markets should be enough to ensure an optimal allocation of financial resources. In the absence of statutory barriers, nothing should, in effect, prevent profitable projects from being funded because in this pure and perfect world, every opportunity for profit is obliged to be seized by investors (Brossard, 2001). As Dow and Rodriguez-Fuentes (1998) observe, most neoclassical economists furthermore consider that regulating the financial system can only be negative, because financial intermediation must be more costly or less efficient. Moreover, financial liberalization will not only enable intermediation costs to be reduced, but will also cause funding instruments to multiply (Brossard, 2001).

In short, for neoclassical theorists, the advantages which must flow from the free circulation of capital are numerous and the drawbacks non-existent: every good project will be able to get finance at the lowest cost and the range of

funding instruments will expand . . . for all categories of borrower, independently of where they are located, of course. In the final analysis, the financial markets are only there to estimate at best the fundamental value of companies and, in short, distribute productive capital in an optimal way (Orléan, 2000). This aside, the concept of liquidity is not the subject of any particular theoretical development (Orléan, 1999).

These being the cases, reforms encouraging the free circulation of capital only serve to bring reality closer to this model. By axiom, any measure which brings reality closer to this world is beneficial. In fact, the question does not arise in those terms: the territory exists, with its structures and its constraints; capital is not, and never will be, perfectly mobile; markets are not, and never will be, efficient; economic players are not, and never will be, equal; etc.

Mid-way between the theoretical and the practical, Orléan (1999; 2000), for his part, considers that if the organized financial markets were invented, it was to *make capital ownership rights liquid*. The institutional reforms undergone by the financial markets during the past 20 years attest to this, as the reforms were all aimed at promoting greater liquidity. In effect, liquidity alleviates the risk engendered by capital immobilization, because it offers economic players the opportunity to withdraw their investments at any time. Yet, this opportunity can only be offered by huge, well-established financial markets that are kept buoyant by high transaction volumes (Lordon, 2000). This idea of a preference for liquidity is not new: Keynes had already stated it. In a context of uncertainty that is regarded as radical, the economic players develop a preference for liquidity: out of two assets (financial or tangible), they will always prefer the one which, all other things being equal, is the more liquid, that is, the one that can be most easily transformed into cash (Boncoeur and Thouément, 1993).

Policies of liberalizing capital movement are primarily aimed at ensuring a perfect, free circulation of capital. But this perfect mobility of capital would remain very imperfect, or would not exist at all, if it could not rely on sufficiently liquid financial markets. It seems to us, therefore, that the real challenge for a process of liberalization lies in ensuring maximum capital mobility/liquidity. Two types of institutional reform are therefore required:

first, reforms aimed at removing statutory barriers, since these barriers impede the perfect, free circulation of capital; and second, reforms aimed at reinforcing the operational efficiency of the financial markets, that is, aimed at promoting liquidity and transparency. This point is now examined using the reforms undertaken in the UK and Switzerland.

UK and Swiss reforms aimed at increasing capital mobility/liquidity

In the 1970s, a wave of capital-movement liberalization started in the USA and then swept up, to varying degrees, other countries and other markets. This saw the removal of exchange controls by the UK in 1979, the partial opening-up of the Japanese financial market in 1983–84, the liberalization of capital movements in Europe (as required by the Single European Act), etc. (Bourguinat, 2000).

Thus, capital mobility/liquidity was increased by a number of factors pertaining to national legislation (decartelization, 'Big Bang', lowering stamp duty, relaxing conditions for pension-fund investment, etc.) and pertaining in particular to the interaction of the political and economic players who were in a position to support these legislative changes.

In the United Kingdom, a virtually full liberalization of the financial system, known as the Big Bang, took place in 1986. Until this date, the members of the London Stock Exchange – who collectively owned the institution – had been governed by operating rules and rules of good behaviour whose origins dated back to its creation in 1812. The Big Bang did away with numerous secular rules (Esposito, 1993). First, the scale of fixed commissions was abolished: this resulted in a growth of competition and a sharp rise in transactions. Second, it was decided to open up the market completely: although since 1982 the British and foreign banks had been permitted to hold up to 29.9 percent of the capital in a firm quoted on the stock exchange, the Big Bang increased this portion to 100 percent, leaving the door open to control from outside the City. Third, the principle of permitting jobbers and brokers alone to issue shares and to provide counterpart and investment services was revised: this resulted in an increase to the number of categories able to intervene on the market.

In Switzerland, the economic recession at the start of the 1990s brought about a series of institutional reforms – decartelization – aimed at increasing competition and strengthening market mechanisms. These reforms also covered the domestic banking sector – highly cartelized until then – and most banking agreements and conventions were removed at the start of the 1990s (ASB, 1999).

At the same time, with the liberalization of their competitors' financial markets, Switzerland's traditional advantages were eroded. Reforms aimed at favouring the operational efficiency of the Swiss financial market (i.e., at promoting liquidity and transparency) were implemented in various areas: a revision of the law on public limited companies and shareholder rights (Guex and Pasquier-Dorthe, 1996); the introduction of on-line dealing; and the introduction of rules and accounting practices that gave more transparency (David et al., 2001).

Did these reforms aimed at increasing capital mobility/liquidity have beneficial, homogenous repercussions for all categories of player, all sectors and all regions? Or did those repercussions vary? These are the questions which the next two sections seek to answer for the two countries, using various theoretical approaches.

Liberalization of capital movement, liquidity preference and regions

Sheila Dow, from a post-Keynesian viewpoint, has linked the endogenous money concept to the spatial problems. Starting from factors such as the banking system's power of monetary creation, the spatial structure of the financial system and its evolution plus liquidity preference, Dow seeks to show that possibilities exist for rationing credit, not only to certain categories of borrower but also to certain regions.

Contribution of endogenous money theories

Some authors, mainly post-Keynesians, consider money as endogenous. They think that the central bank no longer has a monopoly on the money-supply mechanism. Money becomes endogenous,

because it results from a demand of the economic system and no longer simply from the wishes of an external institution, in this case the central bank (Monvoisin, 2000). Monetary creation occurs through the banking system coming into direct contact with economic activity. Money is credit and therefore pre-exists production. Given this, analysis of the place and time when money filters into the economy becomes crucial if one is seeking to understand its effects (Dow and Rodriguez-Fuentes, 1998).

Some post-Keynesians, known as *horizontalists* (including Kaldor and Moore), think that money supply (including the monetary base) is totally endogenous. The monetary authorities are in a position to set interest rates but do not influence the amount of money in circulation. Moreover, and this is a major subject of debate even within the post-Keynesian movement, horizontalists argue that the commercial banks, in their turn, are passive because they mechanically supply the economic agents with the credit they request (Nasica, 1997). For example, Moore (1988) maintains that in practice LEs enjoy pre-agreed banking arrangements which enable them to negotiate new credit lines, and even overdraft facilities, at any time. The banks cannot refuse these requests because they risk losing their biggest customers. To sum up, for horizontalists, the total amount of credit granted is determined entirely by companies' funding demands.

For other authors – the *structuralists* – monetary endogenousness does not necessarily go hand in hand with commercial bank passivity. The latter have the option of rationing credit (Monvoisin, 2000). Dow (1996) tries to reconcile these two approaches while also incorporating a spatial dimension. Dow's thinking pulls together studies by some regulationist and conventionist authors, for whom liquidity, and the preference which economic (particularly financial) players develop for it, play a central role in the evolution and operation of contemporary market finance-based economies.

Stages of banking-system development

For Dow (1999), the banking system goes through various stages of development. She identifies six stages and goes on to try to show that from a certain

Table 2 The spatial implications of the stages of banking development

	Banks and space	Credit and space
Stage 1:	Serving local communities Wealth-based, providing foundation for future financial centres	Intermediation only
Stage 2:	Market dependent on extent of confidence held in banker	Credit creation focused on local community because total credit constrained by reposit ratio
Stage 3:	Banking system develops at national level	Reposit constraint relaxed somewhat, so can lend wider afield
Stage 4:	Central bank oversees national system, but limited power to constrain credit	Banks freer to respond to credit demand as reserves constraint not binding and they can determine volume and distribution of credit within national economy
Stage 5:	Banks compete at national level with non-bank financial institutions	Credit creation determined by struggle over market share and opportunities in speculative markets. Total credit uncontrolled
Stage 6:	Deregulation opens up international competition, eventually causing concentration in financial centres	Shift to liquidity with emphasis put on services rather than credit; credit decisions concentrated in financial centres; total credit determined by availability of capital, i.e. by central capital markets

Source: Dow (1999).

stage, the contribution of the financial sector to the productive sector can become ambiguous.

In the first stage, the bank plays the single role of pure financial intermediary: it takes in and lends local savings deposits. Stage 5, which was reached at the end of the 1970s, corresponds to the emergence of non-banking competitors who carry out this intermediation.

The banks are forced to become much more pro-active, seeking lending opportunities and the deposits to match them, that is to engage in liability management. This is where financial expansion starts to take on a life of its own, driven by the banks' concern over market share rather than the financing needs of borrowers in the productive sector. (Dow, 1999: 38–9)

It is also at this stage that the banks have a tendency to over-lend, to accumulate bad debts and to fuel speculation. At Stage 6:

Monetary authorities, no longer able to control the supply of credit, turned to capital requirements in an effort to constrain the volume of credit. [...] The outcome was the development of securitisation

(Gardener, 1988). Banks turned existing loans into marketable securities and developed the provision of financial services in securities markets, facilitating borrowing by means of issuing securities, rather than lending directly themselves. (Dow, 1999: 39)

Dow goes on to develop the relationship between the evolution of the financial sector and the corresponding spatial structures (see Table 2 for an overview of the spatial implications of the stages of banking development). Up to and including Stage 5, the financial system is regional, then national. At Stage 5, competition starts between the banks and other non-banking financial institutions. The system becomes more and more autonomous. The various financial players seek to capture market share through a policy of actively canvassing sales. More money is created and the economy is generously irrigated. Finally, in Stage 6, deregulation opens up international competition. The monetary authorities seek new ways to contain monetary creation. This allows national financial centres to come to the fore. Spatial concentration

takes place on the international scale too. The intermediation function becomes secondary and capital is procured via national and international financial markets. The proportion of banks' profits from fees and charges increases relative to loan interest. If banks still lend, they supply more and more services that enable their customers to get funding on the markets, while at the same time they remain powerful players in those markets.

The evolution of the banking system and its spatial distribution will jointly determine the power of monetary creation in each region. At Stage 6, liberalization–deregulation is at the root of a move to spatial concentration of financial activities. Dow draws a number of conclusions about the regional impact of a process of liberalization. What are they?

The SME/LE dichotomy

Dow places much emphasis on the fact that these stages of development are characteristic of a process that sees the banks increase their capacity for monetary creation. Banks at Stage 6 have developed sophisticated techniques for protecting their liquidity, while banks at an earlier stage of development are constrained by less liquid assets. From a regional viewpoint, this assertion is important because it means that borrowers in regions where the banking system is typically at an earlier stage of development will be subject to greater funding constraints. Thus, in a context of spatially concentrated financial activities, the response of the banking system to credit requests will vary significantly between regions, but also between categories of borrower (Dow, 1999).

First of all, the decline of less competitive regional and local banks – the same banks that feed the regional economy – will weaken the power of monetary creation in non-central regions, and, in the end, break the regional funding circuits. Yet, SMEs are the ones who normally depend on those circuits; traditionally, SMEs find their funding locally, either via bank loans or via local markets for equity capital. SMEs are not normally listed companies and do not have direct access to national or international financial markets. Next, the banks, with high liquidity and grouped in one or more financial centre(s), will prove hesitant to lend to

non-central regions and particularly to SMEs in those regions: SMEs will be systematically rationed. Note that this estrangement does not correspond to physical distance alone, but applies equally to relational non-proximity.

A process of liberalization will, however, benefit LEs. Dow, following Moore, argues that LEs take advantage of facilities through their banker(s) and suffer few funding constraints. Dow (1998) also argues that a process of integration based on a perfect, free circulation of capital, such as the European integration process, will favour LEs. As the neoclassical theory of the efficiency of financial markets suggests, liberalization can in fact improve funding conditions for – obviously – companies which are plugged into the financial markets.

As Allégret (2001) observes, the financial reforms undertaken in France triggered the formation of a dual funding system. The financial changes of the 1980s did not facilitate SME access to external sources of finance; the development of market finance had the effect of increasing the investors' requirement for liquidity. Thus, the growing sophistication of financial systems has, paradoxically, not led to easier funding for SMEs. In this context, LEs have a considerably wider range of funding instruments at their disposal – principally the financial markets, securitized debt negotiable on the money market and bank loans – while SMEs have remained dependent on bank funding and cannot take advantage of the modernized French financial system. As a result, Allégret is able to conclude: 'the balance of power between banks and SMEs has remained favourable to the former, while the balance of power between banks and large companies has evolved in a way that is unfavourable to the bank' (2001: 15).

All this has important repercussions for the development of regions made up of SMEs. The absence, or progressive disappearance, of traditional funding channels in these regions sooner or later gives rise to takeovers of expanding SMEs by LEs, often from outside the region (Crevoisier, 1998). This in turn results in loss of regional decision-making autonomy. However, the corollary of this shift of decision-making centres to outside the region is a shift of financial accumulation centres. This situation can compromise the future development of the regions involved because it 'signifies that there is, somewhere, a confiscation of

the fruits of endogenous development and of innovative regional dynamics by the largest centres (economic and geographical)' (Crevoisier, 1998: 637).

The theory of liquidity preference: systematic vulnerability of non-central regions?

Dow (1992; 1994) thus extended her liquidity preference theory to the habitual financial behaviour of the economic agents (banks, but also savers and investors). She considers that because of an often difficult history, for any given state of confidence, the non-central regions are more vulnerable, economically and financially, than the centres. The economic agents there develop what she calls a defensive financial behaviour, a consequence of which is stronger liquidity preference.² The economic agents tend to abandon investment in non-central productive activities in favour of centrally issued financial products:

The systematic vulnerability of peripheral economies would encourage high liquidity preference. That would take the form on the one hand of a preference for holding assets in relatively liquid form (discouraging purchase of capital goods and encouraging purchase of centre-issued financial assets); on the other hand it would discourage borrowing. (Dow, 1992: 621)

For Dow, the regional credit supply depends therefore on three factors: first, it will be determined by the monetary-creation power of the regional banking system – a power which is linked to the banking system's stage of development; second, liquidity preference affects the willingness of the banks to lend at regional level; and third, liquidity preference also influences the behaviour of savers. For example, a pessimistic outlook on the future of a saver's own region or prolonged recession will increase liquidity preference: savers will lean towards shares and government securities, as they are more liquid. They are, of course, issued by the financial centres. Those centres will therefore suck in the flow of savings deposits that originate non-centrally. If there is a local or regional banking fabric with a strong power of monetary creation then this outflow of capital may be offset. If not, regional financial resources will diminish (Dow and Rodrigues-Fuentes, 1997). Where the demand for

credit is concerned, pessimism or recession will deter investors from borrowing and, in the end, from committing themselves to new projects. Note that for post-Keynesians, again, supply and demand interact: pessimism from savers and bankers can engender pessimism in investors and vice versa. A vicious or virtuous circle can start up.

In brief, Dow puts forward the argument that the power of monetary creation in each region and the economic agents' liquidity preference are key factors in understanding today's spatial imbalances. If we follow Dow, the liberalization of capital movements can only exacerbate existing regional disparities. On the one hand, it will weaken the power of monetary creation in non-central regions by decimating local and regional banks, which are less competitive than the major banks located in the centres. On the other hand, the already high liquidity preference of non-central economic agents will increase: the increased drainage of funds towards financial centres will reinforce the vulnerability of non-central regions.

It is clear that Sheila Dow's ideas raise fundamental questions at a time when financial-sector development seems to be calling into question the unity of national economies. However, she does not cover exchange-rate issues in any great detail. The next section demonstrates that the free *international* circulation of capital has major repercussions on the evolution of exchange rates. In both Switzerland and the UK, the national currencies are traditionally considered as strong and tend to appreciate periodically. A strong, appreciating currency constitutes an undeniable advantage for an international financial centre. Nevertheless, its repercussions are not homogenous across a national territory: on the one hand, it favours the internationalization of LEs and the development of financial centres while, on the other hand, it penalizes the industrial and tourist regions and particularly SMEs based in those regions.

A strong, periodically appreciating currency: what are the repercussions at regional level?

All countries have introduced reforms aimed at increasing capital mobility/liquidity. It now seems easy to make capital circulate at the international

level – this is the phenomenon generally known as financial globalization. Nevertheless, when it turns out (to take just one example) that the volume of transactions on the foreign-exchange market is approximately 60 times greater than the volume of international trade (de Brunhoff and Jetin, 2000) and that those movements are now what largely determine exchange rates, it is legitimate to ask questions about the repercussions of exchange-rate variation on national economies.

Thus, periods of turbulence and uncertainty arise and huge inflows of capital provoke a sudden appreciation of the currencies that investors and financial operators judge the safest. But the currencies renowned for their ‘quality’ come from a limited number of countries. Furthermore, those countries are home to the largest international financial centres, the very same ones that suck in an ever-growing share of international funds. For the countries that house these international financial centres, such as Switzerland and the UK, the potential risk of their currency appreciating is high. So, what are the possible regional repercussions of an appreciation in a currency’s value on the external market? This point is examined in the following sections.

Exchange-rate evolution of the Swiss franc and the pound sterling

In Switzerland in the first half of the 1970s, in line with monetarist recommendations, the central bank decided to let the franc float on the external market and to pursue a monetary policy aimed at stable growth in the domestic money supply. The outcome was an almost continuous appreciation of the Swiss franc on the foreign-exchange market between 1973 and early 1996. Figure 3 illustrates this appreciation, measured against a basket of currencies including Switzerland’s 15 main trading partners. Note that the Swiss franc has not appreciated since 1996. It has stabilized at a relatively high level compared to the mark and the euro but, in common with the main trading currencies that comprise the euro, it has weakened seriously against the dollar and the pound sterling.

Maintaining the pound sterling at high external levels is a long-time and recurrent debate in UK

history (see Coakley and Harris, 1983). Remember, too, the unrealistic level at which the pound sterling joined the European Exchange Rate Mechanism in 1990 before leaving under some speculative attacks in September 1992. More generally, a monetarist framework was adopted in 1979 in the UK and since then the pound sterling has floated freely with the exception of the short-lived participation in the Exchange Rate Mechanism (ERM). Even vis-a-vis strong currencies such as the Swiss franc, the pound sterling stayed at relatively high levels and underwent some important appreciations over the last 30 years. Note particularly the years following 1979, 1987 and 1996 (see Figure 3).

Free international circulation of capital, strong currency and financial centres: what are the relationships?

Is it possible to imagine strong international financial centres operating in countries with a weak currency? That is to say, in countries where there is no great degree of confidence in the economic, financial and political institutions? The answer to this *reductio ad absurdum* is: certainly not.

We would remark, first and foremost, that the free international circulation of capital has strengthened the position of the most renowned international financial centres in the countries at the ‘centre’. Those centres have been able to profit from certain traditional competitive advantages; they have created new ones – reforms favouring capital mobility/liquidity come to mind here – and furthermore they have been able to get them to operate concurrently. A strong currency magnifies this success because it illustrates the confidence which investors and financial operators have in the economic, political and – above all – the financial institutions of the country concerned.

Clearly, the Swiss franc and – maybe to a lesser degree – the pound sterling benefit from this confidence: these currencies convey the image of a ‘strong’ currency and act as refuge currencies during periods of instability in the foreign-exchange market. In parallel, the potential risk of these currencies appreciating is higher. In effect, the mimetic, self-validating behaviour patterns of investors and financial operators reinforces these

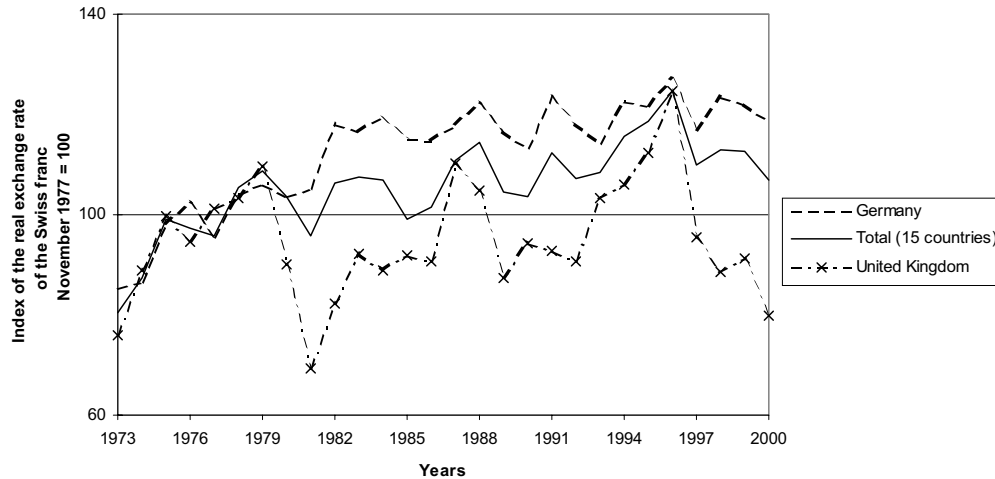


Figure 3 Evolution of the exchange rate of the Swiss franc (1973–2000)
 Source: SNB (Swiss National Bank).

currencies in their role as refuge currencies, at the obvious risk of pushing them up still further.

Economists at major Swiss banks which are heavily involved in international business made no mistake about this. A study by UBS (2000) did not beat about the bush in maintaining that Switzerland and its financial market were well advised to preserve an autonomous monetary policy and therefore not link the evolution of the Swiss franc to that of the euro. The Union Bank of Switzerland (UBS) economists went so far as to consider that floating the franc – and particularly its possible appreciation – constituted a decisive advantage for the Swiss financial market and did not represent, under any circumstances, a handicap for the Swiss export industry! Those same economists also put forward the idea that if the Swiss franc had to follow the European currency, the franc might lose some credibility.

Free international circulation of capital, competitive advantages amassed over the years and a strong currency have clearly strengthened London's and Zurich's function as international capital hubs. At the same time, financial innovation and the capacity of financial centres to transform companies' tangible assets into liquid securities negotiable on the stock markets have each given rise to an estrangement from the investment sites and have conferred on the financial centre(s) a capacity for spatial trade-off (Leyshon and Thrift, 1997) between the regional,

the national and the international. These financial centres now concentrate the power of monetary creation and a wide-ranging capacity for spatial trade-off which enables them quite simply to continuously revalue the capital invested – reversibility is almost total – and to reallocate it, in accordance with standard criteria, anywhere on the planet.

While a strong currency with an underlying tendency to appreciate suits the international financial centres – as we have shown for Switzerland (Corpataux and Crevoisier, 2001; Crevoisier et al., 2001; Corpataux et al., 2002), it can have diverse effects on the other regions. From the point of view of theory, we have used two criteria to assess the regional impact of an appreciating currency: sectoral specialization and the dominance (or not) of LEs in a region.

Regional sectoral specializations and the SME/LE dichotomy

First criterion: regional sectoral specialization. While an appreciation in the national currency supports, and has a positive influence on, international financial centres, regions which specialize in traditional productive activities, particularly industry and tourism, are *negatively* exposed. Faced

with an appreciation in the external value of their currency, their exports, whether in terms of manufactured goods or tourist numbers, are penalized.

Second criterion: the SME/LE dichotomy. Traditionally, theory teaches us that an increase in the external value of a currency prompts companies to invest abroad. In actual fact, only LEs have the financial and organizational capacity to implement a strategy of international expansion and relocation, even though they already have privileged access to national and international financial markets.

Conversely, SMEs do not have the financial and organizational capacity to even consider relocation and multinationalization. In this context, and faced with an appreciating currency, a region mainly made up of SMEs will be confronted with additional problems in exporting.

The lines of thinking we have called on give a rather convincing image of the similarity of the economic and spatial transformations undergone by the UK and Switzerland during the course of the last two or three decades. However, there were still significant institutional differences between these two countries until the 1990s: their system for controlling listed companies was different and the articulation between LEs and national territory seemed to be looser in the UK. Although some reforms – comparable between the two countries and in both cases favouring increased capital mobility/liquidity – have made these differences less marked, a number of theories nevertheless attempt to explain them. In fact, those theories underscore the influence – whether dominant or marginal – that liquidity exercises in two stylized models of capitalism. They help to explain the differences that characterized the Swiss and UK economies until the start of the 1990s and – in our view – they explain in part the differing performance of Swiss and UK LEs. The next section takes a brief look at those theories.

Differences between stylized models of capitalism and the system for controlling listed companies and liquidity

Orléan (1999) thus distinguishes two stylized models of capitalism with distinct financial structures: on the one hand, a Rhenish model; on

the other hand, an Anglo-Saxon model. The Rhenish model is characterized by a small number of listed companies, a small number of shareholders, concentrated shareholdings and the banks having an important place, including holding capital. Liquidity only has a very marginal influence on the functioning of so-called ‘Rhenish’ economies. The Anglo-Saxon model is characterized by a high number of listed companies, a large number of shareholders, scattered shareholdings and the banks having only a very limited role. In this model the financial markets are highly developed and liquidity plays a pivotal role.

The Rhenish model: internal controls and marginal influence of liquidity

In the Rhenish model – Germany is the embodiment of our first model of capitalism³ – the concentration of capital allows a system of internal control by the main shareholders, in particular the major banks. The latter therefore play a pivotal role because, on the one hand, they supply companies with credit and, on the other hand, they also take part in managing and monitoring those companies, as a shareholder with often sizeable holdings. This system has little transparency, but it does confer a high degree of organizational stability and enables close, long-term relationships to be developed between banks and industry. This banking power stems from a position of strength built on information which is private, plentiful and secret as well as on a regular, long-term bilateral relationship. Capital ownership is stabilized by an interplay of internal controls and cross-holdings, mainly by the banks, and leaves only a marginal place for the market (Orléan, 1999). Liquidity is only marginally involved. This type of capitalism is ‘blocked’ and proximity between the banks, the other major shareholders and the companies remains essential.

The Anglo-Saxon model: external controls and dominant influence of liquidity

In the Anglo-Saxon model – the USA and the UK embody this second model of capitalism – highly developed financial markets with sufficient liquidity

plus minority, scattered shareholders make direct control of firms very difficult and, above all, very costly. The shareholders therefore exercise no direct control, ex ante, over management but can put pressure on senior management by threatening to withdraw their capital (defection). It is therefore a matter of control 'at arm's length', ex post, based on company results, but with no direct involvement in managing the firm (Paillard and Amable, 2000). This external arm's-length management requires transparency and therefore standardized, easily transmittable information. Investors and financial operators must have a 'level playing field' for all the companies they are valuing or assessing.

But, for Orléan (2000), this logic of liquidity-centred finance is no longer necessarily linked to long capital production times. Liquidity even imposes a dislocation between production time and funding time: 'While building productive capital is a process that comes into the long-term category because it requires the irreversible immobilisation of capital, liquidity produces unending opportunities for revaluation and profit' (pp. 54–5). This high liquidity enables shareholders to withdraw at any time if they feel that a company's financial results are unsatisfactory. It therefore confers on them a power of defection.

The growing power of institutional investors: a risk to long-term productive investments and to non-central regions?

The rise in shareholder power, particularly through institutional investors and the financial management standards that they bring with them, has only served to magnify the attraction of liquidity. In the USA, institutional investors now manage the majority of financial assets and are imposing a new system of controlling businesses (Orléan, 2000). This quite simply aims to reduce the asymmetry of information between shareholders and managers and to align the interests of the latter with those of the former (Lordon, 2000). The financial markets and their liquidity thus become instruments in the service of a large number of minority, but powerful, shareholders: the institutional investors. Those investors have a very clear objective: to maximize shareholder wealth by increasing the price of their shares to the

maximum and by increasing dividends (Orléan, 1999). This sums up, in general terms, the notion of 'creation of shareholder value'. As a result, the listed company is no longer conceived of as anything but a set of liquid assets, negotiable at any time according to a certain number of standard criteria.

For Orléan (1999), as soon as 'creation of shareholder value' is imposed on a company's managers as a strategic management aim, the important question then becomes: what long-term performance can be produced by a policy that is dominated by the 'short-termism' of market valuations? By imposing financial performances that are based on short-term considerations, the temporal horizon of the firms is dangerously foreshortened. Clearly, the risk is that some companies will distribute dividends to satisfy their shareholders rather than making the investments needed to maintain their capacity for innovation.

Moreover, in a context of profound transformation in traditional funding circuits – the breakdown of regional financial channels and the concentration of financial activities in a country's main financial centre(s) – the growing power of institutional investors makes a considerable contribution to increasing regional imbalances. Remember that those institutional investors are capturing an ever more substantial share of private savings, to the detriment of traditional retail-banking deposits. On the one hand, by diverting those savings deposits, they are competing with the regional banks in a field which is traditionally the preserve of the latter and on which the latter are heavily dependent. This plays a part, in short, in placing the regional banks in difficulties. On the other hand, savings deposits gathered in by pension funds are not normally reinvested in the region where they originated. Thus, Martin and Minns (1995) succeed in showing that the increasing power of UK pension funds at the end of the 1980s had the effect of strongly magnifying regional imbalances in that country. Savings deposits are collected in a homogenous manner across the whole territory, but they are funnelled off into financial institutions which are mainly in the South-east of the country. Next, these funds are invested mainly on the London stock market and only listed companies – basically the large companies – benefit from them. In practice, almost nothing is reinvested in the other regions of the country.

Conclusion

In contrast to the spectacular development of Swiss and UK international financial centres, their industrial regions and in some cases their tourist regions have experienced major problems and are in general decline. Increased capital mobility/liquidity has not led to a harmonious allocation of financial resources. The financial sector has not resolved the regional imbalances and has not, therefore, played the regulatory role that, generally speaking, neoclassical theory attributes to it. On the contrary, the development of financial activities has reinforced the dualization (not only sectoral but also spatial) of the Swiss and UK economies.

By giving some economic players privileged access to capital and to money creation, the development of the financial markets brings with it dualization: on one side, the characteristic organizations of the *global city* (large companies, financial institutions, major banks, financial services, etc); on the other side, industrial systems made up of SMEs, regional and local banks, and tourist regions – all with only indirect access to those financial channels, but all with heavy needs for long-term investment.

But, with financial globalization and the strong development of market finance in every country in the world, the specificities of the financial structures developed thus far in the countries of mainland Europe, and in Switzerland, seem to be becoming less marked. Some people see in this the end of the Rhenish model and its alignment with the Anglo-Saxon model. Others (e.g. Giraud, 2001) observe that the Anglo-Saxon model is also undergoing transformation, neither model is going to stop transforming and they are already in the process of converging towards 'something else'.

It is true that the reforms undertaken, for example in Switzerland, systematically took their inspiration from the Anglo-Saxon model, but notable differences remain and, in our view, will continue to remain. What brings market finance-based economies closer to each other is mainly that they give rise to the same exclusions. Increased capital mobility/liquidity systematically puts financial centres in a position of strength compared to regions that specialize in traditional productive activities and, more particularly, systems made up of SMEs. Furthermore, this increased

mobility/liquidity has given international financial centres a greater capacity to arbitrate spatially between the regional, the national and the international, independently of the constraints of distance and traditional geographical scale. This situation can lead to a loosening of the ties which connect a financial metropolis to its national territory.

In more general terms, space appears as a very crucial issue in understanding the functions and the impacts of the finance industry. Finance consists in making mobile at very short notice shares that represent long-lasting capital goods. During the last 20 years it managed particularly well in this task, building new organizations and new technical infrastructures which allows an efficient worldwide circulation of shares.

Regarding its spatial impacts, it gave the power to capital owners to reallocate financial means between different regions and nations, that is to say that the financial industry decides to give a chance to develop to such or such an industry, region or firm . . . and of course it can refuse that chance to others. In such a perspective, it shapes the economic space, creating new spatial divisions of labour, new regional specializations and hierarchies.

In this respect, the financial industry of the late 20th century has a comparable impact to the railway industry at the end of the 19th century. At that time, the transport of goods made possible economies of scale and the increase in the specialization of regions and nations. Today, the financial industry reorganizes the economic landscape.

Notes

¹ Cited by ASB (1996).

² Note that Dow proposes two versions of her 'theory of liquidity preference': the first, by Dow (1992; 1994; 1999) herself, is the one we use here: its starting point is a given state of confidence. Together with Rodriguez-Fuentes (1997), Dow develops a more sophisticated version (inspired by Minsky) which accords a major role to business climate and economic cycles (periods of recession or expansion). The conclusions differ somewhat from the first version because the non-central regions would not experience a continuous decrease in loans compared to the national total, but would be subject to greater financial instability. Note, however, a link between the two versions: Minsky associates strong liquidity

preference with times of recession, while that preference is weaker in times of expansion. When Dow considers that non-central regions are more vulnerable and are subjected to stronger liquidity preference, she makes it look a little as if they are in perpetual recession.

³ The Swiss model is readily allied with the Rhenish model, even though there are undoubtedly some differences. On this subject, see David et al. (2001).

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