Financialization of Entrepreneurial Urbanism:
Neoliberal governance, governmentality, and path-dependent restructuring in the
European Union’s Cohesion Policy.

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by

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ABSTRACT OF THE THESIS

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I examine the ways in which processes of financialization articulate with regulatory regimes to affect urban governance by taking up the case of Financial Engineering Instruments (FEIs) in the European Union’s Cohesion Policy. In the ‘post-crisis’ era of European austerity, FEIs ‘leverage’ EU funds with private capital in order to more efficiently and effectively utilize the funds, amplify their impact, and introduce a “more commercial approach to the regeneration of urban areas”. The transformation of these funds from grant assistance to ‘repayable investments’ allows for the financing of public-private ‘urban regeneration’ projects, for which investment decisions are based on standards of economic performance and credit worthiness rather than social necessity. I
examine the unfolding discourses and logic driving these regulatory instruments, and argue that as the technology for implementing development policy and shaping socio-spatial relations and subjectivities through particular discourse and practice, these financial instruments are a representation of the growing interdependence between (or co-constitution of) neoliberalism and financialization. The transformation of the EU’s development policies is contextualized within its broader geographical political economy, and the European financial and economic crises of 2008.
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The self-fulfilling prophecy is, in the beginning, a false definition of the situation evoking a new behavior which makes the original false conception come true. This specious validity of the self-fulfilling prophecy perpetuates a reign of error. For the prophet will cite the actual course of events as proof that he was right from the very beginning. – Robert K. Merton

It is through procedures of inscription that the diverse domains of ‘governmentality’ are made up, that ‘objects’ such as the economy, the enterprise, the social field and the family are rendered in a particular conceptual form and made amenable to intervention and regulation. – Miller and Rose (1990: 5)

**Introduction**

The aim of this thesis is to examine changes to EU regional policy in the context of Europe’s ongoing political economic crisis\(^1\). Specifically, I focus on the use of Financial Engineering Instruments (FEIs) for urban regeneration, and the implications for urban governance and regional development, as it relates to the ‘peripheral’ economies of Eastern Europe. I do so in order to understand the ways in which processes of financialization articulate with regulatory regimes and interact with broader political-economic dynamics to influence uneven development.

Financial Engineering Instruments (FEIs) are policy tools used by the European Commission for the implementation of the EU’s Cohesion Policy, whose objective is to address regional inequalities and support regional ‘convergence’ through redistributive Structural Funds. FEIs under initiatives such as the *Joint European Support for Sustainable Investment in City Areas* (JESSICA) “leverage public funds with private capital” in order to utilize Structural Funds more efficiently and effectively, while introducing a “more commercial approach to the regeneration of urban areas” (EC, \(^1\) I refer to it in the singular as a catch-all for what ‘began’ as the sovereign-debt crises of Greece, Ireland, Italy, Iceland, Portugal and Spain (2009-2011), which transformed into a political-economic crisis of the EU and the Euro currency, the consequent ‘bailouts’ and imposition of austerity policies in debtor nations, and the resulting chronic recession across the EU, which continues today with deflationary pressures, credit shortages, and slow (or negative) growth. ‘Crisis’, moreover, is never a (spatio-)temporally defined occurrence when we consider its cascading and differentially experienced effects.)
2012c: 3). With private ‘co-investments’ FEIs transform Structural Funds from grant assistance to ‘repayable investments’ in the form of loans, loan guarantees, or equity financing. Thus, the aim of JESSICA is to finance ‘urban regeneration’ projects (via Public Private Partnerships) that are included in integrated municipal plans and adhere to broad criteria of ‘sustainability’, as long as they are able to generate revenue streams and are financially viable (EC, 2012b). As I will argue, notwithstanding their purported aim of addressing local barriers to economic growth, these policy mechanisms instantiate neoliberal norms and practices in the patterning of socio-spatial relations through market-oriented and privately managed institutional forms, and an entrepreneurial ethos in the management of city space.

Drawing on the literatures of neoliberal governance and governmentality, as well as the expanding literature on geographies of finance, I examine the links between regional development policies and processes of financialization through the case study of urban regeneration in Bulgaria, where JESSICA is being implemented in seven municipalities. I take up the recent call by economic geographers to integrate finance into the heart of economic-geographical analysis (French et al., 2009; Lee et al., 2009; Pike and Pollard, 2010; French et al., 2011), and aim to add to understandings of emerging ‘finance-led’ or ‘finance-dominated’ growth regimes (Boyer, 2000; Stockhammer, 2009) by highlighting the institutional and economic channels through which such regimes are propagated and enacted. I explore the interrelated geographic scales, territories and networks through which processes of financialization unfold – their ‘nested interrelations’ (Pike and Pollard, 2010: 37) –, the interdependent and asymmetric
political-economic relations driving them, and their spatial causes and consequences (French et al., 2011).

Unlike the historically amnestic event horizon of neoliberal policy intervention, understanding these processes requires attention not only to the proximate micro and macro political and economic dynamics underlying their emergence (e.g. housing crisis, credit shortages, public debt, competitiveness, etc.) but also the historical geographies of uneven development in which they are rooted (Christophers, 2013). In the context of Europe, emerging accounts (Lapavistas et al., 2010; Smith and Swain, 2010; Hadjimichalis, 2011; Smith, 2012) analyzed through the lens of political economy, explore uneven geographies of ‘peripheral’ and ‘core’ economies that served as cause and were re-produced as consequence of the financial and economic crises (Christophers, 2014).

While such historical political-economic analysis is necessary for understanding the context in which regional policy is reformed, it is also important to examine how these structural dynamics (of accumulation) relate back to modes of regulation and evolving forms of (neoliberal) governance and governmentality (MacLeod, 1999; Hudson, 2007). That is, to understand new institutional spaces requires attention to the interaction between previous patterns of spatial restructuring and emergent regulatory projects, through which socio-spatial structuration is realized and path-dependency takes shape (MacLeod, 1999; Brenner, 2003). However, this focus must take into account not only the what and where of government but also the how of government, i.e. the logic of development policies and the ‘technologies of government’ used to instantiate them (Miller and Rose, 1990; MacKinnon, 2000).
Such an analysis brings into conversation (neo-Gramscian) regulationist political-economic explanations of accumulation regimes and their modes of regulation, and (neo-) Foucauldian accounts of governmental rationalities and techniques, in order to enhance our understanding of evolving systems of governance in the neoliberal age, and their articulations with broader geographical political-economic dynamics. In this vein, I aim to show how neoliberal governmentality and associated forms of governance, entwined with economic and geo-political interests, have contributed to the conditions that allow for deeper penetration of financial interests and logics in urban and regional governance.

The following two sections provide a theoretical overview of geographies of finance and financialization, and how they articulate with neoliberal governance and governmentality through neoliberal policies. Through these analytic frameworks I analyze financialization processes vis-à-vis the evolving development policies and geographical political economy of the EU, along ‘North-South’ and ‘West-East’ divisions that represent the power dynamics underpinning its existence. This is followed by a discussion of the use of Financial Engineering Instruments as regulatory tools for Cohesion Policy in the context the European crisis of 2008 and beyond. In the last section I examine the logics and practices of FEIs as policy tools driving urban regeneration in the Bulgarian context.

1. Geographies of Finance and Financialization

Geographies of finance are commonly understood through the lens of the ‘spatial fix’ of capital across uneven geographic space (Harvey, 1982). Just as the internationalization of production since the 1970s has seen the incessant movement of capital towards places of relatively lower factor costs, so the internationalization of
finance capital has exploited the potential gains embedded in the differentiated landscapes of risks, as banks and investors have sought ever greater yields (cf. Christophers, 2012). The de/re-territorialization of capital is in many ways linked, as the tendency to over-accumulate in the primary circuit of productive capital is temporarily and geographically resolved by ‘switching’ to secondary and tertiary circuits of accumulation in the built environment and infrastructure (Harvey, 1985). This displacement is only a “quasi-resolution of the crisis-tendencies of contemporary capitalism” since crises are never effectively resolved (French et al. 2011). Moreover, ‘switching’ is dependent on the existence of ‘fictitious’ capital as an intermediary between the various circuits.

Economic geographers have sought to understand processes of financialization that go beyond this traditional emphasis on finance capital’s role in exploiting exchange values across uneven geographic landscapes. Especially in the wake of the US financial crisis and its basis in debt securitization, the focus is increasingly on financial capital’s incessant prospecting for new revenue-generating assets that can be transformed into tradable, interest-bearing debt instruments, leading to what Leyshon and Thrift (2007) see as the “capitalization of almost everything”. To this end, extending Harvey’s notion of circuit switching, Aalbers (2008: 150) argues for a ‘quaternary’ circuit of capital that is fundamentally different from the rest not only in the sense that “it is an investment channel in its own right…designed only to make money”, but also because it “comes to dominate the other circuits”.

While “financialisation is hardly a new phenomenon in circuits of capital” (Lee et al., 2009: 727) the penetration of finance into various spheres of social and economic life
speaks to its increasing dominance as a medium of socio-economic interactions. This extension and intensification of finance has also led to various conceptual interpretations of what constitutes ‘financialization’ (Lee et al., 2009: 728, identify 17 “notions of financialisation”). Political economic accounts, for example, tend to focus on macro dynamics of capital and its regulatory environment (Goldstein, 2009): for Epstein (2005: 3) financialization is “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies”, while Krippner (2005: 174) sees it as “a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production”.

Bringing together these emerging strands, French et al. (2011) identify three ‘schools of financialization’: a regulation school, which explains financialization as a mode of accumulation (cf. Boyer, 2000; Stockhammer, 2008); a critical social accountancy school that examines the impacts on corporate governance and firm behavior through financialization’s pressure on the maximization of shareholder value and short-term performance outcomes (cf. Fraud et al., 2000; Erturk et al., 2004); and a sociological school that examines financialization’s conditioning of people’s everyday lives (cf. Langley, 2006a, 2006b, 2007, 2008). Common to these iterations of finance in socio-economic realms is their spatiality – their spatial causes and consequences (French et al., 2011). Geographies of finance are invariably interwoven with geographically uneven development at different scales.

As such, it is important to recognize the inherently political nature of financialization processes, against mainstream economistic views of the “natural”
propensity of capital to operate in a spatio-temporal vacuum as it diffuses or spontaneously emerges around the globe (Agnew, 2012). Rather, its ‘tendency’ to both equalize and differentiate space-time is laden with relations of power at various scales and constituted by political processes and actors that structure socio-spatial relations (Massey, 1995; Smith, 1994). The financial and state institutions controlling ‘fictitious capital’, for example, can be seen as the “collective nerve centre governing and mediating the relations between the primary and secondary circuits of capital” (Harvey, 1985: 204).

These relations are framed by increasingly decentralized but territorially concentrated flows, reflecting a (neoliberal) modality under which spatial organization is geographically segmented and socially differentiated.

In a globalizing world, understanding the relational (i.e. interdependent) nature of financial and economic spaces, and the developmental trajectories and possibilities of places, requires attention to their positionality – “position in relational space/time within the global economy” (Sheppard, 2002: 307). That is, the socio-economic ‘status’ of any place and its emergent ‘potential’ depends not only on its endogenous factors (geographically defined ‘endowments’) but its interconnectedness to, and relations of power with, other places. The positionality of places can thus be understood to emerge through, and be constructed by, transnational (or trans-urban and trans-regional) networks that “are part of struggles for control over economic, political, and cultural space” (Leitner et al., 2008: 297).

In integrating processes of financialization into the heart of economic geographic analysis Pike and Pollard (2010) have similarly emphasized the “nested interrelations” through which these processes take form. That is, they seek to move beyond a “scalar
geographical imaginary” while “retaining a sense of the tensions between territorial and relational conceptions of space” (ibid: 37). Within this framework financialization can be seen to link “different articulations of agents, space, and places to uneven development” (Pike and Pollard, 2010). Building on this, French and Leyshon (2011) articulate “financial ecologies” as the constitutive parts forming the broader financial system, in order to understand how the everyday geographies of financialization, such as heavily mortgaged middle-class suburbs, are positioned within the differentiated global financial circuitry. These are processes that “unfold across space and evolve in relation to geographical difference so that distinctive ecologies of financial knowledge, practices and subjectivities emerge in different places” (ibid: 812).

Unearthing the mechanisms shaping such processes, Sokol (2013: 505) offers a useful conceptualization of economic geographies of finance in which credit-debt relationships represent the form of value circuits that “have been contributing a great deal to the exacerbation of socio-spatial inequalities in the run up to, and during, the current crisis”. Indeed, Sokol sees these circuits as the “epicenter of the crisis”, and as constituted by “a simple flow of value between two economic agents, each of which can be located in different social and geographical spaces” (ibid). Circuits of value are inherently exploitative and are implicated in the (re)production of socio-spatial inequalities at different geographical scales, as the “landscape of economic power grows more unequal” with every transfer (ibid: 506).

Such relationships of financial exploitation were at the core of the latest round of financial crises across the globe. The financial imperatives that drove sub-prime lending (and its subsequent securitization) to marginalized demographics across the US in the
build-up to the housing bubble can be compared to the micro-finance industry’s efforts to enroll the poor of the ‘global South’ into asset streams of ‘poverty capital’ in their search for yields (see Rankin, 2001; Langley, 2006a, 2006b; Aalbers, 2009; Roy, 2010; Aitken, 2013). These efforts entailed the creation of financial subjects (who were simultaneously asset owners and net debtors) out of sub-prime households and individuals, to be securitized and traded. Similarly, the processes leading to the sovereign-debt and deleveraging crises that afflicted Southern and Eastern European regions can be analyzed through the lens of creditor-debtor relationship between a ‘peripheral’ and a ‘core’ Europe, from the scale of the individual consumer to that of the state.

As suggested earlier, articulating with these value circuits and the asymmetric relations of power in which they are embedded, are regimes of governance that define the regulatory parameters of socio-economic activities and the distribution of economic gains. Neoliberalism is the dominant political-economic rationality defining the dominant mode of growth (a finance-led accumulation regime), through its emphasis on free-market enterprise and market-led solutions to socio-economic problems. As a market-disciplinary mode of regulation it defines the possibilities and influences the outcomes of socio-spatial interactions at different levels. I turn to an examination of neoliberal governance and governmentality as the frameworks through which I seek to analyze processes of financialization and their spatial causes and consequences.

2. Neoliberalism: Regulation, Governance and Governmentality

Geographies of financialization must be understood in relation to the macro-political-economic channels through which they circulate, and the regulatory frameworks that differentially constrain and enable their re/production. To this end, geographies of
financialization bring into dialogue neo-Gramscian and neo-Foucauldian perspectives to the analysis of neoliberalism and its influence on local governance, either as a process of state spatial restructuring (Jessop, 1997) or as an enactment of a political rationality through governmental technologies (MacKinnon, 2000; Uitermark, 2005). The latter makes the explicit case for locating the ‘state’ beyond its representation in institutional structures but within wider circuits of power (MacKinnon, 2000). Despite their different theoretical inflections, both approaches aim to understand state power in the neoliberal age as actively constructed, either by strategic assemblages of actors or via mechanisms of governing (MacKinnon, 2000).

The neo-Gramscian approach (developed by Jessop) draws on Gramsci’s accounts of hegemonic power as a way of extending regulation theorists’ understandings of capitalist accumulation regimes (i.e. modes of growth) and their modes of regulation beyond their institutional representation. While state theorists emphasize the relationship between economic institutions and practices and the ‘extra-economic’ conditions that enable stable capitalist expansion over extended periods, their analysis of the latter falls short of identifying the particular mechanisms, practices and conflicts shaping state-societal relations (Jessop, 1997). Jessop’s rapprochement with governance theories aims to bring together the macro scale of political-economic state restructuring with the micro scale of socio-political dynamics of contestation, organization and strategic capacity of individual actors and collectives (Jessop, 1995).

Jessop builds on Gramsci’s notion of a ‘historical bloc’ as the reciprocity between civil society and political society. This reciprocity is achieved through “specific

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2 Itself a modification to Marxian articulations of society as a dialectical relationship between a historically constituted socio-economic ‘base’ and its political-ideological ‘superstructure’.
intellectual, moral, and political practices which translate narrow sectoral, professional, or local interests intro broader ‘ethico-political’ ones” (Jessop, 1997). In regulationist terms then, a ‘historical bloc’ can be seen as the “co-constitution of an accumulation regime, as an object of regulation, in and through its co-evolution with a corresponding mode of regulation” (ibid). North Atlantic state Fordism, for example, organized around accumulation strategies of mass production and mass consumption, depended on a Keynesian welfare state supporting the even spatial distribution of economic activity, and an emphasis on social policies ensuring labor’s reproduction. Post-Fordism on the other hand, organized around industrial specialization and flexible-accumulation, is reproduced through (neoliberal) Schumpeterian workfare policies promoting labor market flexibility and structural competitiveness.

This structural form of the ‘historical bloc’ depends on a ‘hegemonic project’ that secures the economic base for the dominant accumulation regime, by effectively translating narrow economic interests into broader ethico-political ones; i.e. regulatory frameworks can be seen to reflect the accumulation strategies of dominant classes and their long-term interests at the expense of general interests. The realization of a ‘hegemonic project’ thus depends on the mobilization of a durable alliance of class forces (‘hegemonic bloc’ or ‘power bloc’) in its support. While Gramsci envisaged the realization of hegemonic projects at the national scale, under their post-Fordist guise they are organized on both sub- and supra- national scales. In the context of the globalization of economic activity and the crisis of Fordism as a nationally organized accumulation regime, global inter-urban (trans-local) competition for investments has depended on local ‘growth-enhancing’ strategies. Entrepreneurial urbanism, for example, as a
‘hegemonic project’ under neoliberalism is constituted through a ‘new urban politics’ of state alliances with private capital, seen in the ‘growth coalitions’ between local administrators and business and political elites determining the local conditions for growth (Hall and Hubbard, 1996). Local accumulation strategies are thus organized vis-à-vis their supra-local economic environment, international regimes and supranational blocs/institutions, such as the EU, that ostensibly compensate for deficiencies of the state (Swyngedouw, 1997).

A ‘hegemonic project’ is enacted through institutional ensembles that differentially constrain and enable accumulation strategies – what state-theorist identify as ‘strategic selectivity’ of institutions – a “bias towards particular strategies, interests, spatial scales of action and coalition possibilities” (Jessop, 1997). For instance, post-Fordist state restructuring in Europe and North America since the 1970s involved the re-scaling and reorganization of state administrative powers to localized levels (Jessop, 2000). This ‘state spatial selectivity’ (Brenner, 2003) is reflected in the emergence of ‘new state-spaces’ (Brenner, 2004) of decentralized administrative jurisdictions, often managed by quasi-private development agencies, which have assumed an entrepreneurial stance in providing favorable conditions and incentives for capital (Leitner, 1990). It moreover reflects the strategic choice of dominant sociopolitical forces: “…metropolitan governance arrangements may be viewed as products of path-shaping political strategies that aim to reconfigure the institutional infrastructure of urban and regional spaces” (Brenner, 2003: 312, original emphasis).

The crisis of the Fordist state has thus necessitated new forms of organization, marking a shift from local systems of government based on the (hierarchical) bureaucratic
administration of Keynesian welfare state functions, to systems of governance organized around Schumpeterian workfare functions in which (horizontal) policy coordination involves a diversity of local (and trans-local) civil society actor-networks (Jessop, 1997). This (ongoing) shift in social coordination towards the “self-organization of inter-organizational relations” relies on expanding and deepening partnerships between public and private stakeholders (Jessop, 1995). However, while political authorities see such ‘institutional fragmentation’ as increasing stakeholder participation in policy-making, it does so through “an extraordinary degree of selectivity” that privileges the interests, demands, and imaginaries of powerful actors (Swyngedouw et al., 2002: 556-7). Thus, ‘self-organization’ does not signify the absence (‘hollowing out’) of state power per se, but its differential deployment at localized levels, reflecting changing assumptions and arguments regarding the economic space and ‘extra-economic’ conditions necessary for local economic growth. Schumpeterian workfare policies, for example, seek to establish the conditions for economic competitiveness vis-à-vis the global economy through mechanisms that tend to subordinate social to economic interests.

This institutional bias makes pertinent understanding the actual ways in which objects of regulation and governance come to be constituted through discourses, imaginaries, and practices demarcating the space and conditions for accumulation. As Jessop (1995) posits, objects of regulation are not defined a priori but emerge out of the process of governing itself. This objectification of socio-economic relations, however, is always already dependent on the subjectivization of governmental rationalities in the conduct of individual subjects (Miller and Rose, 1990). Governance, as such, also entails the constitution of identities, interests and agency through a particular political rationality
– the “discursive field in which conceptions of the proper ends and means of government are articulated” (ibid: 5). It is precisely this relationship between political rationality and regulation of conduct that neo-Foucauldian accounts of the shift from government to governance aim to understand. Namely, that neoliberal rationality instantiates a “reflexive government” which entails the “folding back of the objectives of government upon its means” (Dean, 1999: 172), i.e. the very institutions and mechanisms through which government seeks to affect processes become its primary objective. In essence, less government is replaced by more governance.

Governmentality can be understood as the ‘government of government’ (Dean, 1999), or the how of government through the deployment by political authorities of mechanisms, techniques and procedures for the realization of specific programs or rationalities (MacKinnon, 2000). Miller and Rose (1990) point to the indirect mechanisms of discipline and surveillance (cf. Foucault) that enable ‘government at a distance’ by enrolling diverse actors and agencies into ‘governmental networks’ through procedures of inscription that render knowable and calculable its constitutive objects. These ‘technologies of government’ “seek to translate thought into the domain of reality, and to establish, ‘in the world of persons and things’ spaces and devices for acting upon those entities of which they dream and scheme” (Miller and Rose, 1990: 8).

As an ideological project neoliberalism is translated through mechanisms that aim to shape the conduct of individuals (or social coordination more broadly) according to its logics, premised on the rational and calculative behavior of the self-regulating and enterprising individual. The agency and freedom of individuals are thus bound up with

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3 Drawing on studies from the sociology of science and technology, particularly Latour’s work examining the mechanisms through which calculations at one place can be linked to actions at another (i.e. ‘action at a distance’) (Latour, 1987).
calculable measures of performance, based on economistic metrics that allow for their monitoring and regulation. Neoliberal government is thus effected through what Dean (1999) calls ‘technologies of agency’ and ‘technologies of performance’: “if the former allow the transmission of flows of information from the bottom, and the formation of more or less durable identities, agencies and wills, the latter make possible the indirect regulation and surveillance of these entities” (Dean, 1999: 173). Moreover, this translation of knowledge between authorities and individuals relies on the rule of ‘experts’, whose ‘evidence-based’, rationalistic, and ostensibly de-politicized claims to truth grant legitimacy to their efforts at programming reality according to a political rationality (Miller and Rose, 1990: 19).

2.1 Neoliberalism: policies, reproduction, and path-dependence

The instrumental and discursive characters of neoliberal government are conveyed in its political programs, or policies. It is through policies embodying governmental techniques and strategic interests that neoliberalism and its modalities of governance come to be realized. As vectors that carry both political rationalities and political strategies of action, policies reveal neoliberal governmentality’s programmatic character,

not simply in that one can see the proliferation of more or less explicit programmes for reforming reality...” but also “...in that it is characterized by an eternal optimism that a domain or a society could be administered better or more effectively, that reality is, in some way or other, programmable (Miller and Rose, 1990: 4).

The implication is that neoliberal policy becomes the effective solution to perceived problems of governance and growth, resolved through the application of ‘best-practices’ or ‘good governance’ that establish the optimal conditions for free enterprise. However,
this eternal optimism of governmentality is juxtaposed to the tendency toward failure of
government in practice. That is, while policies represent the discursive constitution of a
given ideology, their application in ‘the world of persons and things’ through
governmental technologies is prone to obstacles, and failure. As such, “failure of one
policy or a set of policies is always linked to attempts to devise or propose programmes
that would work better, that would deliver economic growth, productivity, low inflation,
full employment and the like” (ibid: 4).

This programmatic contradiction is at the same time a contradiction of neoliberal
governance itself, whereby its endemic crisis-tendencies are redressed “through a range
of crisis-displacing strategies, fast-policy adjustments, and experimental reforms” (Peck
et al., 2009: 64), invariably accompanied by further market-disciplinary governance
(Peck et al., 2012; see also Peck, 2014). This is a dynamic process of ‘creative
destruction’: the partial destruction of existing institutional configurations, and a
tendential creation of new regimes of market-driven growth (Brenner and Theodore,
2002). For example, the ‘rollback’ phase of state retraction, privatization and corporate
subsidization of the 1980s, which marked the transition from a ‘managerialist’
government to entrepreneurial governance (Harvey, 1989), led to institutional and socio-
economic crises that were alleviated or displaced through the subsequent ‘rollout’ of the
state in the early 1990s. This process not only crystallized the state’s active role as an
entrepreneur (Leitner, 1990), but also established new institutional forms and ‘flanking
mechanisms’ intended to sustain and safeguard the entrenched accumulation strategies
and interests of powerful economic actors and places (Brenner and Theodore, 2002; Jessop, 2002). ²

It is important to keep in mind that ‘the world of persons and things’ with which neoliberalism interacts is invariably geographically and historically contingent. Neoliberalism never exists in monolithic, pure forms, but is represented in hybrid and variegated (‘actually-existing’) outcomes of context-specific interactions between policies, discourses, and actors (Peck et al., 2009). Thus, neoliberal ‘adjustments’ are not reproduced on blank canvases. Neoliberalism’s emerging variants are an outcome of the interaction between newly conceived state restructuring strategies and previously inherited regulatory configurations, institutional forms and socio-political constellations (Brenner, 2003). ‘Adjustments’, moreover, lead to patterned and cumulative effects on the regulatory environment and conditions for accumulation, with implications for future pathways of development.

While the particular form of neoliberalism changes according to circumstance, the ideological content (its ‘pure form’) remains in its applicability. It is precisely this programmatic (de-contextualizing) character of neoliberal policies that allows for their reproduction in times of crisis. By obfuscating or ignoring the broader geographic causes and consequences of political-economic dynamics driving regulatory intervention, the failure to achieve certain policy objectives can be laid at the feet of local contextual

² The spatial outcomes of the co-constitutive processes of asymmetric and interdependent uneven development have been variously interpreted as spatial dispossession (Harvey, 1989), scales of exception (Ong, 1999), splintering urbanism (Graham and Marvin, 2001), and generalized gentrification and its ‘revanchist frontiers’ (Smith, 2002), among others, with very explicit implications for urban governance. Such processes of ‘market-driven spatial fragmentation’ (Ong, 2006) are dependent on state apparatuses that are increasingly insulated from public accountability and democratic control (Swyngedouw et al., 2002). Moreover, it is the “differential deployment of state power” (Ong, 1999) in such instances that unevenly enforces spaces and regimes of privilege and dispossession.
shortcomings (e.g. local institutional capacity, funding environment, ‘market gaps’, etc.). In turn, this localized ‘failure’ justifies the renewed and reformulated intervention through much of the same means and towards the same goals.

The absence (or impossibility) of sustainable regulatory fixes, moreover, has meant that there is a constant demand and search for ‘solutions’ that aim to address the pervasive contradictions of neoliberalism (Peck et al., 2012). ‘Fast policy’ networks have thus proliferated across a variety of fields concerned with social and economic issues (Peck and Theodore, 2010). A focus on policy networks emphasizes the actual work of policy reproduction carried out by a transnational cadre of technocrats, consultants, and evaluators (and the industrial complex of financial, legal, and accounting services firms). It also seeks to problematize notions of a top-down diffusion of a seemingly organic process, and highlights the power-laden circulatory system through which neoliberalization is realized. Thus, it directs our critical attention beyond specific policy outcomes to focusing on how policies ‘travel’ and are constructed across jurisdictions:

Global policy models are not simply imported by (or imposed on) local jurisdictions, in the form of off-the-shelf solutions borrowed from other locations, or handed down from international agencies; they are coproduced across dispersed networks of innovators and emulators, as dialogic policy communities intensely mediated by multilateral agencies and the panoply of cosmopolitan policy actors (Peck et al., 2012: 281).

The dissemination of Financial Engineering Instruments (FEIs) throughout the EU over the past few years is an example of the multi-scalar constitution and trans-local movement of ‘fast-policy’ transfer and experimental regulation. Their conception, production and dissemination have not been a straightforward and instantaneous affair of ‘off-the-shelf’ policy diffusion. Rather, it has taken work and time to evaluate, enhance, and institutionalize them within Brussels’ technocratic complex and beyond.
Policy (re)production and dissemination along channels of ‘transfer’ and ‘learning’ are embedded with power relations on various levels (Peck, 2011). For one, while policy innovation and exchange can draw on experiences of different locations, its dissemination to localities originates from ‘centers of calculation’ that chart and operationalize its objectives; it depends not just on actor-networks of technocrats, consultants and their expertise, but also on particular discourses and practices that enable the monitoring and evaluation of pre-defined performance standards and objectives. More importantly, undergirding Brussels’ role as such a ‘center of calculation’ are relations of power between a diversity of actors across scales of governance. While the complex of EU institutions where policies are constructed and deliberated represents the panoply of Member State interest, policy imperatives are intricately tied to the historical economic and political powers of ‘core’ nations and the powerful ‘hegemonic blocs’ they represent.

Neoliberal ‘growth’ policies thus seek to transform local conditions of accumulation only in reference to international regimes of economic growth that tend to favor particular actors. The EU itself represents a ‘hegemonic project’ to the extent that it seeks to define regulatory frameworks at the sub-national and supra-national scales, effectively ‘translating’ particular economic interests as general ‘European’ interests vis-à-vis a globalizing economy. This tension highlights the historical power dynamics undercutting Europe’s political economy. On the one hand, ‘advanced’ industrialized regions and their less-developed and under-competitive counterparts were brought together in a ‘competitive regionalism’ under the EU’s supra-national institutions of the Single Market and the Monetary Union. On the other, the ‘integration’ of Eastern Europe saw the geopolitical imperatives of the EU intertwine with its economic interests to
construct free-market economies and the opportunities they afforded (Smith, 2012; Casas-Cortes et al., 2012). Thus, the emergent macro political-economic regimes of the EU hinged on the constitution of neoliberal objects of government, through strategies of state restructuring and a rationality that sought to pattern social behavior and socio-spatial relations according to logics of neoliberalism. Moreover, the interdependencies between Europe’s uneven political-economic landscapes created the conditions for financialization that ultimately contributed to the crisis.

Understanding the newest round of neoliberal policy implementation in a ‘post-crisis’ era requires an examination of the ways in which the path-dependent processes of neoliberal restructuring in Europe created the conditions for financialization, and how the consequences of the crisis have in turn justified renewed intervention, with its own implications for urban governance. Below I examine how neoliberal rationalities and programs, combined with geopolitical and economic interests, constructed their objects of governing in Europe’s regional economies, metropolitan institutions, and sub-prime financial subjects.

3. European neoliberal governance and governmentality: shaping socio-spatial reality

In the 1960s and 70s, European development praxis was defined by interventionist and compensatory spatial policies aimed at reducing regional territorial inequalities by redistributive means. Through nationally organized schemes of financial aid, locational incentives, and resource transfers to underdeveloped regions, western European states reduced regional disparities and contributed to significant convergence, especially of Southern European regions (Brenner, 2004; Hadjimichalis, 2011). In the
context of post-Fordist economic restructuring during the 1970s and 80s, however, these spatial-Keynesian policies of industrial decentralization, urban de-concentration and spatial equalization were replaced with supply-side, market-oriented and spatially concentrated approaches to regional development. This process entailed the re-scaling of government towards urban and regional levels while simultaneously dismantling socio-economic institutional support and intensifying interlocal competition for resources and investments, contributing to increasing regional polarization and uneven development over the following decades (Brenner, 2004).

The manifestation of neoliberal governance and governmentality in EU regional development has depended on the process of neoliberal subject/object formation not just in a *homo economicus* that responds to economic ‘stimuli’ through rational choices (Hudson, 2007; cf. Foucault, 1979), but also in its geographic inscription in the optimal space for accumulation. In the neo-classical economic theories and endogenous growth models driving regional development policies since the 1980’s, the ‘representative agent’ – the enterprising and self-regulating individual – is projected onto the territorial ‘unit’, in this case the region and its singular, bounded representation: a “cognitive shift towards seeing places as discrete entities to be studied in their own right, as actors responsible for their own economic fate” (Hadjimichalis and Hudson, 2014: 213). In other words, ‘endogenous growth’ depends on the construction of ‘representative’ territorial spaces of socio-economic life, from an otherwise amorphous space of diverse economic activity and heterogeneous interests; “…actually existing regions are a product of a struggle and tension between territorializing and de-territorializing processes” (Hudson, 2007: 1154; *also see* Amin, 2004).
‘Competitive regionalism’, as a hegemonic project, effectively translates particular economic interests into general development objectives. A region’s ‘competitive advantage’, moreover, could be realized through the enactment of a particular program of government to create the conditions for growth, to act or behave according to a certain rationale, and to regulate their own conduct so to speak. As discussed above, such self-regulating conduct is a corollary to neoliberal governmentality, enabled through ‘procedures of inscription’ (Miller and Rose, 1990):

“…regional economies are constituted via regional statistics, which have a key role in making economies visible, and constituting them as objects for policy action” (Hudson, 2007: 1154). The region as subject/object could compete given its ‘resource endowments’ and political-economic conduct: “all cities and regions could become ‘winners’, finding a successful niche in the globalizing economy – provided that they adopt appropriate institutional arrangements, appropriate social attitudes and successfully utilize their resource endowments, whatever they may be” (Hadjimichalis and Hudson, 2014: 212).

The strategic and programmatic state restructuring of ‘competitive regionalism’ favored particular actors and regions advantageously positioned within broader national and supra-national economies. It benefited agglomeration economies in advanced industrial regions, and new, dynamic and innovative ‘intermediate’ regions such as ‘Third Italy’, which relied on highly flexible and specialized firms in niche, high value-added industries (Hadjimichalis, 2011). By the early 1980s European policy-makers had already re-oriented their regulatory positions towards these localities. As Brenner (2004: 469) notes, in stark contrast to the policies under spatial Keynesianism, the new approach …implied that winning cities and regions would form a powerful, densely interlinked and relatively autonomous urban network dominated by advanced infrastructural facilities and high-value added
activities, leaving other regions to fend for themselves or risk being marginalized further in the new geoeconomic context.

Supporting this ‘downscaled’ regulatory regime was a concomitant ‘up-scaling’ towards supra-national regimes, namely the European Single Market (ESM) and the European Monetary Union (EMU), laid out in the Maastricht Treaty of 1991, which sought to bolster European competitiveness in a globalizing economy. A chief aim was the creation of European ‘industrial champions’ that could compete with Japanese and American companies (Amin and Tomaney, 1995). Creating a single European market for goods and services with a common monetary basis also required macro-economic ‘convergence’ amongst the differentially empowered economies. This was to be achieved through monetary and fiscal policies, requiring the setting of inflation targets, constraints on budgetary deficits, and an increasing emphasis on financial deregulation.

A key provision to the realization of a single market was the 1999 Financial Services Action Plan, which demanded the harmonization of financial services and the removal of obstacles to financial integration, identified by the EU Council in its Lisbon 2000 summit as “a prerequisite for the attainment of EU economic potential” (quoted in Raviv, 2008: 302). This macro-economic and financial harmonization was a harbinger for the financialization of the EU, but the ensuing crisis could not have occurred without the opposing effect of neoliberal restructuring. The ‘glocalizing’ strategies of ‘regionalism’ vis-à-vis European regimes and institutions had the effect of exacerbating regional differences in “selecting between ‘inferior’ and ‘superior’ locations according to existing potential”, and “institutionalizing initial advantages into permanent ones” (Agnew, 2001: 35). When the single currency (Euro) was introduced in 1999, these relative advantages
and disadvantages had already translated into regional divergence rather than convergence (Dunford and Smith, 2000; Rodriguez-Pose, 2001; Hadjimichalis, 2011). Over the following decade, the ESM and the Euro further exacerbated these differences, creating the structural political-economic basis for the sovereign debt crisis (discussed in further detail below) (Rossi, 2013). A parallel and equally important unfolding of the velvet curtain of neoliberalism was the integration of the democratizing ‘post-socialist’ economies of the Eastern bloc into the European Union, to which I now turn.

3.1 Neoliberalism and its post-socialist ‘other’: Eastern European integration

While neoliberalism was unfolding in the ideological heartlands of advanced capitalism, its opposition in the face of communism was crumbling, and post-socialist economies and their constitutive subjects provided the perfect natural-world laboratory for validating its Weltanschauung (see Bockman and Eyal, 2002). Neoliberalism’s continued reproduction relies precisely on such a neoliberal and/or financial ‘other’, a constitutive outside to its stylized rational and utility-maximizing subject – the yet undisciplined, subprime *homo economicus*, or *‘homo subprimicus’* (Kear, 2013: 938) –, and to the free-market equilibrium economy – the planned economy. In the post-Cold War political-economic vacuum, CEE economies and consumers represented just such a subject/object to be disciplined by the rationality of market principles and enrolled into circuits of value accumulation. This subject/objectification reflected the geopolitical and geo-economic motivations of ‘the West’: the extension of democracy and liberal market ideology to the geographical imaginary of a ‘new Europe’ transitioning from communism to capitalism, and the creation of new markets of cheap production costs and pent-up consumer demand (Smith, 2002). The economic potential of *‘homo subprimicus’* was
represented not just in the post-socialist consumer, but also in the geographical space of her/his embedding, which provided opportunities for the realization of greater yields, given the higher risks and higher growth potential of the ‘emerging economies’.

Neoliberal governmentality, manifest in a particular set of policies guided by narrow economic principles, narratives and interests, drove the restructuring and transitioning process in CEE, with implications for their socio-economic trajectories. As Christophers (2013: 5) notes, driving processes of neoliberalization and financialization are discursive ‘truths’ “in and through which events occur, are represented and are responded to”. In post-communist CEE, geo-economic discourses naturalized ‘transition’ as a linear trajectory to an end-state of an idealized market economy, given the implementation of ‘sound’ policies and the assimilation of Western values (Smith, 2002). Enforcing this ‘adjustment’ was cross-conditionality though international financial institutions (IFI), namely the World Bank (WB), International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD, explicitly set up by Western states to aid and monitor market reforms in the East). This institutional oversight constituted a ‘geofinancial panopticon’ (Sidaway and Pryke, 2000, following O’Tuathail, 1997) for the surveillance of economic performance and disciplining macroeconomic stability through ‘transition indicators’ (Smith, 2002: 662). Through ‘technologies of inclusion’ the imperative of financial capital is to make legible, transparent and tractable the inherent risks of the socially and spatially delineated subprime subject/object (Kear, 2013).
'Shock therapy'\textsuperscript{5}, moreover, was underpinned by economics’ ‘truths’, whereby macroeconomic ‘stabilization’ became the paramount imperative of economic transition – a condition for the sustainability of wider neoliberal market reforms, with the intent of creating an environment conducive and attractive to capital flows and investments. Assistance by financial institutions was made conditional on adherence to a set of policy ‘prescriptions’ which employed the specific narrative of consumers’ ‘excess demand’ (seen to exist in the face of chronic undersupply in the planned economies)\textsuperscript{6}, in order to effect ‘stabilization’ (Gabor, 2010). This was enforced through central banks’ policies of liquidity management, which established contractionary targets for credit, money supply and fiscal expansion, in order to prevent inflationary spirals – neoliberal mantras enshrined in mandates of central banks the world over (Gabor, 2010: 236). These catalyzed the financialization of CEE because they provided incentives for short-term lending rather than long-term investments in productive activity, a shift to ‘impatient finance’ that has made CEE countries susceptible to speculative pressures (Gabor, 2010).

Policies of macro-economic stabilization were augmented by demands for decentralized governance, capital and labor market liberalization, and the privatization of state-owned enterprises. These conditionalities for IFI assistance would become prerequisites also for accession to the EU. As early as the mid-1980s the European Community (the precursor to the EU) had already established bilateral trade agreements with most CEE countries, as well as a number of reform programs and ‘technical

\textsuperscript{5} Jeffrey Sachs’ policy prescriptions for post-communist economies (building on Milton Friedman’s 1975 ‘shock policy’ in Chile).

\textsuperscript{6} An effective rhetorical tool in neoclassical economics, since ‘undersupply’ is assumed to reflect consumers’ excess savings, which, upon dismantling of the planned economy, would translate into demand in excess of the levels necessary for market equilibrium, and thus lead to hyperinflation; hence, the need for liquidity management.
facilities’ (such as PHARE) designed to ‘assist’ with market transition and lay the ‘administrative capacity’ for the absorption of (conditional) funds (Agnew 2001; Smith, 2002). In formulating accession criteria for potential members, the EU had initially demanded broad political reforms, and the implementation of the *acquis communitaire* (the EU’s legal-regulatory framework) in its entirety, but by the late 1990s regulatory convergence had become narrowly economic in scope and primarily concerned with the establishment of market-mechanisms (Agnew, 2001). As Agnew (2001: 32) notes, transition to a market economy had “become the single mantra for success closely followed by a variety of macroeconomic indicators not dissimilar to those associated with accession to the EMU and the Euro (small government budget deficits, low inflation, etc.)”.

These early ‘adjustment’ policies had important effects on emerging economic structures in CEE that also patterned broader economic relations with the rest of Europe. The ‘liquidity crunches’, resulting from the IMF’s stabilization bias, led to recurrent banking crises across CEE throughout the 1990s. By propping up defunct state-owned enterprises and their accumulating debt, state-owned banks’ non-performing loans ballooned, and combined with credit shortages (owing to central banks’ policies), inflationary pressures, and the inability to borrow from foreign currency markets, led to insolvencies and banking crises (Gabor, 2012: 243). Further IMF bailouts in the mid

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7 Poland and Hungary: Assistance for Restructuring their Economies (PHARE), extended to the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria and Romania during their pre-accession negotiations with the EU.

1990s established currency boards\textsuperscript{9} to maintain currency pegs to the Deutsche mark (and later the Euro) and, in line with its ‘Washington Consensus’ policies, pushed for the liberalization and privatization of the banking industry. Bank ownership patterns thus changed from state-owned to private and from domestic to foreign banks as Western European banking groups took over, and have since come to dominate the CEE banking industry. These institutional/structural changes had important implications for creating and intensifying trade and capital market (inter)dependencies, and for the asymmetric vulnerabilities they translated into at a time of crisis.

4. Political Economy and Financialization: North-South/East-West circuits

The socio-economic rift that Europe’s sovereign debt crisis unveiled under the curtain of Eastern enlargement and political-economic integration was an outcome of the interaction between historical geographical specificities and these changing approaches to socio-spatial organization under neoliberalism. Indeed, the crisis was rooted in the institutionalization of structural differences through governing mechanisms and policies, enshrined in EU treaties, which shaped its broader geographical political economy.

These structural differences between ‘core’ and ‘peripheral’ economies were recast through financial circuits of creditor-debtor relationships. The debt crises of the ‘PIIGS’ were invariably linked to the economic advantages of the ‘disciplined core’ enabled by a monetary union founded on geographically differentiated economic and institutional differences, and the disadvantages it imposed on the ‘profligate periphery’. While Germany’s ‘beggar thyself and thy neighbor’ policies of wage suppression since

\textsuperscript{9} In Bulgaria, Bosnia and Herzegovina, Estonia, Lithuania, former Yugoslavia and Albania, under the guidance of economist Steve Hanke. Such currency pegs would become a prerequisite for EU members seeking to adopt the Euro (technically a requirement for EU membership, under the ‘convergence criteria’), through participation in the European Exchange Rate Mechanism (EMR II).
unification in 1989 (as well as welfare rollbacks in the early 2000s under the rubric of ‘Agenda 2010’)\textsuperscript{10} suppressed the growth of its labor costs relative to Southern European (SE) economies, SE countries had no monetary mechanisms at their disposal to boost their exports (Lapavistas et al., 2010; Rossi, 2013). This led to an erosion of peripheral regions’ competitiveness and productivity, at the same time as they absorbed the bulk of relatively cheaper German exports through deficit spending.

Moreover, SE economies’ ballooning deficits and Germany’s accumulating surpluses were two sides of the same coin: a financial loop in which the German surplus was recycled as bank lending to Southern and Eastern peripheries (Lapavistas et al., 2010). This lending took sub-prime form, with European political elites and regulatory and financial institutions – not least the European Central Bank – as implicated in this as private banks (FT, 2010). When the threads unraveled it quickly became apparent that German and French banks were the biggest private holders of Greek debt. However, in these credit-debt relationships it is the debtors who are inevitably “accountable to and guilty before capital” (Lazzarato, 2012: quoted in Sokol, 2013). This reality was evinced in the crisis-resolution policies that sought to discipline and punish (cf. Foucault, 1975) ‘excessive’ (borrowing) behaviors through severe austerity measures that affected those least able to cope with them. At the same time, the prevailing moralistic narratives of ‘profligacy’ vs. ‘responsibility’ gave credence to creditor nations’ moral high ground, justifying the imposition of ‘belt-tightening’ measures on their spendthrift neighbors – a (mis)diagnosis that justified the ‘treatment’ (see Financial Times, 2011; The Economist, 2011; also, cf. Foucault, 1963 ; Sachs, 2005).

\textsuperscript{10} Under the leadership of Gerhard Schröder’s Social Democratic/Green Party coalition.
On the Eastern front, given the domestic ‘liquidity crunches’ (as a result of central bank policies discussed above) and insufficient domestic deposits, credit expansion in CEE was externally financed, and cross-border loans became the main source of financing. Expansion of lending channels eastward provided an investment opportunity through which banks profited via carry-trade\(^{11}\), a currency arbitrage in which foreign-owned banks borrowed at low rates in Western European inter-bank money markets and re-lent at higher interest rates to CEE clients through their subsidiaries (Smith and Swain, 2010: 16; Gabor, 2010). This practice was validated by central banks’ ‘sterilization’ strategies\(^{12}\) aimed at maintaining money supply in line with inflation targets – the neoliberal disinflation policies required for EU membership – providing commercial banks with a lucrative “risk-free avenue for chasing cross-currency yield differentials” and encouraging short-term speculative activity (Gabor, 2010: 255).

This effective financialization of currencies, underpinned by central bank policies and currency regimes aimed at exchange rate stability, encouraged foreign-denominated borrowing on the cheap, leading to the ‘Euroization’ of CEE (Raviv, 2008: 309; see Becker and Weissenbacher, 2007). By flooding CEE with ‘cheap credit’ Austrian, French, Italian and German banks profited from (and enabled) expanding consumer bases and high returns on equity investments but also contributed to speculative property booms, similar to those Spain and Iceland (Raviv, 2008; EIB, 2013).

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\(^{11}\) Carry-trades of the Japanese Yen and the Euro were also at the core of subprime lending (in the housing sectors) in the buildup to the 2008 US and Icelandic financial crises, respectively.

\(^{12}\) A process through which central banks aim to limit (i.e. ‘sterilize’ or neutralize) the effects of capital (in)flows on domestic money supply by intervening in foreign exchange markets, and thus offset the (upward) pressure on the domestic exchange rate. In this case, CEE banks sterilized the inflationary effects of speculative carry-trade activity on domestic currencies, which maintained the currency yield-differentials (hence, ‘risk-free avenue’ for banks). As Gabor (2010) shows in the case of Romania, refusal to engage in sterilization practices at the height of the crisis in 2008 led to speculative attacks (capital outflows) on its currency and debt.
value circuits became the basis for the credit-driven growth model that fueled the region. These lending circuits “involved rapid year-on-year increases in domestic credit, which fueled rapid growth in domestic consumption that in turn inflated asset (especially real estate) prices, led to a demand for more credit, and became the primary engine of economic growth in many countries” (Smith and Swain, 2010: 16).

While fueling household consumption and indebtedness, and speculating on property assets, the regime of ‘impatient finance’ that came to dominate CEE in the run-up to the financial crisis of 2008 shunned productive investments in the economy. It “abandoned its commitment to long-term financing of manufacturing activity” rather than focusing on restoring competitiveness of industrial production in the wake of re-orienting trade patterns (Gabor, 2012: 238). While large and decrepit state-owned enterprises in the early period were credit-starved and eventually privatized, emerging small and medium-sized enterprises (SMEs) were similarly neglected, able to access credit only on a short-term basis. As Raviv (2008: 309) summarized:

Foreign banks have so far ‘cherry picked’ only the most creditworthy clients. SMEs, on the other hand, although they form the backbone of the economy in terms of employment, are severely underrepresented in foreign-owned bank portfolios. An EBRD survey conducted in 2005 found that approximately 27% of small firms and 13.1% of medium firms in CE were unable to obtain bank loans. This compares very poorly to credit access in the EU where in Germany, for example, only 14.6% of small firms and 9.8% of medium firms reported difficulties in obtaining a bank loan (EBRD 2006, p. 47).

In addition, as in Southern Europe, financialized value circuits were also implicated in international trade. In this case, Western and Southern European manufacturers benefited from low labor costs in Eastern Europe, offshoring predominantly labor-intensive (and to a lesser extent capital-intensive) export assembly production. Moreover, the generally poor export performance of the region, combined with (debt-financed) imports of consumption goods, contributed to increasing trade
deficits that were financed by further borrowing (Smith and Swain, 2010: 24). This increasing dependence on financing and trade translated into deepening vulnerabilities to shocks, as deep contractions of capital and exports since the 2008 crisis have had severe effects on the ‘periphery’.

4.1 De-financialization and Crisis

These financialization processes, emerging from and shaping the broader political economy of the EU, represent the macro-contexts within which Financial Engineering Instruments have been implemented, and justified. What transpired in light of the European sovereign debt crisis of Southern Europe was another CEE banking and currency crisis (Gabor, 2010). Credit markets dried up as a result of extensive ‘deleveraging’ of overexposed Western banks’ subsidiaries, which substantially scaled back their lending in order to meet the increased capital requirements of new financial regulation. The threat of an ‘uncoordinated deleveraging’ from the region and a systematic bank crisis forced the IMF, World Bank and EBRD to intervene with the “Vienna Initiative” (European Bank Coordination Initiative) of 2009. This recapitalized foreign banks’ subsidiaries\(^{13}\) with $33 billion.

This ‘Joint International Financial Institution’ intervention proved insufficient; a second round followed in 2011, with ‘Vienna 2.0’ providing an additional $30 billion, for “supporting economic restructuring, consolidation and diversification” (World Bank, 2012), as the EU-wide economy became mired in recession and FDI flows to CEE

\(^{13}\) Subsidiaries of 20 bank groups (of German, French, Italian, Austrian and Greek origin) were extended credit lines throughout the region: Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Estonia, FYR Macedonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia (First Report on the Joint IFI Action Plan for Growth in Central and South Eastern Europe, 2012).
ground to a halt. In just the third quarter of 2011, for example, Western European banks withdrew $35 billion from the region (NYT, 2012). As late as mid-2013, the Vienna Working Group was considering further action after new data revealed the continuing effects of credit shortages and recession on CEE economies, exacerbated by reinforcing effects such as rising percentages of non-performing loans (NPLs) in the region. The latest ‘Quarterly Deleveraging Report’ citing continuing ‘outflows’, predicts “2014 is likely to be a challenging year for [CEE], with further tightening in external financing conditions representing a headwind to growth” (EBCI, 2014: 7). While the Vienna Initiative recapitalized banks, debt-ridden and fiscally distressed countries like Bosnia, Hungary, Latvia, Romania, Serbia, Slovenia, and Ukraine were forced to accept IMF-EU bailouts (“emergency Stand-By Agreements”) that were contingent on government cutbacks and reforms to their financial regulatory frameworks.\textsuperscript{14} Bulgaria avoided the need for such a bailout, but remains the poorest EU member with significant challenges to its regional and urban development.

This broader market failure, hampering the ability of businesses and municipalities to access adequate financing, provided additional justification for the use of FEIs, expediting their rollout in the latter half of the 2007-2013 programming period in preparation for the current one (2014-2020). Indeed, as noted by the First Report on the Joint IFI Action Plan for Growth in Central and South Eastern Europe (2011: 5), one “approach to accelerating the use of EU funds is for the IFIs to co-finance the local costs of the project” through ‘schemes’ supported by the EIB and EBRD. JESSICA represents such a ‘scheme’.

\textsuperscript{14} For example, Romania: \url{http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm}
5. Cohesion Policy, Financial Engineering Instruments and Anemic Geographies of Finance

Financial Engineering Instruments have existed in various forms since the 1990’s, but have remained in relative obscurity on the broader EU policy circuits. Since 2007, however, they have become mainstream policy instruments, and today feature prominently in the *Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth*, the EU’s overarching strategic framework for the 2014-2020 programming period. Their resurfacing has come at a time of political-economic turmoil and the EU’s response to crisis, but also reflect broader evolutions in European development policies. These changes, in turn, reflect theoretical debates and advances regarding the sources of economic growth and what counts as appropriate interventions to address ‘underdevelopment’. Building on endogenous growth, new economic geography (NEG) and institutional economic models over the past couple of decades, geographical economists have come to emphasize the dialogic between geographical embeddedness and institutional capacity (McCann and Ortega-Argilés, 2013; Farole, Rodriguez-Pose and Storper, 2011). That is, rather than assuming deterministic roles of institutions or geography per se, this approach gives weight to their mutually constitutive impact on growth dynamics, although as I elaborate below, in a historically amnesic and geographically anemic way.

In light of these reformulations, with the 2014-2020 programming period in mind, recent changes to Cohesion Policy have drawn on the findings and recommendations of the influential Barca (2009) report, which argues for an integrated ‘place-based’ approach to regional development (rather than ‘space-blind’, as advocated by the World Bank’s 2009 Development Report; for a critique, see Peck and Sheppard, 2010) that relies on
local knowledge, stakeholder engagement, and institutional effectiveness for its success (McCann and Ortega-Argilés, 2013). Such an approach promotes entrepreneurship and technological innovation through ‘smart specialization’ strategies that identify ‘regional assets’ and competitive niches for regions. Adopted in 2010, these policy objectives are articulated in the *Europe 2020* framework, which identifies country or region-specific growth targets.

This ‘tailored’ (context-specific) geo-institutional approach is concerned with the micro-foundations of urban and regional economies, stressing the local conditions (e.g. administrative capacity, entrepreneurship) and characteristics necessary for successful innovation and economic growth. Since it is argued that regions with ‘good governance’ are most able to benefit from policy intervention, the absence of these conditions in underdeveloped regions is deemed an obstacle to development. In this vein, per Barca’s recommendations, the European Commission introduced *ex-ante* conditionalities (as opposed to *ex post* evaluations) for Structural Funds, which require Member States to develop strategies that identify investment priorities, specify intended policy outcomes and monitoring indicators in advance, and make funding contingent on specified compliance criteria for meeting these targets (McCann and Ortega-Argilés, 2013). This ‘carrot and-stick’ approach is aimed at enhancing institutional capacity, transparency and accountability at the local level, by providing incentives for ‘good governance’ and sanctions against rent seeking (ibid).

Financial Engineering Instruments are among the new policy tools\(^\text{15}\) introduced under the tailored ‘capacity-building’ policy framework of the reformed CP, to be used in

\(^{15}\text{e.g. Community-Led Local Development (CLLD) http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf}\)
a variety of policy arenas. The *Joint European Support for Sustainable Investments in City Areas* (JESSICA), the EC’s flagship initiative for ‘sustainable’ urban development, deploys FEIs to promote local stakeholder engagement, efficiency and transparency in fund management, and entrepreneurship via public-private-partnerships in urban regeneration projects. The legal justification for their broader deployment as *mechanisms for development* (for providing State Aid) derives from their expected benefits within their stated objectives: per EU law, they are said to “follow the logic and legal framework of the [Cohesion] policy, including shared management and subsidiarity practices” (EC, 2012b: 2). These are the legal principles that warrant EU action at the local level when Member States cannot adequately address the particular policy objective on their own: “expenditure from the EU budget must offer clear and visible benefits for the EU and for its citizens which could not be achieved by spending only at national, regional or local levels” (EC, 2011: 6-7). In short, such financial instruments are justified as they are deemed to derive EU ‘added value’ (that otherwise would not be realized). This self-fulfilling prophecy for FEIs is directed towards a particular ‘obstacle’ endemic to underdeveloped regions:

[C]ohesion policy intervenes mostly in regions, which are facing obstacles to development. These often include issues of low administrative capacity, a low rate of entrepreneurship, high unemployment levels, underdeveloped financial markets, and low-density population. These issues create *market gaps*, which need to be addressed by policy measures that take into account the specific goals of regional development and the administrative set-up of the Member States (EC, 2012b: 2).

This ‘market gaps’ rationale for FEIs in developing regions highlights the ways in which Cohesion Policy’s *raison d’être* is entwined with a market-oriented and market-mediated approach to ‘development’ and ‘growth’. Development is to be achieved by

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*Integrated Territorial Investment (ITI)*

addressing local institutional inadequacies that prevent the efficient functioning of markets. Thus, JESSICA’s objective (its ‘added value’ to the EU) is ‘sustainable urban development’ to the extent that it ensures an efficient urban regeneration market:

JESSICA has been set up as a response to perceived market failures in the urban development funding environment, the lack of an integrated urban development approach, a funding deficit necessitating greater leverage of scarce public resources and, overall, the need for a more commercial approach to the regeneration of urban areas (EC, 2012c: 3).

This reflexivity suggests that ‘market gaps’ are necessarily the result of endogenous deficiencies. Akin to neoliberal ‘adjustment’ policies of the 1990s, FEIs employ a particular discourse of (under) development and (the lack of) entrepreneurialism, capacity, and funding, which opens up space for intervention that seeks to discipline actors vis-à-vis ‘commercial logic’ and interests – the ostensible ‘treatment’ for the ailing ‘patient’. 16 This discourse of ‘failure’ is made legitimate and effective through a historically vacuous frame of reference, which obscures the more complex dynamics and interdependencies at play in any place.

Beyond the programmatic nature of the policy, its strategic intervention is revealed when we consider the context in which its use has proliferated. In its evaluation of FEIs, the European Parliament’s Policy Department identifies this macro-economic context, albeit in an unreflective fashion that takes that context for granted:

Funding limits for the EU annual budget under the multi-annual financial framework (MFF) have increased pressure on the scarce EU budget resources, which are largely used for investment projects. The financial and debt crises have reduced access to public and private funding, while the economic downturn pulls in the opposite direction, necessitating greater investment for growth. The crises have limited bank lending operations, through shortening maturities and increasing collateral requirements, and have made more difficult repayments of loans granted before the crisis broke.... Financial instruments are designed to attract funding from other public or private investors in key EU priority areas, where investors may be reticent due to the risks involved but where EU budgetary contribution covering part of the risk can give other investors the assurance they need to invest alongside the EU (European Parliament, 2012: 10, emphasis added).

16 Drawing on Foucault’s notion of the ‘medical gaze’ developed in The Birth of the Clinic (1963), an analogy can be extended to development economics’ policy prescriptions, and particularly Jeffery Sachs’ ‘clinical economics’, in The End of Poverty (2005).
The macro-economic context identified by the European Parliament (EP) – the exacerbating effects of financial and economic crises on public and private investments – points to the broader geographical contingencies motivating the use of FEIs. An important catalyst for the expanded use of these instruments in the 2014-2020 period has been the prolonged duress of insufficient liquidity (i.e. limited bank lending) in the Central and Eastern European periphery, and the concatenating effects of economic recession. However, while it importantly identifies some of the consequences of the crisis, it nevertheless ignores their underlying causes, rendering the justification for FEIs no less problematic. That is, FEIs are seen as necessary in spite of the fact, since the question being answered is how has the crisis impacted public funding, rather than why has the crisis occurred, and why have its effects been unequally felt? Market gaps, then, exist in developing regions because of their particular (endogenous) problems, e.g. underdeveloped financial markets.

The inherent shortsightedness of neoliberal policy programs sterilizes their political nature, and privileges particular actors and interests. As discussed earlier, it is precisely this depoliticized framing (a tenet of neoliberal governmentality) that gives credence to the rationality being implemented. The particular ‘translation mechanism’ that enables its enactment (from rationality and strategy to reality) are the knowledge claims of ‘experts’, an expertise bound up with the logics of the market:

17 The structural adjustments demanded of ‘bailed out’ debtor nations (in and outside the Euro zone) since 2008 have played a critical role in such ‘consolidation’ of public budgets. It is important to note, however, that the wave of austerity guided by German Ordnungspolitik and imposed by the EC-ECB-IMF ‘Troika’ in the Eurozone (PIIGS), and the multilateral assistance in non-Eurozone Members (see footnote 14), is not understood as a direct correlate to (or part of) the evolving neoliberal framework of Cohesion Policy as discussed in this paper. Rather, these unfolding events are contingent political-economic dynamics along and/or through which the institutions and policy frameworks of the EU are constantly re-framed. FEIs must be understood in this context.
Their delivery structures entail additional expertise and know-how, which helps to increase the efficiency and effectiveness of public resource allocation. Moreover, these instruments provide a variety of incentives to better performance, including greater financial discipline at the level of supported projects (EC, 2012d: 2).

Embedded in these policy tools is not only a discourse of entrepreneurialism but an entrepreneurial praxis (via performance, discipline, etc.) for the attainment of sustainable urban development. As noted by the EP report, ‘failure’ in the funding environment is redressed through partnerships with private investors and financial institutions, in order to overcome budgetary shortfalls and investors’ risk-aversion through the ‘leveraging’ of public funds with private capital (an effective collateralization of debt that ensures preferential and priority returns for private parties). In practice, this ‘leverage’ effect works in the opposite direction, by reducing financial risks for investors – risks that are embedded in the subprime places and subjects of the underdeveloped periphery.

Thus, unlike the sweeping macro-oriented policies of ‘stabilization’ during the 1990’s, FEIs target site-specific (micro-economic) ‘obstacles’ to the efficient functioning of markets. These obstacles are presented not just in the geographical coordinates where regeneration takes place (i.e. a particular project), but also in the subjective orientation (the mental coordinates) of the various actors (the ostensible representative agents) involved in the realization of the projects, as well as the production/performance of ‘the market economy’ itself. This market ‘correction’ is implemented through newly formed and privately managed Urban Development Funds (UDFs) that engage with public-private entrepreneurs on a local scale, and have discretion over the allocation of funds and the evaluation of projects based on commercial performance criteria. This enactment of entrepreneurialism as development par excellence is representative of neoliberal policies’ strategy to preempt or circumvent political contestation:
By accident or design, neoliberal policy programs seem to be especially effective in undermining potential sources of political opposition. Under neoliberalism, the devolution of delivery systems and the continued churning of policy strategies tends to (over)stretch the capacities and diffuse the energy of oppositional movements, rather than opening up the space for more progressive local initiatives (Peck, 2001: 452).

I turn to an examination of the unfolding implementation of FEIs in Bulgaria and try to show how policy circulation, finance, and neoliberal governance are intricately linked. I examine Commission documents, including reports and legal notices, and trace the transmission of the policy along its various circuits. I pay particular attention to the draft agreement between the Bulgarian government and the EIB, which provides the rationale for the use of FEIs, a rationale couched in the de-politicized language of economic rationality and technocratic governance.

6. JESSICA in Bulgaria

The general structure of JESSICA consists of an optional (but strongly encouraged) Holding Fund, managed by the European Investment Bank or other financial institutions, which in turn invests in and manages a portfolio of Urban Development Funds (UDFs) set up at the national, regional or local levels. The financing for JESSICA comes from the European Regional Development Fund (ERDF), which distributes Structural Funds, with a 15% contribution by Member States and additional co-financing by financial intermediaries (e.g. banks, venture capital funds, and hedge funds). The Holding Fund manager (the EIB) establishes operational agreements with selected UDFs (via public tender) and determines the investment strategy to be implemented. The UDF manager determines the final beneficiaries (SMEs, PPPs etc.) according to criteria...
identified by the Member State’s Operational Programs\textsuperscript{18} for the implementation of Cohesion Policy. Funds can then be distributed as loans, loan guarantees, or equity financing. In Bulgaria two UDFs have been set up (as Joint Stock Companies) under the JESSICA initiative: The Fund for Sustainable Urban Development Sofia (FSUDS), and Regional Fund for Urban Development (RFUD) for the next six largest cities in Bulgaria, each of which is a central node in its respective NUTS\textsuperscript{19} region. FSUDS is co-financed by the Fund for Local Authorities and Governments (FLAG) in partnership with \textit{UniCredit Bulbank}, while RFUD is co-financed by \textit{Société General Expressbank}, subsidiaries of the Italian and French parent banks.

The initial expansion of FEIs by the European Commission during the 2007-13 programming period was an experimental exercise in policy construction and dissemination, with no oversight mechanism in place to determine their progress and utility. A monitoring mechanism was established in 2010 to gauge the use of the newly institutionalized instruments, but Managing Authorities\textsuperscript{20} (MAs) were asked to report only on a voluntary basis. Given the growing scope and importance of innovative finance in EU funds in the aftermath of the 2008 crisis, the Commission amended financial regulations in 2011, requiring MAs to submit annual progress reports that describe the “implementation arrangements, identification of implementing entities, and amount of assistance paid to and by the FEI” (EC, 2012a). Thus, only in 2011 did the Commission introduce a formal method for “collecting, transmitting and aggregating” data on FEI use.

\textsuperscript{18} These are thematic programs for targeted investment, agreed upon by the European Commission and each Member State for each programming period.

\textsuperscript{19} A territorial jurisdiction of the EU: Nomenclature of Units for Territorial Statistics (NUTS), which exist at the district (3), regional (2) and state (1) levels.

\textsuperscript{20} A Member State’s designated political authority in charge of European funds, which in Bulgaria’s case is the Ministry for Regional Development and Public Works.
in an effort to “enhance the transparency of the implementation process and ensure appropriate monitoring”, with obligatory reporting to begin in 2012 (ibid). Notwithstanding reported inaccuracies, discrepancies and incompleteness of this data by the end of 2012, the commission had already planned for their expansion in the 2014-2020 programming period.

Policy transmission and mutation has not only depended on intergovernmental administrative channels and techno-managerial elites, but also on the less transparent and visible networks of consultancy firms, scanning and analyzing policy horizons, to producing the learning instruments that form the backbone of fast-policy implementation. Even before assessment mechanisms were instituted, work was done to set the scene for the policy’s unveiling through evaluation studies that gauged the local potential for FEIs, by identifying potential market participants, legal challenges, pilot projects, investment strategies, implementation options, etc. (Deloitte, 2009). For example, Deloitte was hired by the EC in 2008-09 to produce reports assessing the viability and opportunities for FEIs in different Member States. And in 2011, PricewaterhouseCoopers produced the JESSICA Holding Fund Handbook, a how-to guide for the implementation of instruments and their holding funds, as well as a review of their legal parameters “explaining the variety of features that [Managing Authorities] can implement, and guidelines that are compliant with EU regulations” (PWC, 2010).

Given the ongoing re-working, dissemination and implementation, it was not until the turn of the decade that FEIs became grounded in all countries currently utilizing the instrument. In Bulgaria JESSICA became fully operational in 2012 when officials from the Ministry of Regional Development and the EIB finally concluded negotiations on a
Holding Fund agreement that began in 2010. In the background, technocrats and financiers were setting up the Joint Stock Companies that make up the UDFs, and charting out the terms of obligations, responsibilities, and rights of the multiple parties involved. In the meantime, lawyers and lawmakers were busy establishing the administrative-legal groundwork for the instruments. In August 2012, the Bulgarian Parliament enacted a new Public-Private Partnership law allowing the government and municipalities to enter into joint ventures with private businesses for up to 35 years, enabling and streamlining the types of PPPs stipulated in JESSICA’s framework. As the executive director of FSUDS commented in an interview, the lack of clear and unified regulation was one of the factors contributing to the initially slow structuring of PPPs and the realization of projects under JESSICA (Gradat, 2013).

While the regulatory barriers were being re-worked in the capital, the public unveiling of JESSICA took place on a mobile platform. The regional development minister – a Brussels-trained expert in fund management and financing – spearheaded the effort in the beginning of 2012, promoting the instruments with a brief cross-country tour to the six main cities for which JESSICA funding is intended. By the end of 2012, representatives from the EIB, MRD and the two development funds unveiled “JESSICA Initiative in Bulgaria” to interested attendees at the Grand Hotel Sofia. In addition to these workshops, officials, policy wonks and fund managers have taken to the podium at a number of conferences such as the Conference for Integrated Urban Development, and the annual Investment and Real Estate Conference in order to promote JESSICA. Most recent on Bulgaria’s burgeoning business and policy conference scene, the Urban Innovation Forum 2013: The City and the Buildings, featured a gathering of architects,
mayors, consultants, designers, engineers, real estate developers, business leaders and a number of technology firms. Among the key speakers and presenters were the executive directors of the two development funds (FSUDS and RUDF), the Mayor of Sofia, and representatives from the Ministry of Development.

Such moments of instantiation reveal the multiplicity of actors and translocal networks involved in the transmission and implementation of policy regimes, as well as the constant re-working necessitated by the policy’s mutation as it interacts with local institutions, officials and contexts. It is precisely these localized dynamics that the policy aims to engage and render into an appropriately functioning environment, through ‘incentives’ and ‘best practice’. As I suggest below, however, there are some fundamental discrepancies between the purported objectives of the policy, and the logic that underpins their practical application and likely outcomes. In its aim to attain sustainable and inclusive urban and regional development, the policy and its actors must navigate the tensions between social or environmental necessity and financial viability, and between public and private interests.

6.1 Actually–existing Geographies of Risk and Underdevelopment

The policy documents identified above focus on geographic specificity at the micro level, identifying the mechanisms through which ‘gaps’ or ‘failures’ are constituted, while ignoring important (geographically implicated) macro-economic and political dynamics. One important geographically delineated component inherent to the functioning of financial markets and instruments is risk. Assessing risk, sine qua non in financial decision-making, requires that investors and developers have locally embedded information on which to undertake their financial decisions. An ‘inherent characteristics’
identified as increasing financial risks and resulting in market failure in Bulgaria’s localities is imperfect and asymmetric information\(^{21}\), which exists

...where it is difficult or expensive to gain detailed information on demand either because markets are weak or because information is expensive (or in some cases impossible) to collect ...[or] where market counter-parties possess different levels and depth of information about local markets in general and specific developments in particular (EC, 2012c: 6).

Such ‘information failures’ increase transaction and agency costs\(^{22}\), and difficulties in estimating local demand for and potential cash flows of projects, enhancing risk-aversion: “the market often perceives high and unacceptable market risks...and does not take the projects forward, even though this would be efficient from a wider economic perspective” (ibid: 6, emphasis added), which implies that urban regeneration is hindered by the higher risks created by deficient markets in Bulgarian municipalities and neighborhoods. A functioning market would create accurate price signals and lead to an efficient allocation of investments. Instead, risk-aversion leads to appetite for short-term and higher-yielding investments or outright reluctance to invest, resulting in “non-delivery of needed urban regeneration actions” (ibid: 7).

Importantly, this gap between economic efficiency and viability also has a geographic component, with clear socio-economic implications. For example, risk-aversion and investment reluctance are bound to the spatial characteristics of sites, and most often occur in “declining areas of derelict urban environment and/or in urban poverty pockets of high unemployment, low income and social exclusion” (ibid: 10). The most underdeveloped areas have the highest need, but are least likely to receive


\(^{22}\) From agency theory, the principal-agent problem can be applied to the context of corporate governance, where information asymmetries exist between shareholders (principle) and corporate management (agent) – here identified as an issue with the performance of UDFs (structured as Joint Stock Companies) in places where information asymmetries incur higher agency costs.
investments because of their negative risk profile. This inherent asymmetry between economic risk and social needs reveals the inverted logic of a commercialized approach to purportedly inclusive and sustainable urban development, whereby a risk-reducing mechanism must be in place to incentivize financing. Conversely, under presumably ‘normal’ circumstances, where concern for efficient outcomes and profit maximization supersedes social needs, such undervalued and high-risk areas are more likely to be ‘regenerated’ because they would have a higher return potential. Critically, this would be the case because the type of project financed would be expected to generate the appropriate risk-adjusted yield.\(^{23}\) The types of projects envisioned under JESSICA (commercial, with social characteristics) prevent the financing of ‘properly’ commercial undertakings and thus require a risk subsidy.

Given this concern for risk’s interdependence with (uneven) geographic specificity at the local level, it is telling that the discourse framing the policy documents avoids recognizing such contingencies on larger scales. However, the role of FEIs in linking micro and macro financial dynamics of risks is evinced in the interdependence between geographic specificity and fixity on the one hand (given the opaqueness of local information and the need for profit realization), and capital mobility and liquidity on the other. That is, while the instruments mitigate risk ostensibly at the project level, this risk-assurance ensures the participation of investors, financial institutions and their ‘global’ capital. As Clark and O’Connor (1997) note in their analysis of geographically differentiated products based on their informational content,

\[\ldots\text{designers of these [opaque] products…must be able to design a product that can meet financial institutions’ qualms about the potential for corruption, investors’ needs for continuous reporting on}\]

\(^{23}\) Alternatively, the risk premium demanded by lenders and assumed by developers in such cases could be recovered when exchange values in the built environment are exploited, and profits realized.
products’ performance, and investors’ interests in a relatively high (relative to financial products that are either transparent or translucent) risk-adjusted return given the common practice of diversifying clients’ investment portfolios…. To the extent that such information can be produced, bundled, and sold on the international market at a competitive price, then international financial institutions may be willing to cross over boundaries to buy these products (98-99, emphasis added).

The micro-macro geographic tension embedded in this financialization process can be observed in the way localized information is decontextualized and standardized via financial intermediation, as income streams from urban development projects are bundled up into UDFs’ portfolios. On the other hand, the ‘willing’-ness, or lack thereof, of cross-border banking was made apparent during the financial crisis: when Western parent-banks shored up their Eastern European lending operations, the resulting credit crunch not only made borrowing more expensive but also forced a reassessment of risk perceptions that accentuated the problem. FEIs’ ‘designers’, in this case the EC and the EIB, have thus sought to address the ‘qualms’ of international finance vis-à-vis localized contexts.

There is thus a disjuncture between the policy’s idealized economistic hypotheses of efficient resource allocation and rational decision-making based on accurate information, and the reality of geographical political economy and the interdependencies and asymmetries embedded in it. Rationality and efficiency were scarce in the pre-crisis period, when the ‘irrational exuberance’ and inherent inefficiency of speculative finance and its over-leveraging (in the European context) contributed to regional systemic risks (Raviv, 2008; Lapavitsas et al. 2010). Given that finance does not operate in a spatial vacuum, these macro dynamics are implicit in the policy, but are subsumed by its apolitical discourse. While site-specific ‘information failures’ are “common for all EU

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24 Former Federal Reserve Chairman Alan Greenspan’s assessment of the reason for overinflated asset values contributing to the ‘dot-com’ bubble. The term appropriately re-gained currency after the burst of the US housing bubble, which was predicted in economist Robert Shiller’s (2005) eponymous book.
countries”, those specific to Bulgaria are seen as the outcomes of its underdeveloped real estate and financial markets, i.e. arising from “…the lack of long-term functioning of the urban real estate market in Bulgaria, which started to develop on market economy terms only in the last two decades” (EC, 2012c: 7). As a result, “the private urban property regeneration market is just emerging in Bulgaria and is still in its embryonic stage…” (ibid).

As discussed earlier, the ‘embryonic’ condition of Bulgaria’s markets reflects historical uneven developments that are implicated in the current context. For example, it is claimed that “market failures at the project level…are evidenced at the financing market level also” (emphasis added), in which credit shortages since 2008 are seen as the result of rising non-performing loans, the burst of the real estate bubble, and consequent defaults in the Bulgarian real estate sector (EC, 2012c: 11). The scope of reasoning remains limited to national or sub-national endogenous defects. Indeed, the causal direction is reversed, since both the formation of the real estate bubble and its burst had largely exogenous causes. Moreover, since Bulgaria is said to lack an ‘authentic mechanism’ (ibid: 9) to restore market efficiency without distorting market competition (a fundamental tenet of EU Competition law), JESSICA is seen as the natural instrument that achieves this task: “To remedy the above-identified market failures and to facilitate socio-economic development in deprived urban areas in Bulgaria, the measure will act as a catalyst to leverage private funding to finance UDPs” (ibid: 15).

JESSICA’s key contribution in the context of post-crisis urban regeneration is thus its function as an effective risk-mitigation mechanism. As such, the position of public and private stakeholders vis-à-vis risk is made very explicit in its framework:
“JESSICA will provide aid in the form of sub-commercial public loans, equity investments together with private co-investors benefitting from preferential non-\textit{pari-passu} terms as compared to public investors, as well as guarantees on repayable investments …” (ibid: 15). Under all three financing products provided by the UDFs in Bulgaria (sub-commercial loans, equity financing, and loan guarantees), private investors will receive preferential terms either via sub-market interest rates on loans and thus higher internal rate of return (IRR) than public investors, priority returns on equity investments, or a guaranteed ‘fair rate of return’ (FRR). Public investors (such as municipalities), on the other hand, will take the subordinate position and be exposed to ‘first loss’ on investments. The implementation of these arrangements by the UDF is designed to reduce the risk profile of projects and, as a result, their ‘viability gap’ as well. Thus,

…in any of the scenarios described above, private investors will be in a position that is economically advantageous compared with normal market conditions in the absence of State intervention, where co-investment would normally be carried out at identical, \textit{pari-passu} conditions for all investors and no sub-commercial loans would be available (ibid: 36).

Under the ‘abnormal’ market circumstances prevailing in Bulgaria, where high risks preclude rational investors from engaging the market unless a sufficient guarantee can hedge or mitigate the potentiality of financial loss, ‘state intervention’ is justified. These risk-sharing benefits of FEIs have provided incentives for banks and investors to re-engage the local market. Indeed, the same banks (\textit{UniCredit}, \textit{Raiffeisen Bank}, and \textit{Société Generale}) that deleveraged during the crisis and were recapitalized through the Vienna Initiative have now become the chief financial intermediaries or co-financiers in the newly established UDFs. In the legal framework of UDFs, Structural Funds function as a backstop that guarantees banks’ and other investors’ participation (risk-exposure) in an
otherwise unfavorable investment environment.

This intervention is a manifestation of the contradictions between neoliberalism’s logics and practices, whereby intervention has a clear place in the marketplace so long as it ensures the efficient functioning of the market. Thus, while a market’s failures are seen as the outcome of geographically specific obstacles to its efficient functioning, its resolution is achieved through non-market means (i.e. state aid), to be mediated, in turn, through marketized governance. Unlike the economistic discourses of neoliberalism, the use of mechanisms such as FEIs to implement its policy regime show its inherent dependence on appropriate geo-institutional contexts that ensure its economic viability when its contradictory tendencies result in crises. This effective ‘socialization’ of risk through FEIs is emblematic of entrepreneurial urbanism’s reliance on various leverage mechanisms to subsidize private capital in the urban built environment. However, according to the Commission it is precisely the lack of this entrepreneurial character of urban management that impinges successful growth and regeneration in Bulgarian cities. I turn my attention to how JESSICA also seeks to correct this entrepreneurial gap, and examine the implications for urban governance.

6.2 Capacity, Entrepreneurialism, and Governance

Within the policy’s ideological frame, resolving obstacles to development by creating efficient markets (through the mechanisms described above) also entails the enactment of entrepreneurialism, its embodiment not just in the private entrepreneur who participates in market exchange but in the enterprising municipal officials. Increasing reliance on public-private partnerships in a ‘stakeholder society’ requires public representatives (and thus the ‘the public’ realm itself) to assume the entrepreneurial spirit
and skills of the self-interested, utility-maximizing individual. Thus, another endogenous deficiency identified by the EC as a cause of ‘market gaps’ is inadequate administrative capacity, which implies not only the lack of appropriate knowledge and skills in administering governance, but also lack of an appropriate development mentality:

Bulgarian local authorities (municipalities) which are in theory expected to be a major sponsor/developer of revenue generating urban development projects, still do not have the capacity to leave the well-known grounds of grant financing and start thinking entrepreneurially. They have a preference for non-revenue generating projects and view themselves more as aid recipients rather than investors in urban regeneration. To some extent this is due to a lack of awareness and practical knowledge of local authorities that urban development could be implemented in a sustainable manner, as policy goals can be achieved by economic means through the market interaction of private developers and finance providers which the local authorities should initiate and incentivize (EC, 2012c)

The concern with local capacity vis-à-vis markets and the built environment makes apparent once more the neoliberal governmentality embedded in these policies, where a market-based approach to development requires the need to think and act as an entrepreneur by incentivizing interactions between developers and financiers. The contradiction follows: while urban authorities must act as aid-givers it is inappropriate to view themselves as aid recipients because a ‘grant mentality’ hinders efficiency and creates dependence. Just like ‘information failures’ and ‘embryonic’ markets, inadequate capacity exists in perpetual spatio-temporal schism with an idealized model, requiring intervention to correct ‘failures’ and restore normal functioning. Given authorities’ incapacities to think and act as entrepreneurial urban managers, JESSICA is designed to deliver the appropriate remedies though the reinforcing ‘technologies’ of expert management, market rules (and performance standards) and an entrepreneurial ethos.

Disseminating expertise in project and finance management is billed as capacity building ‘good governance’ that reduces the ‘market gaps’ created by its absence. The

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25 In practice, but not in principle (a legal technicality), since EU ‘state aid’ is justified in FEIs on the grounds that it creates ‘added value’ that does not distort market competition.
result is de-politicized governance that need not be subject to public scrutiny. The role of the EIB as a Holding Fund manager is a prime example. While not compulsory, Holding Funds are highly encouraged because they “offer the advantage of enabling MAs to delegate some of the tasks required to implement JESSICA to expert professionals” (DG REGIO, 2010). These ‘expert professionals’ can carry out the investment strategy agreed with the MAs manage the operational agreements with UDFs, and provide the necessary resources to “manage lending operations in the highly regulated financial market of the EU”. To this end, MAs can make use of the EIB’s expertise in investing in financial markets, as noted in the JESSICA Handbook:

…it is important to consider the maturity of the market in terms of UDF development. In most regions, UDFs are still at an early stage of their investment capabilities. In this context, the Holding Fund can play an important role in promoting the emergence of UDFs and in encouraging local public authorities to use the JESSICA approach for their investments in sustainable urban development (PWC, 2010: 14).

In EU policy circles, such expert management appears to trump democratic policy-making and accountability. For example, the Center for European Policy Studies, an influential think tank commissioned by the European Parliament to report on the implications of FEIs on EU and National budgets, notes that while the EP and EC can intervene to redirect and improve the instruments through monitoring and evaluation, “policy prioritization, budgetary control and democratic scrutiny…should not jeopardize the functionality of the instruments…and should not require project-by-project transaction approvals” (CEPS, 2012: 29). To ensure the instruments’ functionality CEPS suggests that “management and implementation should be fully delegated to the entrusted entity”—the EIB or other financial institutions (ibid).

While public accountability is undermined by the delegation of public funds to ‘expert’ management, their externalized and de-politicized/politicizing governance is
accentuated by the marketized nature of the instruments, determining the underlying logic of their lending operations. The structuring of the UDFs as Joint Stock Companies ensures that profitability is a key criterion for their investment decisions; they are subject to the same ‘best practice’ criteria as any other financial vehicle. As the JESSICA Holding Fund Handbook points out,

the rating process for UDFs and conventional banks considers roughly the same factors. The main factors to be evaluated include an in-depth analysis of aspects of risk management – particularly credit and operational risks in UDFs – and consideration of a UDF’s specific funding and liquidity profile, its asset size and portfolio diversification, as well as its capital adequacy (PWC, 2010: 40).

‘Best practice’, then, is not simply ‘evidence-based’ technocratic policy prescriptions, but (also) market discipline.

Maintaining this acceptable financial profile has clear implications for the allocation of funds, as projects will be financed based on their return potential, in the interest of maintaining the overall performance and creditworthiness of the fund. Both FSUDS and RUDF are clear about this in their ‘investment policy’ documents: in making investment decisions “projects will be judged based on criteria and procedures that conform with international practices in investment management and credit activity, with the internal rules and policies of the fund, as well as with external regulations” (RUDF, 2012). To this end the UDFs are required to invest in projects that are “economically and technically sound and have a minimum prospect of financial viability”, i.e. positive project cash flows, to be assessed on such standard commercial appraisal metrics as Discounted Cash Flows, Net Present Value and Internal Rate of Return (RUDF, 2012).

This commercial approach to urban regeneration, however, is at odds with the social inclusion and sustainability criteria framing the policy tool. Despite the
instruments’ utility in reducing the viability gap between project financing and risk, there remains a fundamental tension between financial viability and social necessity:

Urban development projects often include as their integral part elements comprising public realm (e.g. public spaces, residential parking, kindergarten other elements of adjacent technical infrastructure for public use, etc.). Those elements produce no, or insufficient, revenue to project investors, while they are necessary for the overall success of the project and their cost is included in the project investment. The lack of functional correlation between project's investment and revenues in such cases may significantly reduce the commercial viability of urban projects (EC, 2012c: 8).

With decision-making to be based on commercial logic, and projects related to the ‘public realm’ not operating under commercial principles, the scope for such investments will be minimal. Furthermore, this commercial approach is due to expand and will play a bigger role in investment decisions beginning in 2016, when UDF management fees will be directly linked to investment performance (ibid: 22). This echoes the call of Bulgaria’s Regional Development Minister for “businesses to do the talking” in determining the needs for the built environment.26

Finally, the role of technocratic channels of policy transmission in instituting multi-scaled governance also brings attention to the legal-institutional positions of the newly established UDFs and governance implications. It is important to untangle the roles and interests of the actors and networks that constitute these novel schemes and the emerging modalities of urban governance they might translate into. The most obvious question arising from the issue of decision-making is who is making the decisions? For example, while the Commission “finds that the selection of professional fund managers adds to the likelihood of economically sound investment decisions with limited deviations from market rules”, the appointed fund managers face significant conflicts of interest. The executive director of RFUD is chairman of the supervisory board of Société

General Expressbank, the institution co-financing the fund, and was a deputy chairman of the Sofia Municipal Council. The executive director of FSUDS on the other hand, was the former deputy Minister of Regional Development. These networks of revolving-door politicians, technocrats, and businessmen raise red flags over the blurring boundaries between private interests and public responsibilities in the governing of structural funds.

Conclusion

Given these various instantiations of financial flows and entrepreneurial practices underpinning the transformation of Cohesion Policy, I have shown how neoliberal governmentality and associated forms of governance, entwined with economic and geo-political interests, have contributed to the conditions that allow for deeper penetration of financial interests and logics in urban and regional governance today. I analyze how modalities of neoliberal governance are evolving in the context of another crisis moment for contemporary capitalism and its regulatory frameworks, and how they are implicated in the production and reproduction of socio-spatial inequalities.

Drawing on the literatures of neoliberal governance and governmentality, as well as the expanding literature on geographies of finance and financialization, I examine the use of Financial Engineering Instruments (FEIs) in Cohesion Policy, by taking up the case of urban regeneration in Bulgaria. The justification for the use of such instruments is the need to address purportedly endogenous ‘market gaps’ and ‘market failures’, identified as obstacles to growth at the national and local level. That is, the dearth of ‘sustainable’ investment in city areas is framed as an outcome of the lack of properly functioning markets, owing at least partially to local socio-institutional configurations.
FEIs aim to address these local ‘failures’ by subsidizing private capital where investment risk is deemed high, and by enacting a de-politicizing ‘expert management’ that ensures the implementation of ‘best practice’ and the transfers of technical and managerial ‘know-how’, while instilling an ‘entrepreneurial mentality’ (as opposed to ‘grant mentality’) in municipal officials (EC, 2012).

These techniques and rationalities of intervention are bound up with implications for governance. Given the legal structuring (as Joint Stock Companies) and concomitant performance mandate of the Urban Development Funds (UDFs) managing the newly aggregated pools of capital, project investment decisions are based on standards that tend to privilege economic performance and viability over social necessity and sustainability. Thus, notwithstanding their purported aim of addressing local barriers to economic growth, these policy mechanisms instantiate neoliberal norms and practices in the patterning of socio-spatial relations through market-oriented and privately managed institutional forms, and an entrepreneurial ethos in the management of city space. In the context of European wide financial and economic crises, which have reinforced historical socio-spatial inequalities, the use of FEIs to achieve development goals highlights the contradictory logic of addressing ‘market failures’ through marketized governance, which is increasingly constrained by financial imperatives and insulated from public accountability.

Contrary to the policy, I argue, ‘market gaps’ are a product of Bulgaria’s (and Eastern Europe’s) historical positionality in the broader European political economy, which has left it vulnerable to exogenous shocks that (re)produce market failures at macro-economic levels, across North-South and West-East divides. As such, the
institutionalization of FEIs as tools for addressing micro-level ‘failures’ must be situated in the broader macro-economic context of crisis, because it is precisely its effects on local markets that justify the expanded use of FEIs. Moreover, the proliferation of FEIs in the context of the EU’s ‘Eastern enlargement’ and the European political-economic crisis requires an examination of emerging governance modalities’ entanglements with inherited institutional configurations and the previous rounds of (neoliberal) restructuring through which they emerged.

These articulations between path-shaping regulatory interventions and their path-dependent regimes of accumulation reflect both the strategic and programmatic characters of neoliberal policies: they highlight imperatives and interests shaping socio-spatial reality as well as the technologies through which they are constructed. In a changing geopolitical landscape and intensifying global competition, the ‘competitive regionalism’ and Eastern ‘integration’ that underpinned the EU’s political economy can be seen as both neoliberal political strategies of the ‘state’ and its diverse constitutive interests, as well as a (concurrent) outcome of neoliberal political rationality through the subjectification of ‘self-regulating’ and ‘enterprising’ individuals, municipalities, regions, and states.

These changing institutional configurations set the course of the EU economy towards reinforcing imbalances and interdependencies. For one, the ‘lock-in’ of differentiated economic potentials of ‘uncompetitive’ Southern and ‘advanced’ Northern regional economies within the supranational institutional context of a European Single Market and Monetary Union exacerbated trade and financial imbalances. These dynamics were bound up with the integration of Eastern European (‘post-socialist’) production and
consumption networks vis-à-vis global and Western European economies, and the penetration of Western European financial institutions in the region, which similarly contributed to growing financial (inter)dependencies and macro-economic imbalances exacerbated by the ‘impatient’ nature of capital flows and subprime lending practices (Raviv, 2008; Gabor, 2012). The (un)weaving of these interdependencies through financial circuits led to the crisis and the uneven distribution of its effects, which provided the context in which ‘market failures’ along peripheral lines emerged.
APPENDIX I: Methodology

In contrast to the methodological territorialism or methodological individualism that grounds the theoretical frameworks of orthodox social science and economics, my methodological approach draws on relational and postpositivist approaches to the understanding of (uneven) geographical development. Units of analyses are not given a priori ontological status, but are understood as socially constructed and relationally constituted. Cities, for example, are seen as dynamic and emergent units defined by their constitutive relations, through the “assembling and mobilizing work of their inhabitants” and “the efforts of actors located elsewhere” (McCann and Ward, 2012: 49). This approach heeds the ways in which local outcomes emerge through interactions with, and according to differential positionality within, broader political-economic regimes (Sheppard, 2002), or “local fields of difference...exist within transnational fields of power” (Peck et al, 2013: 1094). In understanding the geographic causes and consequences of the financial crisis of 2008, for example, French et al. (2011) call attention to ‘financial ecologies’ – the constitutive parts of the broader financial system – which are seen as “[unfolding] across space and [evolving] in relation to geographical difference so that distinctive ecologies of financial knowledge, practices and subjectivities emerge in different places” (French et al., 2011: 812).

The study of neoliberal urban governance centers on the ways in which neoliberal policies in a globalizing and interdependent world interact with specific socio-spatial
contexts, as urban policy-makers, officials and managers seek to adapt to changing demands of the global economy by adopting ‘bet-practice’ solutions, in order to attract investments and encourage ‘growth’. The adoption of such ‘solutions’, moreover, is in response to neoliberalism’s endemic crisis-tendencies (Peck et al., 2009). Against orthodox approaches to the study of policies in political science, which assume a unidirectional diffusion of coherent policy paradigms across territorial jurisdictions, and rational choices of local officials, geographical research of neoliberal urbanism is increasingly concerned with the ways in which such policy models are relationally constructed through the trans-local and cross-scalar movement of discourses, practices and their enabling technologies (Peck and Theodore, 2012). Attention is instead given to policies’ mobility and mutation across geo-institutional contexts: “[Policy models] are understood not simply as fast-traveling, silver-bullet solutions, or as unidirectional ‘vectors’ of global policy rationality, less still as some ‘tsunami’ of unidirectional transformations, but as policy prototypes that are moving through mutating policy networks” (Peck and Theodore, 2012: 22).

A focus on policy networks emphasizes the actual work of policy reproduction carried out by a transnational cadre of technocrats, consultants, and evaluators (and the industrial complex of financial, legal, and accounting services firms). It also seeks to problematize notions of a top-down diffusion of a naturalized process, and highlights the power-laden circulatory system through which neoliberalization is realized. Thus, it directs our critical attention beyond specific policy outcomes to focusing on how policies ‘travel’ and are constructed across jurisdictions (Peck et al., 2011). The dissemination of Financial Engineering Instruments (FEIs) throughout the EU over the past few years is an
example of the multi-scalar constitution and trans-local movement of ‘fast-policy’ transfer and experimental regulation. Their conception, production and dissemination have not been a straightforward and instantaneous affair of ‘off-the-shelf’ policy diffusion. Rather, it has taken work and time to evaluate, enhance, and institutionalize them within Brussels’ technocratic complex and beyond.

The relational ontology framing this research necessitates a mobile methodology of “following” and “studying through” as a way of revealing the interdependencies and asymmetries embedded in them, and unearthing the “webs of relations between actors, institutions, and discourses” (McCann and Ward, 2012: 46). As such, traveling with “transfer agents” and traveling within cosmopolitan policy networks is one way to approach this research (ibid; Peck and Theodore, 2012). However, “following” need not necessarily be a literal movement with actors, but “tracing and mapping the spread and mutation of policies and networks” through various documentary techniques (McCann and Ward, 2012: 48). This is the methodological approach undertaken in this study. Using online resources I was able to trace the (shifting) discursive and technical deployment of the policy (JESSICA), on two accounts: (1) as the policy was unrolled across the varied socio-institutional contexts of different Member States (with specific attention to Bulgaria); (2) as the policy shifted from its experimental phase during the 2007-13 programing period to its broader institutionalization in the EU’s 2014-20 multiannual financial framework. The principal mode of investigation was thus:

- **Manifest and latent content analysis of:**

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27 As indicated in sections 5 and 6, the policy design and implementation were part of a learning process: part of the changing policy terrain was the introduction of ‘monitoring and evaluation’ mechanisms, and, accordingly, new policy guidelines.
(1) official policy documents, legal briefs and presentations produced by European Union institutions, such as the European Commission, the European Investment Bank, and the European Parliament.

(2) policy analyses by think tanks and consulting firms, including the Center for European Policy Studies, PricewaterhouseCoopers, and Deloitte.

(3) corporate reports of financial intermediaries and Urban Development Funds (UDF), to examine their investment strategies and corporate organization, and to uncover financial links;

(4) local (online) media, such as Gradat (‘THE CITY’), to identify key network actors and stakeholders, trace the trajectory of project implementation and related political and economic developments in Bulgaria’s urban development environment;

a. THE CITY proved an especially resourceful outlet for a host of evidence related to JESSICA’s implementation. Its function as a central media platform\(^{28}\) made it a stakeholder in the changing urban development scene itself, as (well as) an enabling technology for development stakeholders such as the newly established UDFs: It routinely conducts interviews with UDF managers, which serve not only to disseminate information about the funds, but to promote and popularize their use.

\(^{28}\) "THE CITY Media Group is a media platform which provides solutions to meet the information, communication and marketing needs of its audiences and clients in the area of regional and urban development, investment projects, strategic infrastructure and energy efficiency.”

http://www.thecitymedia.bg/en/
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