The Geography of Finance: Spatial Dimensions of Intermediary Behavior.


The Geography of Finance is another addition to the very interesting line of books recently published by Avebury. The title is however somewhat misleading, because it is not an examination of the geography of finance but rather that of a specific part of finance: banking. In fact, it is branch banking not banking as an industry that is treated. This does not diminish the importance of the book but merely serves to create some false expectations.

The author indicates in the preface that a graduate level familiarity with economic modelling and econometric techniques is desirable. This is an accurate warning. Having discussed the book with several graduate students in economic geography, it is clear that some readers will find the first portion of book tough going. The econometric content is indeed quite high. The insight provided in this first section is well worth the effort however.

The book itself is readily divided into two parts, theory and case studies of Canada and Australia. The strongest chapters are the first four chapters that provide a neoclassical economic treatment of banking location. This first section of the book is a natural extension of industrial location literature, in that it reminds me very strongly in both style and approach to David Smith's Industrial Location. A watered down version of the Porteous' book would make a very nice extension for a course that dealt with classical and neoclassical location theory. As Porteous himself remarks: "location and entry games are developed which are the analogue of well known results for other types of firms" (page 13).

This continuation of a traditional economic treatment of the location of a service activity is certainly the strength of the book and provides a real advance in the understanding of the effect of geography (distance and location) on branch banking. The basic conclusion is that branch banking results in a credit rationing condition. This of course raises the question: Is this rationing spatially fair? This is answered as essentially yes for Canada and Australia.
The latter portion of the book is an examination of the Australian and Canadian banking systems. However, these two case studies are not really tests of the models presented in the book. They deal with a different set of literature. These case studies are strong enough to stand alone, but it does mean the book is not well integrated between the two halves.

Australia and Canada were chosen because both have a few large banks with national banking systems and data availability. As anyone knows who does corporate research, data collection can be a real problem. Porteous creates a composite called FINDEX (financial centre index) in his city pair comparisons. While the index is laudable and practical, it is unclear how well the index does measure banking activity at the city level. The index is used as a ratio level index when in fact it is more probably ordinal in nature.

This portion of the book (in Chapter 6) also empirically examines in Chapter 6, Credit and the Regions. This is particularly interesting in the Canadian context because of persistent charges of credit discrimination regionally in Canada. He categorizes the Canadian financial landscape into core and periphery. His evidence suggests the core (Ontario and Quebec) do not enjoy significantly better credit treatment than do the other eight provinces. A more useful categorization might have been to create a rural versus an urban dichotomy.

This book has been one of the most interesting I’ve encountered in sometime. It would be a welcome addition to the library of any regional scientist or economic geographer. The compliment I would pay is: Why didn’t I think to do that?

Reference

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