The annihilation of time by space in the COVID-19 pandemic downturn

Callum Ward
University College London, UK

Abstract
A defining feature of capitalism has been its ‘annihilation of space by time’ in the constant reduction of geographical barriers to rapid exchange. Overviewing how the COVID-19 pandemic lockdown has triggered a financial crisis staunched only by massive government bailouts, this commentary points to a need to orient analysis to the annihilation of time by space.

Keywords
COVID-19, corporate debt, lockdown, pandemic, financial crisis, bailout

Introduction
The COVID-19 pandemic has triggered a global recession for which the historical reference point is the Great Depression of the 1930s. Much like the Great Depression, this likely signals the end of an era of liberal globalisation and financial expansion.

This is a period when geographical political economy, with its focus on the spatialising contradictions of capitalism’s unstable ‘fixes’ (Bok, 2018), has a renewed relevance. But it is also one in which we will need to re-calibrate theories attuned to capitalism’s annihilation of space to a new reality in which the uncertain fixities of space are being reasserted.

In this commentary, I point to how capital markets’ overcoming of space by time through debt-based risk arbitrage has left the global economy particularly vulnerable to the impacts of COVID-19. I highlight how the contemporary ‘fix’ dynamic appears to be one of recurrent government bailouts themselves stimulating further debt expansion, so that we are in a period of the annihilation of time by space not just in the sense of lockdown’s blunt reassertion of spatial barriers but also the increasing territorialisation of fictitious capital.

The annihilation of space by time
The ‘annihilation of space by time’ refers to the diminishing of relative distance driven by capital’s need for ever quicker circulation. Taken from Marx’s Grundrisse, this concept has been generative for geographical approaches to globalisation, capturing the way in which revolutions of supply chain management, communications technology, and international governance have created a world

Corresponding author:
Callum Ward, Bartlett School of Planning, University College London, 14 Upper, Woburn Place, London, WC1 H 0NN, UK. Email: callum.ward@ucl.ac.uk
economy characterised by the elimination of socio-
spatial barriers to rapid exchange.

The growth of capital markets and associated
financial innovations have been crucial to the anni-
hilation of space by time. With the temporal arbit-
rage of finance, everything, everywhere, became
investable. What this allows is a notional ‘market
completion’, in that every good can be exchanged
by market agents with minimal transaction costs.
The utopian neoliberal vision was that this would
allow markets to achieve equilibrium through spec-
ulation, bringing to bear the collective rationality of
individual investors and so allowing for optimal
investment and risk allocation (see Jessop, 2015).
With uncertainty so abstracted to the two-
dimensional optimal distribution of Pareto curves,
space truly had been annihilated by time from the
perspective of capital markets.

Yet as Massey (2005) argued, space is not merely
distance but multiplicity. It is ‘the sphere in which
distinct trajectories coexist; as the sphere therefore
of coexisting heterogeneity’ (Massey, 2005: 9). This
is what is flattened out in the process of abstracting
financial assets wherein spatially-embedded uncer-
tainties are made commensurable through their rep-
resentation as the quantifiable, probabilistic metric
of risk. This reification is itself ultimately a source
of crisis in facilitating greater leverage until some
inevitable shock disabuses investors of their
fetishised belief in their ability to abstract risk from
the uncertainties of space (Ward, 2020).

The financial crisis of 2007–2009 was precisely
such a disabusing. As homeowners defaulted on bal-
looning sub-prime mortgages, the securitised prod-
ucts which had previously facilitated risk distribution
and liquidity served only to spread paralysing uncer-
tainties throughout the financial system. This only
abated when governments began asset purchasing
programmes through ‘quantitative easing’ to restore
confidence and liquidity to financial markets.

Although this tempered the crisis, markets sub-
sequently became dependent on these government
injections of cheap money and the effective state
guarantee of rising asset prices. This was demon-
strated in the ‘taper tantrum’ of 2013 when the Fed-
eral Reserve’s mere suggestion of scaling back this
support caused a market downturn. Having propped
up liquidity and asset values as a fix to the last crisis,
central banks now found themselves unable to stop
doing so without causing the next one.

Meanwhile, with growth stagnant, financial engi-
neering through cheap debt was an attractive way
for companies to stimulate profits and offer returns
to shareholders. In 2019, non-financial companies’
debt had reached an average of 90% of GDP in
Global North countries and 92% in Global South
countries, reaching 155% in China (Wheatley,
2019). Of particular concern was the composition
of this debt, with the majority of bonds being either
rated as high risk ‘junk’ bonds or one grade above.
Given the size and fragility of this market, financial
governance institutions expressed concern about
corporate overleverage but were unable to turn off
the supply of cheap credit enabling it.

The COVID-19 pandemic has brutally exposed
these structural weaknesses in financial markets.
With once seemingly well-hedged investment portfo-
lios exposed to leveraged companies’ corporate
bonds, lockdown means that investors are again being
confronted with the unbridgeable disconnect between
the reified temporalities of their risk calculations and
the heterogenous uncertainties of socio-spatial pro-
cesses. Or, as Katie Martin (2020) of the Financial
Times put it: ‘Investors are being humbled by one
thing they clearly had not considered: real life’.

The annihilation of time by space

Nuancing geographical political economy’s focus
on capital’s increasing velocity, Simpson (2019)
highlights the importance of slowing down circula-
tion at particular supply chain nodes. He argues that
the value of storage in oil markets under conditions
of overproduction represents an ‘annihilation of
time by space’. One of the immediate effects of the
lockdown’s economic stoppages was a drop in
demand for oil, creating a shortage of storage which
briefly drove the price of a barrel of crude below
zero for the first time in history. Beyond such pres-
sures on the infrastructure necessary to ‘pause’ cap-
ital, the lockdown has also given the notion of ‘the
annihilation of time by space’ a new inflexion as the
sudden vulcanisation of geographical barriers
destroys fictitious capital.
Once it was apparent that the virus would not be contained in China, governments started shutting down economic activity to protect their health systems, and financial markets were routed. Investors liquidated large portions of their portfolios in favour of holding the ultimate safe liquid asset, US dollar-denominated cash. This asset fire-sale led to the unusual spectacle of simultaneous price declines in both equity markets and government bonds as well as a devastating flight of capital from ‘emerging market’ economies. Many such countries now find themselves depending on the US to maintain dollar ‘swaplines’ to avoid runs on their currencies.

Central banks have been unhesitant in providing liquidity and a backstop guarantee for asset prices in the promise to buy what is not wanted by investors. They have announced massive financial rescue packages, ramping up pre-existing bond buying programmes (the Federal Reserve’s being announced as ‘unlimited’), and extending them to corporate bonds, including those that are junk-rated. Stock markets have rebounded in response while the promise of such large-scale intervention itself proved enough to restore liquidity to the US corporate bond market before they had even purchased anything. Despite this, in May 2020 the US Federal Reserve’s annual financial stability report warned of the potentially dislocative effects of corporate debt downgrades, pointing out that high business leverage is ‘amplifying’ the adverse economic impacts of the pandemic (Federal Reserve, 2020).

When a debt-driven asset bubble bursts, markets tend to overcorrect. As liquidity dries up, investors scramble to sell assets even below their value, and a self-reinforcing downward spiral of defaults and tightening credit conditions can emerge (per Minsky, see Jessop, 2015). This is one reason that if the pandemic triggers a cascade of corporate defaults, it will create economic damage far beyond the direct effects of the lockdown itself. Currently, the threat of ‘fallen angels’ – corporations whose bonds were ranked as investment grade but are downgraded to ‘junk’ – is looming with rating agency S&P pointing to a record 111 companies at risk globally in May 2020 (Mackenzie, 2020). Given the extent of the market for corporate debt and its derivatives, such downgrades have widespread knock-on effects across financial markets far beyond the scope of the business itself.

The awesome scale of the announced government bond purchase programmes are designed to stop such a downward spiral. Insofar as this intervention does prevent widespread defaults, it will reinforce and magnify the contradictions of the fix to the last financial crisis. That is, as long the state is seen to guarantee against defaults, debt will remain cheap, plentiful, and attractive. Indeed, with companies requiring financing to survive lockdown, the corporate sector that emerges will be more indebted and with weaker earnings outlooks, suggesting markets will be central bank-dependent long after the health emergency is resolved.

Space is annihilating time not only in the sense of the lockdown imposing barriers, but in territorial sovereigns absorbing the destruction of fictitious capital. Central banks are seemingly locked into a dynamic of providing fixes to the crises of financialised capitalism by throwing money at them to assuage investors, thereby encouraging further debt expansion and an even bigger round of crisis in the future. The defining economic questions of the coming years will centre on whether there is a limit to how much market risk states can absorb and how the subsequent costs will be territorially articulated.

**Economic geography in reverse**

Globalisation is interrupted, perhaps permanently. With geographical theory oriented to the annihilation of space by time, how must we recalibrate now that the process is in reverse?

Geographical political economy must take seriously the pluri-temporalities of capital circulation (Simpson, 2019). Today, the measures taken to slow down the circulation of the coronavirus conflict with the need to reaccelerate commodity circulation and salvage an overleveraged economy. This dislocation between the temporalities of governing public health and those of financialised capitalism will be a defining contradiction of the pandemic period, and its variegated resolutions will shape political economies far into the future.

Meanwhile, even as these temporalities conflict, the scale of the current bailout and its
extension to non-financial companies means that states and markets will be increasingly visibly entwined. Indeed, to the extent that the current interventions successfully arrest meltdown, the resulting central bank-dependent (and owned) markets will probably look something like state capitalism (see Alami and Dixon, 2020). State theory will be at the heart of financial geography for the foreseeable future.

This effective socialisation of market risk will raise fundamental normative questions about the purpose of finance itself. The reason the economic impact of lockdown will reverberate so profoundly is its amplification by an excessively leveraged world economy. Yet while the pandemic was a shock, it was not a surprise. We have had a number of near misses since 2003’s Avian flu, and the structural risk of a global outbreak has long been mapped out (Davis, 2005). What is the social use of a system of risk management if it makes us more vulnerable to entirely foreseeable events?

In the extension of capital markets to the point of achieving world market completion, capitalism’s drive to annihilate space by time both reached an apotheosis and created the conditions for its own reversal. The uncertainties of the socio-spatial process are once again systemically destroying financiers’ finely balanced risk calculations, this time with lockdown placing severe stress on the structural fragilities of a bloated corporate bond market. With central banks seemingly locked into a recurring ‘fix’ of financial sector bailouts – which themselves stimulate more unsustainable debt expansion – capitalism’s crises are being territorialised on an ever larger scale. The near future is deeply uncertain, but its geographical motif will be the annihilation of time by space.

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