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*She published books in the field of architecture theory with the title "Stripping las Vegas" (with K. Jaschke) and "Überwältigen und Schmeicheln", and articles in the review GAM and others, and published in the field of political economy, among others the book "Das Casino schließen" (together with T. Sauer and P. Wahl) on the financial crisis and "Räume der Offshore-Welt" (together with Celia Di Pauli), which is a publication on concrete spaces of tax havens and offshore centres in Europe and their implications. Her main research interest is globalization and financial architecture.*

# EXPLAINING JUNKSPACE

## *Architects between Market Ideology and Financialization*

The call for papers for this conference, drawing up a background of the *Empire* as a “headless power”, coupled with the conception of the end of ideologies, nevertheless missed to ask questions on arguments and authorities that constitute decisions. Apparently, it was overlooked that in various sectors of society decisions are justified with financial criteria, which in turn go back to both constraints of the economic system and to the purposefully implanted ideology of the *free market*. Architects take this ideology for a natural order. Consequently, they respond with individual, little systemic strategies to the changing conditions of *globalization*.

In view of the economic situation of architects these strategies can be regarded as a failure. In my contribution I would like to give some examples for this, relating to Koolhaas. Furthermore, I will introduce more appropriate theories on the financial and economic development by sketching some points of theories on financialization. Finally I will present some hypotheses on the role of architects as intermediaries in the context of financialization, and especially deduct one model of architect which seems to play a central role in an advanced state of financialization: the second-tier builder.

### Market ideology and market constraints in Koolhaas' statements and his business strategy

In his publications, Koolhaas and his partners often use keywords from the economic context, such as the market, the New Economy, globalization, shopping, hedge funds, offshore centres, volatility, instability and capitalism. Quick readers, such as students, take these as purely descriptive. Upon closer inspection it becomes evident that terms from the economic field are often presented according to neo-liberal ideology.

For example, this is the case in the publication *Content*, in which the Editor McGetrick praises volatility and the resulting instability as a source of freedom,<sup>1</sup> and in Koolhaas' statements on hedge funds, the operation of which he verbally transfigures as "fast discovery and leverage of market irregularities with the aid of unconventional techniques and at a high risk"<sup>2</sup>. Despite the architect's talkativeness, no classification is given in the context of the national economy and society. It is similar with OMAs/AMOs reference to Offshore Centres in the booklet titled "The Gulf". Here the authors describe Dubai's *tax exemption plan as a system of non-hierarchical cultural and social norms*<sup>3</sup>. *The authors seem to pick up the rhetoric of Offshore service providers and the hosting governments, which often refer to the international character of their location, while leaving out that instead of national there are economical barriers, and that, on top of this, immigrants from poor countries are discriminated on the labour market.*<sup>4</sup>

Following Koolhaas, for architects it is a question of flexibility to cope with the existing economic context. My former research shows how in fact OMA itself had to agree on a partnership with a big investor who forced the architects to scale down the creative aspects of their projects by minimizing the time spent on competitions, by economizing working materials and by eliminating project budgets for design furniture<sup>5</sup>. Koolhaas managed to re-establish himself economically, but

1 See Brendan McGetrick: "Content is a product of the moment." In: AMO/OMA, Koolhaas et al, *Content*, Cologne: Taschen, 2004, p. 16.

2 OMA, Hedge-Fond [sic], in: *archplus 175*, December 2005, p. 90.

3 *OMA-AMO, The Gulf*, 2007, p. XX.

4 It could be argued that even if Koolhaas and his team transmit ideological—roughly said neo-liberal—messages, this is meant ironically, provocative or a part of his business strategy for selling the label "Koolhaas". Even if this should (partially) be true, this is not very relevant. The question is a) whether the assumptions on the relation of the economic context in relation to architecture work and b) how this approach might be used to develop a less ideological model to better predict the interactions of finance, economy and architecture.

5 Silke Ötseh: "The Emperor's new firm. Inside the global Y€\$ and how to get out." In: *GAM 04*,

in doing so he published less, and designed buildings which are often criticised because they are seen as immoral and overly deferential of the existing power structures, such as the television building for the Chinese government (CCTV) or the Gazprom tower in St. Petersburg. That means he made concessions, probably due to financial constraints.

**How to prevent an ideological view on architecture.**

**An attempt to build architecture theory on more appropriate theories of the economic context—especially financialization**

Although Koolhaas addressed crucial points—phenomena that influence the development of the society and among this the situation of architects – the question is how to introduce concepts that deal with the economic context of architecture without taking up the cautiously implanted ideology of free markets. In the recent years there has been an increasing interest in the effects of finance, because it seems apparent that financial criteria are getting more important in different areas of the economy and society. I suggest to look closer at theories from the field of political and cultural economy, which try to understand better the impacts of the economic respectively financial system on real economy and society, especially theories of financialization. *Financialization* is used as a broad term because, as Gerald Epstein phrases it, “there is not even a common agreement about the definition of the term, and even less about its significance”<sup>6</sup>. It describes the era following fordism from the seventies onwards. In his book, editor Epstein distils two common convictions of his authors: the growing importance of financial phenomena and the view that “some of the effects of financialization [...] have been highly detrimental to significant numbers of people around the globe”<sup>7</sup>.

Most economists agree, that capitalism has undergone an important change in the seventies, due to liberalisation of the financial markets and/or the downturn of real economy. Following Crotty, from 1973 onwards firms were confronted with what he calls the ‘neoliberal paradox’: falling rates of GDP in comparison with the ‘Golden Age’, a decreasing demand, but higher interest rates and the demand for higher profits generated by the financial markets. The competition between Non Financial Companies (NFCs) became stronger, firms were managed more and more in accordance to financial market requirements<sup>8</sup>. Duménil and Lévy

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Wien: Springer, 2007, p. 118.

6 Gerald Epstein: *Financialization and the world economy*, Cheltenham UK: Elgar, 2005, p. 3.

7 Ibid., p. 5.

8 Crotty, J.: “The neoliberal paradox: the impact of destructive product market competition and ,modern‘ financial markets on nonfinancial corporation performance in the neoliberal era.” In:

argue that there is a new class alliance between upper salariat and the owners of capital at the expense of wage income which restructures economy by leading to lower wages, decreasing demand and an increasingly unjust division of wealth and income and a downturn of real economy in the long run<sup>9</sup>. One crucial term used here is “accumulation”, which means the tendency to a concentration of capital which is—following *authors from political economy*—inherent in financial capitalism respectively capitalism. Anyhow, research on listed companies has shown that a large majority of NFCs were unable to achieve earnings in excess of the cost of capital: “The small percentage whose earnings exceeded the 12 to 15 percent cost of capital demanded by financial markets were concentrated in industries with oligopolistic structures and price-setting power”<sup>10</sup>. That would mean that the mechanisms described by authors from the field of political economy are probably not as strong as assumed. Froud et al. agree that financialization led to high inequalities and shifted the focus to the leading group of working rich in the 1990s and the 2000s, which they call financial markets intermediaries<sup>11</sup>.

Researchers from the field of cultural economy underline that financialization does not follow one specific logic, but different logics in different times and spaces. Economists and sociologists from this camp often refer to Bourdieu, and argue that people do not act as *homo oeconomicus* because they are situated in different fields. In a study on the operation of the derivatives market at the stock exchange of Chicago, MacKenzie and Millo show that even stock dealers are guided by principles of loyalty towards the expectations of seniors, their patrons and by ambition. Beyond this they show how a mathematical model performs economy<sup>12</sup>. Following Callon, MacKenzie speaks of the ‘performativity of economics’. Referring to case studies on the German automotive and chemical industry, Kädtler concludes that there is a tension between financial markets and the real economy due to different time frames, but emphasizes that real economy is too complex to

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Epstein (ed.): *Financialization and the World Economy*, *ibid.*, p. 78ff.

9 See Gérard Duménil, Dominique Lévy: “Costs and Benefits of Neoliberalism: A Class Analysis.” In: Epstein (ed.): *Financialization and the World Economy*, *ibid.*, 2005, p. 17–45.

10 Froud et al, 2000 quoted by Crotty in: *ibid.*, 2005, p. 100.

11 Ismail Erturk, Julie Froud, Sukdev Johal, Adam Leaver, Karel Williams (eds.): *Financialization At Work: Key Texts and Analysis*, London: Taylor & Francis Group, 2008, p. 35. Also see: Peter Folkman, Julie Froud, Sukdev Johal, Karel Williams: “Working for themselves: capital market intermediaries and present day capitalism.” In: *Business History*, vol. 49, no. 4, 2007, pp. 552–572.

12 Donald MacKenzie, Yuval Millo: “Constructing a market, performing theory: the historical sociology of a financial derivatives exchange.” In: *American Journal of Sociology*, vol. 109, 2003, pp. 107–45.

simply apply abstract laws or the simple cause-effect relationships of financial markets. These must be merely understood as leading principles established by a public of investors, rating agencies, analysts and media. Thus, financialization is “a shift of criteria in accordance to what is seen as economically advantageous from the prevalent point of view”<sup>13</sup>.

Even though authors such as Martin emphasize the all-embracing character of financialization,<sup>14</sup> most research concentrates on areas where the effects of financialization can be traced in a more direct way, such as listed companies, or addresses the topic from a broader, macro-economic perspective. The question is then, how this phenomenon affects areas of the economy, such as architecture, which are traditionally structured, produce long-lasting goods<sup>15</sup> and consist of a large number of small and mid-size firms. In the recent phase of financialization, the group of intermediaries plays an important role. In this context “intermediaries” refers to actors who provide architectural services in the real economy that match the profit expectations of the financial sector. Intermediaries are highly influential because of their position; a position which attributes authority derived from their connection to the financial markets to them and allows them to channel capital. It is evident that architects too act as intermediaries, but their role is unclear: they are at once winners, as their services are needed, and losers—due to tightened financial constraints. The ambiguity of the position is expressed in star architect Rem Koolhaas’ claim that architects have a lot of freedom within the existing economic context as long as they adapt.<sup>16</sup>

### **Hypotheses on intermediation in architecture**

If one relates the question of intermediaries in the context of financialization to architecture it might be useful to start developing the hypotheses from a case which has clear characteristics of a financialized economy. Such a case is the resort architecture of Las Vegas, because nearly all of the more than 50 resorts are

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13 Traduction of the author. In original: *Finanzialisierung ist nicht die “Unterjochung der Vertreter der Realökonomie durch die der Finanzmärkte”, sondern eine „Verschiebung der Gesichtspunkte im Rahmen dessen, was nach herrschender Überzeugung als wirtschaftlich gilt“*. Jürgen Kädler: “Bruchstelle der Sozialpartnerschaft. Der Renditedruck schafft soziale Distanzen.” In: *Mitbestimmung* 10/2008.

14 See Randy Martin: *Financialization of daily life*, Philadelphia: Temple University Press, 2002.

15 Margarete Czerny, Michael Weingärtler: “Volkswirtschaftliche Bedeutung der baukulturellen Qualifizierung”. In: ARGE Baukulturreport, *Österreichischer Baukulturreport 2006*, Baukultur: Wirtschaft, 2006, p. 6.

16 Rem Koolhaas: “On Content.” In: *hunch*, 2004, p. 124f.

owned by listed corporations and are investment objects. Building on my previous research,<sup>17</sup> three types of architecture can be identified in the area.

The first type is the architecture of “copycats”<sup>18</sup>—this means an architecture planned by corporate design and planning departments. Architects play a marginal role, do not coordinate and lead the building process as traditionally expected, and do not even make important decisions on the design. The interdisciplinary planning team is copying architecture which has previously generated high profits. This kind of architecture is the most common among Las Vegas’ casino hotels.

The second type is the architecture of famous architects. Investors have been assigning internationally renowned stars as Koolhaas’ *OMA*, *Morphosis*, or Frank Israel to build casinos or part of the resorts. Most visitors did not appreciate this kind of architecture because it was too academic. Star architects were not invited any more and their buildings were altered.

The third type is architecture of the second-tier builder Jerde and the investor Wynn, described as ‘charismatic’. This kind of architecture has generated most profit. Resorts constructed in this way are economically most successful. The production costs are usually low, compared to the architecture of star architects, because the architecture is not really innovative but the architect adds something that is perceived as relating to high culture and thus appealing to visitors.

Apart from this, there were only very few Architects with the traditional profile of the profession (developing a building from design to construction, including supervision of the building process) working within this context.

Beyond this, I assume that financialization at the same time leads to another tendency: disintermediation (this is what “copycats” are doing). It means that the investor directly deals with the producer. By avoiding competence and control of professionals as architects, the professional criteria are suppressed in favour of financial requirements, and the investor cuts costs for the intermediaries.<sup>19</sup>

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17 See Silke Ötsch: *Überwältigen und schmeicheln. Der menschliche Körper im Visier der Planer*, Weimar, 2006. Also see: Karin Jaschke, Silke Ötsch (eds.): *Stripping Las Vegas: A Contextual Review of Casino Resort Architecture*, Weimar, 2003.

18 See Hal Rothman: *Neon Metropolis*, London: Routledge, 2002.

19 The report on creative industries in Vienna showed that architecture is done by design-and-build also because a package of services is provided which rationalizes the procedure. Demel, Falk, Harauer et al.: *Untersuchung des ökonomischen Potenzials der “Creative Industries” in Wien*, report edited by Mediacult Wifo Kulturdokumentation, Stadt Wien, Magistratsabteilung 27 EU-Strategie und Wirtschaftsentwicklung, Wirtschaftskammer Wien, Filmfonds Wien, Wien, 2004, p. 53. This observation is probably typical for architecture in the context of financialization.

Starting from this example I suggest the hypothesis that star architects can as well act as intermediaries, because they provide buildings of cultural value, which may turn into financial value, but to a smaller degree than those designed by second-tier builders (see below). As the buildings of architects appreciated by critics and professionals are often pioneering, it is risky for investors to engage a star architect, because their buildings are not necessarily well received by the broad public, and because star architects might insist on innovative design which might increase building cost. As a consequence of this, buildings designed by star architects are often taken over for construction by other (cheaper) firms or (sub) contractors, or star architects become second-tier builders by adapting to the exigencies of their clients.<sup>20</sup>

Intermediary services in architecture are provided by the *second-tier builder*. This notion refers to architects who are generally under-represented in professional publications, relative to the sheer amount of buildings produced by them. This is because the architecture is not appreciated as innovative or of high quality from the perspective of critics and colleagues. The second-tier builder does emphasize the architectural qualities of her/his buildings, and may even be perceived as a star architect by the public and the investors, but also provides an architecture that can be built efficiently. Examples of this kind of architect are the already mentioned Jon Jerde, the artist-architect Hundertwasser or the Austrian architect Kaufmann, who is economically very successful but largely unknown among architects<sup>21</sup>. The crucial point about the second tier architect is that this type of architect brings together the most lucrative strategies by combining the strategies of intermediation and disintermediation.

Even if it is difficult to criticise the text *Junkspace* because of its literary character, the question is whether Inaba and Koolhaas intuitively describe the architecture of second tier builders. It is an architecture which is typical for an advanced state of financialization, which is neither the cheap architecture of disintermediation, nor everyday architecture, nor the architecture of star architects. It gives incentives for consumers to spend because it addresses an average taste by preventing being something special, whereas in fact it is built in a rationalistic way. Thus it is an architecture which generates the highest profits.

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<sup>20</sup> The architect Frank Gehry is an example for this. He was economically unsuccessful in his first phase when he was designing average shopping malls. In a second phase he built his own house and some small buildings which were innovative and appreciated by critics but were economically not very profitable. As a consequence he was discovered by investors, became famous and economically successful by providing second-tier buildings.

<sup>21</sup> Wojciech Czaja: "Ich bin der Mann mit Hut." In: *Standard*, 9.08.2008.