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Economic Crisis, States and International Security

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The economic recession that started in the USA in summer 2007 did not come as a complete surprise. Numerous disequilibria had been increasingly obvious. To name only a few: the structural US trade deficit and heavy internal debt, domestic and international financial markets' growing urge to splurge or the negative impact of the undervalued Chinese currency. The evolution of 'the American disease' into a global epidemic appeared as, above all, a finance and confidence crisis. Its earlier symptoms, vide Enron, were widely discussed, but basically pooh-poohed. The first global crisis of the modern day globalization became fact.

There is no doubt that it is in the international finance and investment sector where the processes of the modern day globalization are in the most advanced stage. As concerns the global bond market, 'By mid-1999 the total value of bonds outstanding had reached $34 trillion. That exceeds … the total GDP of all the world's countries ($30.1 trillion in 1997).' The daily turnover on exchange markets and the growth of international derivatives markets were exponential. The same concerns 'over-the counter' (OTC) instruments which at that time rose from $8.5 trillion to $51 trillion.[1] The growing decoupling of the domestic and international financial markets from the real economy created, in recent decades, a world in itself. Neither the rate of growth of merchandise trade, nor that of production of goods and services could match the growth in the financial sector.

From the point of view of national policy-makers, international finance has been and still is the most sensitive and also difficult to control part of the modern world economic system. To check the crisis in this area before its consequences affected all the main sectors of the real economy required extraordinary measures, reaching far beyond the traditional monetary and fiscal policy instruments. Manipulation of interest rates and other fine-tuning methods did not make global threat diminish. The helplessness of international institutions also had an impact on the rising panic at the end of 2008. Thus, an answer to the powerful attack of the financial crisis was bound to come from the institution whose role in the economies going global was believed by many to be a thing of the past. I mean here the state, and to be more precise, international coordination of actions undertaken by states.

This issue has a long history of its own, although it has been partly forgotten in the last two, three decades. Therefore, it is worth remembering here that in the 1930s it was precisely J.M. Keynes who propounded the idea that the world economy could be rescued only through parallel and coordinated measures taken by leaders of national economies. Only such 'simultaneous pursuit of … policies by all countries together … is capable of restoring economic health and strength internationally,'[2] he wrote. However, this vision of joining forces to get over the Great Depression of the 1930s was not realized.

Primarily in consideration of the acuteness of the present crisis, this lesson seems to be remembered. The intervention measures taken by the governments of the USA, Japan, Great Britain and others were particularly important in the psychological dimension which in extraordinary situations played a vital role. Equally vital was the readiness of the G-8, EU, G-20, OECD, IMF and other multilateral financial institutions to join national governments and to act in a more or less coordinated way.

According to optimistic forecasts, we are now at the stage of a slow pulling out of the most severe economic recession since the Second World War. However, less optimistic economists, like, for instance, Nouriel Roubini

1 N. Ferguson, *The Cash Nexus. Money and Power in the Modern World, 1700—2000*, New York 2001, pp. 261, 265.

2 J.M. Keynes, *General Theory of Employment, Interest and Money*, various editions, p.376.

('Dr. Doom') of New York University, argue that the recession in the US is not V- shaped (a sudden collapse and quick recovery), but it is U-shaped (a much longer and more difficult pulling out of the recession).[3] We shall see. Anyway, the present crisis leads to several conclusions concerning both certain long-term trends, made stronger by the economic collapse, as well as the question of international security.

Firstly, the crisis in the world economy's centers emphasized the none- too-optimistic aspect of modern globalization with respect to the developing world. That the division of benefits from globalization processes was unequal was obvious to many economists, economic historians and political leaders (particularly in developing countries). However, as long as growth took place, the division of the world into different 'income clubs' was treated as, to be sure, an unfortunate occurrence. People were seeking consolation in the hypothesis that even the poorest were benefiting from globalization. The crisis dashed these hopes and it would seem difficult to reject the thesis of the dean of the world economic historiography, E.J. Hobsbawm, that 'the impact of … globalization is felt most by those who benefit from it least.'[4]

Secondly, in the developed world as well, crisis makes the situation of many social groups worse. Before the crisis blew up, they had been threatened by globalization (runaway industries, international outsourcing, marginality). Today, paradoxically, they are even more threatened by the globalization crisis. Growing unemployment, threat to the welfare and pension systems, and spending on education and health care are at the centre of the present crisis.

Thirdly, modern day globalization does not imply 'perfect' mobility of the factors of production. This applies, first and foremost, to labour, even if it does not mean stagnation in international immigration. Although 'the world share of humans living in a country other than the one in which they were born is no more than 3 per cent,' in absolute numbers immigration is much bigger than at the time of the first globalization. In the years 1974-1998, the US, Canada and Australia alone received almost twenty-two million immigrants, and in the years 1998-2001, 3.6 million. In the years 1999-2001, EU countries received about 4.5 million immigrants.[5] Inevitably however, crisis exacerbates the problem of international immigration, particularly on the receiving end. Its additional, overwhelming dimension is the potentially explosive problem of achieving a new cultural balance, especially in large towns and economic centres where immigrants as a rule head for. Seeking a compromise in conditions of crisis, between the idea of 'melting pot' or 'the republican idea of the nation' and the 'ethnic pandemonium' is not an easy task.

Fourthly, if from the 'purely' economic point of view immigration is conflict-ridden, the phenomenon of international terrorism, and especially the perception of it, makes this problem worse. Under conditions of crisis it is easy to create the threat syndrome, combining the struggle for workplace, skin colour, religion and terrorism into one. So far, in the majority of industrialized countries such a syndrome has not appeared on any larger scale. Nevertheless, one should be particularly sensitive in this regard. Threats to human rights are real (viz. Amnesty International reports).

Fifthly, especially in economically weak countries that were earlier already unable to solve the problems of economic and social development on their own, crisis only dampens the feeling of desperation and

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3 'A Phantom Economic Recovery,' *Nouriel Roubini's EconoMonitor*, August 16, 2009.

4 E.J. Hobsbawm, *Globalisation*, *Democracy and Terrorism*, London 2007, p. 3.

5 Ibid., pp. 4, 86f.

abandonment. On the other hand, in conditions of crisis in developed countries, continuation of aid programmes, for example within the framework of ODA, encounters budget constraints. In such a situation it's not difficult to envision intensifying disputes and conflicts about scarce resources (such as water) or marketable raw materials. One of the greatest threats, although hardly realized by industrial societies, can be the issue of the growing food crisis in many African and Asian countries.

Sixthly, crisis creates a favourable situation for the strengthening of radical movements and parties. In Europe, it usually concerns radical right and nationalist groups. You wouldn't go a long way to find cases in point, even in certain former communist states or states newly emerged as a result of the disintegration of communism. So far these are marginal tendencies, but to disregard them would be an act of political irresponsibility. However, in some African and Asian countries the appearance of the 'Somalia syndrome' is not a question of mere theoretical speculations. Reports by the International Crisis Group or Human Security Report Project do not instill optimism.

With all these threats in mind, it is worthwhile to note the fact that the financial crisis and the crisis in the real economy have not disturbed the basic elements of international security. Restraint shown by major international players is largely a consequence of their economic behaviours and the way they perceive their own interests. Where the sense of community of economic fate and the aspiration for cooperation (even if only forced by circumstances) prevail, incentives to act unilaterally and aggressively are much weaker. The dominant view is that to 'exit' the current system and to adopt the role of the unpredictable free rider would involve a very high cost. From this point of view, it is worth perceiving also the limits of international activities of such regional powers as, for instance, Russia and China.

Still, it does not mean that the present crisis does not tempt one to solve economic problems through open intimidation or, in the last resort, also manu militari. To be sure, this does not concern the core of the developed world; however, on its fringes, even in Europe, this is not a scenario that can be ruled out. This means, at the same time, that although the legitimacy of the present security organizations has not been openly questioned, it has also not been given once and for all.

Perhaps it is precisely in conditions of crisis and through making use of the windows of opportunity created by the behaviours of major international players where a chance of reforms and of strengthening the international order arises. The states that showed a healthy dose of imagination when the economic crisis blew up and who took over leadership roles should show similar imagination with regard to international security. This, however, can turn out to be a task much more difficult than intervention in the financial and real estate markets.

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