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THE FINANCIAL CRISIS AND SUSTAINABLE SECURITY

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Introduction

Oxford Research Group's International Security Monthly Briefings focus primarily on issues such as the conflicts in Iraq, Afghanistan and Pakistan, the evolution of western counter-terrorism policies and the development of the al-Qaida movement. On occasions they also cover matters such as energy security, climate change and world food prospects. In view of the serious financial situation that has developed in recent months, this briefing provides an initial analysis of the possible impact of the crisis on security.

This is undertaken in the context of ORG's work on sustainable security which, in turn, is predicated on an underlying analysis of the security issues that are likely to be most prominent in the next two to three decades. This assesses that there are four main trends that are particularly salient.

Firstly, **global socio-economic divisions** are widening, with most of the benefits of the past three decades of economic growth being concentrated in the hands of a trans-global elite community of about 1.2 billion people, mainly in the countries of the Atlantic community and the West Pacific, but with elite communities in the tens of millions in countries such as China, India and Brazil. Improvements in education, literacy and communications in recent decades have increased the awareness of many marginalised people of this unjust distribution of wealth. In extreme circumstances this can lead to the rise of violent and extreme social movements such as the Naxalites in India.

Secondly, **climate change** is expected to have profound effects on that majority of the world's population living in the tropical and sub-tropical regions but without the economic resources to respond to severe storms, rising sea levels and drastic changes in rainfall distribution. Increased migration and social and political unrest are likely consequences.

Thirdly, **resource competition,** especially over energy resources in the Persian Gulf region and elsewhere, will, on present trends, be an increasing source of tension and conflict.

Lastly, the strong tendency of powerful elites to **maintain security, by military force** if necessary, is expected to be counter-productive, as has already been seen by many of the consequences of the war on terror.

Countering such trends involves a fundamental commitment to emancipation and socio-economic justice. This includes fair trade, debt cancellation, assistance for sustainable development, a radical cut in carbon emissions, rapidly increased use of renewable energy resources and the development of conflict prevention and conflict resolution policies that avoid the use of force.[1]

The Financial Crisis and Historical Experience

The current crisis has three main characteristics:

- It is global. While most emphasis was initially on the sub-prime market in the United States, the crisis has spread rapidly through the UK and across Europe, has resulted in a 60% fall in the Shanghai stock market in a year, steep stock market falls across much of Latin America and bank crises in Australia and New Zealand.

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[1] Chris Abbott, Paul Rogers and John Sloboda, *Beyond Terror: The Truth About the real Threats to Our World* (London: Random House, 2008).

- It has initially been a crisis of liquidity and confidence in the financial sector rather than a decline in industrial and retail activities, but it is expected to have a substantial effect on industrial and commercial output as sources of investment finance diminish.
- It is likely to last at least two years, with several more years for recovery.

Prior to the sub-prime issue, the international economy was already affected by rapid oil price rises and a more general bull market of rising prices for primary commodities. One early effect was a substantial increase in food prices that had a particular impact on poorer communities across the world.[2]

The 2008 crisis is not directly comparable to the 1929 Wall Street crash, which was not truly global, nor to the 1987 stock market problems in Europe nor even the widespread Asian downturn of the 1990s, even though these had some global ramifications. The only comparable previous global crisis was that of 1973-74. Then, unilateral moves by Arab oil producers during the Yom Kippur/Ramadan War of October 1973 precipitated a remarkable 450% increase in oil prices within ten months, resulting in an unusual combination of economic stagnation and inflation. A parallel issue was a rapid increase food prices.

The worst excesses of the food crisis were averted partly by a decline in food prices because of the onset of the recession, together with some emergency aid coming from some of the newly-rich oil producers. The experience of stagflation in industrial countries resulted less in a move towards mixed economies with a higher level of state planning, and more to the development of free-market ideas, not least in the form of what was later termed “Reaganomics”.

The 25 years from 1980 saw the rapid development of free market globalisation that stimulated substantial economic growth but with a notable lack of socio-economic justice as wealth-poverty divisions widened. Towards the end of the 2000s, the combination of oil price rises and economic overextension, especially in sub-prime markets, resulted in a transnational banking crisis.

Impacts on Poorer Communities

Some aspects of the current crisis will have relatively little impact on poorer communities. For example, oil prices are unlikely to maintain their current levels as demand falls due to a decline in economic activity. It would be possible for oil producers to act together to maintain higher prices but this is unlikely for two reasons. One is that the Organisation of Petroleum Exporting Countries (OPEC) does not have sufficient political unity to exert control over the market, unlike the 1973-74 period. The second is that sovereign wealth funds and other investment vehicles of some oil-rich states depend on buoyant stock markets in North America, Europe and East Asia. Maintaining very high oil prices would therefore tend to damage such investments.

Lower oil prices will be of some help to poorer countries struggling to meet the higher costs of their oil imports. Furthermore, the oil price decline is also likely to have some impact on food prices, resulting in price decreases that will be of some help to the poorest communities.

These, though, are among the few aspects of the current economic environment that might have some limited advantage for poorer people. In almost every other respect the outcome is less positive. For example, weak economies in major countries that normally attract migrant labour mean that remittances from labourers to their home countries will diminish as jobs become scarcer and wages decline. Such remittances are not just important across South and Southeast Asia but are also important for several Latin American economies. Furthermore, increases in unemployment in countries that are destinations for migrant workers will lead to a reaction against such workers, as has been seen recently in South Africa. This can readily extend to increased support for far-right political parties.

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[2] See the May 2008 briefing, *Food Poverty and Security*.

Another early consequence of an economic downturn will be a decline in international tourism and travel. Whatever the damaging impact that tourism can have on poorer communities, it is still the case that there is some monetary transfer involved, and some poorer states depend heavily in such earnings.

More importantly, a decline in economic activity will have a substantial impact on commodity prices, affecting the export earnings for poorer countries for a wide range of commodities including copper, tin, coffee, tea, sugar, cotton and hardwoods. Even now, many southern countries depend on such commodity exports for the substantial majority of all their export earnings. It is here that previous experience is particularly relevant to the current crisis and its effects on the majority world.

A New International Economic Order?

In the early 1970s, a substantial increase in commodity prices put the economies of most industrialised countries under some strain, especially as they were also experiencing the oil price rises. The UN Conference on Trade and Development (UNCTAD) had already been attempting to bring a degree of planning into world commodity markets, encouraging individual commodity agreements for products such as coffee and tin that were designed to provide stability along with some slow but steady increases in prices. Such agreements were seen as helping to alter the terms of trade between third world and industrialised states in a manner that would greatly improve the development prospects of the former.

By early 1974 the wild fluctuations in commodity markets were so marked that industrialised countries such as the US, UK, France and Japan were ready to accept the need for international market planning, and a Declaration on a New International Economic Order was agreed at a special session of the UN General Assembly in April 1974. The core of this proposal was the Integrated Programme for Commodities (IPC) which would bring in a series of linked commodity agreements backed by a Common Fund to finance the setting up of the necessary commodity buffer stocks. At the time many development economists believed that the IPC could provide a really valuable boost to the development prospects of many poorer countries, helping to bring in a new era of fair trade. However, that it was even proposed was mainly due to the temporary problems being faced by the world's wealthy economies.

In the event, the increase in oil prices resulted in a decrease in industrial activity, a fall in primary commodity prices and, almost immediately, a general loss of interest in the IPC by the major industrial powers. What was eventually established, later in the 1970s, was a pale shadow of the original programme, and this had little impact as the era of the free market unfolded in the 1980s. The loss of that programme is a reminder that, in times of economic downturn, the prospects for poorer communities rarely loom large in the recovery policies of the world's wealthy states.

Such behaviour has reached almost grotesque proportions in the current crisis, with wealthy states willing to commit more than a trillion dollars to rescue their own banking system in crisis. These are financial outlays that are enormous when compared with those that are being committed to achieving the United Nations Millennium Development Goals.

Responding to the Current Crisis

Although the current crisis does not have direct historical parallels, the marked tendency will therefore be for the most powerful economies to engage primarily in responding to their own problems. Much of this will be at the level of individual states, such as recent US Government intervention in the mortgage and insurance markets and numerous interventions across Europe. There is also likely to be some degree of cooperation between the more wealthy states of the North Atlantic community, drawn mainly from the members of the OECD.

Previous experience indicates that the emphasis will be almost entirely on domestic concerns rather than the wider global community. While this might provide some relief among the poorer sectors of the populations of wealthy states, it will do nothing to help the much larger numbers of impoverished people of the majority world. Moreover, further action to limit third world debt is unlikely and there will almost certainly be pressure on aid budgets. Even key issues such as climate change and the risk of resource conflict are likely to slip down the political agenda.

The implications of this are serious, in that any hindrance to facilitating sustainable development across the countries of the South will increase human insecurity and suffering. Furthermore, any limitation in addressing the urgent issue of climate change will just add to the problems of the South as the damaging effects of climate change increase their impact. Some of the most fragile of the world's economies, from much of Africa through to Southwest Asia, will suffer most from economic recession and the impact of climate change. More generally, the bitterness that already exists across continents will be reinforced by a perception that the dominant economies have little or no interest in the majority of the world's people.

Even so, it is just possible that the current crisis will be seen to necessitate a serious reconsideration of how the world economy has evolved in the past three decades. In essence, the nature of the globalised free market is being called into question amidst demands for considerable reforms. The reason for this may well be the manner in which the free market has allowed the current crisis of liquidity and confidence to develop in the wealthy economies, rather than that the free market has increased socio-economic divisions. The extent to which the reforms will be instituted will depend to some extent on the depth and duration of the current crisis but at the time of writing (early October) there are indications that it could well be severe and prolonged.

What could come out of this might be reforms that not only respond to the crisis in the western banking system but also address the deeper global inequalities that have developed in recent years. For that to happen there will need to be a degree of political wisdom on the part of some national governments, accompanied by visionary proposals by intergovernmental agencies, such as some of the specialised agencies of the United Nations. There are notable past examples of this, not least the Prebisch Plan on trade and development in 1963 that prompted UNCTAD's early work, the UN Environment Programme's work on ozone depletion in the mid-1980s and recent intergovernmental work on climate change.

However, there is little prospect of effective change if it is left solely to governments and inter-governmental agencies. The richer states will look to their own predicaments, and their influence in intergovernmental organisations may limit new proposals. What is essential is the sustained action of nongovernmental organisations as part of a wider civil society. Responding to the current crisis can either be a process limited to the narrow domestic concerns of the most powerful states or it can be seen as an opportunity for reform of the world's economic system that will benefit the majority world. The timescale is the next two to five years, the likely duration of the current crisis, and the stakes are high.

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