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National Security Challenges and The Global Financial Crisis

Scheherazade S. Rehman^{*}

I. INTRODUCTION

The global financial meltdown, which emanated in the United States in late 2007, has caused global economic and financial tectonic shifts. The world has yet to settle down from these shifts. This is without doubt the worst financial crisis in over eight decades. It has not only distressed global economies that were once deemed immune from such financial predicaments (e.g. Italian sovereign debt stress), but the magnitude and impact of the crisis has left relatively few national arenas unaffected. Security is definitely not immune.

II. GLOBAL TECTONIC SHIFTS

These global tectonic shifts have exposed some disturbing trends. One such trend is that our “common global systems” are seemingly failing us in our hour of need. Common systems, be they global or country-based, such as, financial systems, health care, management of resources (oil-gas, food and water), climate change, and political (i.e. dysfunction in which governments are failing to deliver effective policy and governance), are failing to deliver as they once did. There is clearly a need to re-invent these global common systems. Another trend is the seismic global shifts in the movements of international capital.¹ Yet another trend is the drop in the “confidence” of western economic and political systems.² This lack of confidence is deeply rooted in three things: (a) the questioning of whether the western style international banking and financial systems are properly regulat-

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¹ William Speller & Gregory Thwaites, *The Future of International Capital Flows*, VOX (Dec. 21, 2011), <http://www.voxeu.org/index.php?q=node/7452>.

² David Daokui Li, *How China is Managing Western Hostility*, INSEAD KNOWLEDGE (Jan. 17, 2012), <http://knowledge.insead.edu/INSEAD-knowledge-how-China-is-managing-western-hostility-120117.cfm>.

ed and if too much risk-taking is permitted; (b) western governments appearing not to function much beyond reelection bids and being out of sync with its people and markets; and (c) the ever increasing income gap between the rich and the other ninety-nine percent in the West,³ and growing disquiet on the issues of fairness and justice in western markets economies.⁴

III. LINKAGE OF FINANCIAL CRISIS AND SECURITY

The linkages between financial crisis and security are complex and multifold. This section deals with those linkages from an economic standpoint.

³ See *An Overview of Growing Income Inequalities in OECD Countries: Main Findings*, DIVIDED WE STAND: WHY INEQUALITY KEEPS RISING, OECD (2011), <http://www.oecd.org/dataoecd/40/12/49499779.pdf>.

Over the two decades prior to the onset of the global economic crisis, real disposable household incomes increased by an average 1.7% a year in OECD countries. In a large majority of them, however, the household incomes of the richest 10% grew faster than those of the poorest 10%, so widening income inequality. Differences in the pace of income growth across household groups were particularly pronounced in some of the English-speaking countries, some Nordic countries, and Israel. In Israel and Japan, the real incomes of those at the bottom of the income ladder actually fell compared with the mid-1980s. In OECD countries today, the average income of the richest 10% of the population is about nine times that of the poorest 10% – a ratio of 9 to 1. However, the ratio varies widely from one country to another. It is much lower than the OECD average in the Nordic and many continental European countries, but reaches 10 to 1 in Italy, Japan, Korea, and the United Kingdom; around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile.

Id. at 22. Comparatively,

the emerging economies [EEs] represent a highly heterogeneous group, in terms of economic size, population, levels of per capita income and growth performance over the past decade. China and India, for example, are among the largest economies and the two most populous countries in the world, while Argentina and South Africa are considerably smaller economies. Moreover, the EEs have reached different stages of development, with the variation among their incomes being similar to that among the 34 OECD countries. Their long-term patterns of development also differ. . . . All EEs have levels of income inequality significantly higher than the OECD average. Brazil, Indonesia, and, on some indicators, Argentina have recorded significant progress in reducing inequality over the past 20 years. By contrast, China, India, the Russian Federation, and South Africa have all become less equal over time and inequality levels in Argentina and Brazil do remain high. Inequality in South Africa and Russia has also reached high levels. While the challenge of tackling inequality is common to EEs and OECD countries, the underlying forces of inequality in the EEs are different from those in the OECD countries. Key sources of inequality include a large, persistent informal sector, widespread regional divides (e.g. urban-rural), gaps in access to education, and barriers to employment and career progression for women.

Special Focus: Inequality in Emerging Economies, DIVIDED WE STAND: WHY INEQUALITY KEEPS RISING, OECD, 48-49 (2011), <http://www.oecd.org/dataoecd/40/13/49170475.pdf>.

⁴ *Income Inequality in America: The 99 percent*, THE ECONOMIST ONLINE (Oct. 26, 2011), <http://www.economist.com/blogs/dailychart/2011/10/income-inequality-america>.

A. Background

In the United States, the question that is often asked is whether the bailing out of financial institutions⁵ and the financial stimulus⁶ that followed were necessary.⁷ The simple answer is “yes.”⁸ In fact, the

⁵ In a testimony before the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate, on September 23, 2008, Fed Chairman Mr. Ben Bernanke stated that

the Federal Reserve supports the Treasury's proposal to buy illiquid assets from financial institutions. Purchasing impaired assets will create liquidity and promote price discovery in the markets for these assets, while reducing investor uncertainty about the current value and prospects of financial institutions. More generally, removing these assets from institutions' balance sheets will help to restore confidence in our financial markets and enable banks and other institutions to raise capital and to expand credit to support economic growth.

Turmoil in U.S. Credit Markets: Recent Actions Regarding Government-Sponsored Entities, Investment Banks, and Other Financial Institutions: Before the S. Comm. on Banking, Housing, and Urban Affairs, 110th Congress. 89-93 (2008) (statement of Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System). Chairman Bernanke presented identical testimony before the Committee on Financial Services, U.S. House of Representatives, on September 24, 2008. *Chairman Ben S. Bernanke: U.S. Financial Markets*, FEDERAL RESERVE (Sept. 23, 2008), <http://www.federalreserve.gov/newsevents/testimony/bernanke20080923a1.htm#f1>.

⁶ See Alan S. Blinder & Mark Zandi, *Stimulus Worked*, FINANCE & DEVELOPMENT, Dec. 2010, at 14-17, available at <http://www.imf.org/external/pubs/ft/fandd/2010/12/pdf/Blinder.pdf>.

The Fed took a number of extraordinary steps to quell the financial panic. In late 2007, it established the first of what would eventually become an alphabet soup of new credit facilities designed to provide liquidity to financial institutions and markets. The Fed lowered interest rates aggressively during 2008, adopting a near-zero interest rate policy by year's end. It also engaged in massive quantitative easing to bring down long-term interest rates, purchasing treasury bonds and Fannie Mae and Freddie Mac mortgage-backed securities in 2009 and 2010. The Federal Deposit Insurance Corporation increased deposit insurance limits and guaranteed bank debt. Congress established the Troubled Asset Relief Program (TARP) in October 2008, part of which was used by the U.S. Treasury to inject much-needed capital into the nation's banks. The Treasury and the Fed ordered 19 large financial institutions to conduct comprehensive stress tests in early 2009 to determine whether they had sufficient capital—and to raise more if necessary. The stress tests and subsequent capital raising seemed to restore confidence in the banking system. The fiscal (that is, taxing and spending) efforts to end the recession and jump-start the recovery were built around a series of stimulus measures. Income tax rebate checks were mailed to households in early 2008; the American Recovery and Reinvestment Act (ARRA) was passed in early 2009; and several smaller stimulus measures became law in late 2009 and early 2010—such as the Cash-for-Clunkers tax incentive for auto purchases, the extension and expansion of the housing tax credit through mid-2010, the passage of a new jobs tax credit through year-end 2010, and several extensions of emergency unemployment insurance benefits. In all, close to \$1 trillion, roughly 7 percent of GDP, will be spent on fiscal stimulus. We do not believe it was a coincidence that the turnaround from recession to recovery occurred in mid-2009, just as ARRA was providing its maximum impact.

Id. at 14-15.

⁷ *Economic Crisis and Market Upheavals*, N.Y. TIMES (Oct. 3, 2011), http://topics.nytimes.com/top/reference/timestopics/subjects/c/credit_crisis/index.html.

⁸ See *America's Bail-out Plan*, THE ECONOMIST ONLINE (Sept. 25, 2008), http://www.economist.com/node/12305249?source=hptextfeature&story_id=12305249.

question one should ask is if they were sufficient. The simple answer here is “no.” One could make a convincing argument in retrospect that both the bailouts and the Obama stimulus were inadequate and that more should have been done in both instances.

Source: Stimulus Worked, Finance & Development, December 2010, Vol. 47, No. 4, <http://www.imf.org/external/pubs/ft/fandd/2010/12/Blinder.htm>

In Europe, a slight variation of this same question is often asked: whether the bailing out of financial institutions was enough and if the financial austerity that followed was excessive.⁹ The persistence of the

[T]he notion of any bail-out is deeply troubling to any self-respecting capitalist. Against that stand two overriding arguments. First this is a plan that could work. And, second, the potential costs of producing nothing, or too little too slowly, include a financial collapse and a deep recession spilling across the world: those far outweigh any plausible estimate of the bail-out's cost. . . . Although \$700 billion is a lot—about 6% of GDP—some of it will be earned back and it is small compared with the 16% of GDP that banking crises typically swallow and trivial compared with the Depression, when unemployment surged above 20% (compared with 6% now). Messrs. Bernanke and Paulson also have done well by acting quickly: it took seven years for Japan's regulators to set up a mechanism to take over large broke banks in the 1990s. . . . No government bail-out of the banking system was ever going to be pretty. This one deserves support.

Id.

⁹ See Günter Coenen et al., *Effects of Fiscal Stimulus in Structural Models* 18-19 (Int'l Monetary Fund, Working Paper No. 10/73, 2010), available at <http://www.imf.org/external/pubs/ft/wp/2010/wp1073.pdf>.

Temporary fiscal stimulative actions have greater effects on outputs, inflation and real interest rates in the United States than in Europe. . . . The larger effects in the United States

sovereign debt crisis and its spread in Europe to the point that no country, except perhaps Germany, has remained unscathed underscores the mismanagement of this crisis by national governments in the Eurozone and European Union (EU) institutions, such as, the European Central Bank (ECB).¹⁰ It should be noted that coordinating crisis management amongst seventeen Eurozone governments is difficult at best, especially given that the ECB was technically not allowed to conduct fiscal bailouts of member countries at the onset of the crisis. While necessary structural reforms (i.e. austerity measures and tax reforms) were done, there was a severe shortfall in actual crisis management.¹¹ The 2010 European crisis is still making headlines in 2012.¹²

In both, the United States and Europe, financial bailouts were absolutely necessary because the alternative – a complete collapse of financial systems – was not a viable option for developed western style economic models in their current state.

One can question whether it was right or wrong to bail out certain banks and leave others to collapse, but that question is somewhat irrelevant. The mortgage-backed securities industry's collapse reeled into a full crisis of "fear and confidence."¹³ The end game changed and became about abating market and investor fear as the risks to global instability were too colossal.¹⁴ Financial institutions serve as the backbone of Western economics systems.¹⁵ If there is an absence

could be due to number of factors. . . . First, Europe is more open than the United States, and therefore the leakage to imports is larger. Second, automatic stabilizers play a larger role in Europe than in the United States, and therefore the leakage from the discretionary fiscal stimulus into higher taxes and lower transfers is greater in Europe. Third, the degree of nominal rigidities is larger in Europe than in the United States, and therefore the effect of expansionary fiscal actions on the rate of inflation is lower in Europe than in the United States, leading to smaller downward movement in the real interest rate in Europe than in the United States under monetary accommodation.

Id.

¹⁰ Mark Weisbrot, *European Crisis Worsens Due to Economic Mismanagement, Especially by ECB*, CTR. FOR ECON. & POL'Y RES. (CEPR) (Nov. 9, 2011), <http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/europes-crisis-worsens-due-to-economic-mismanagement-especially-by-ecb>.

¹¹ *Id.*

¹² *Id.*

¹³ Adam Shell, *Crisis of Confidence Leads to Fears of Bear Market*, USA TODAY (Aug. 9, 2011), http://www.usatoday.com/money/markets/2011-08-08-correction-or-bear-market_n.htm.

¹⁴ James Altucher, *Why the Bank Bailouts Were Necessary*, SEEKING ALPHA (Feb. 11, 2010), <http://seekingalpha.com/article/188040-why-the-bank-bailouts-were-necessary>.

¹⁵ See *Secretary Henry Paulson Answers Student Questions*, COLUMBIA BUS. SCH. NEWSROOM (Mar. 07, 2011), <http://www4.gsb.columbia.edu/news/item/7315765/Secretary+Henry+Paulson+Answers+Student+Questions>.

of properly functioning banks and financial institutions, then every part of the economic system is in duress i.e. the access to credit, payment systems, and financing.¹⁶ Properly functioning financial institutions underpin the key support structures for businesses and employment.¹⁷

B. Financial Crisis and United States Military Spending

1. Negative Impact on Security

What are the major effects of the financial crisis for United States' military expenditures?¹⁸ Without a doubt, one of the biggest consequences of the international financial crisis, and now the ensuing economic crisis, is the budgetary problem for the government. There is justified fear within the United States' military establishment that in the wake of the financial and debt crisis, and given the 2012 elections, they will experience the same kind of profound cuts that occurred at the end of the Cold War.¹⁹ Certain economic realities are inescapable;

Henry Paulson, former Secretary of the Treasury of the United States, sat down with Dean Glenn Hubbard to discuss a range of topics in front of a packed room of students, faculty, and staff members on February 24, [2011] at Low Library, [Columbia Business School in New York]. . . . Addressing the bailout of AIG and other financial institutions, he added: 'Most people don't understand how fundamental the financial system is to the economy, how it's the backbone of the economy, and it would have been catastrophic if the system had failed.'

Id.

¹⁶ Chris Farrell, *Why Bailouts Stink and Why We Need Them*, BLOOMBERG BUSINESSWEEK (Aug. 5, 2008), http://www.businessweek.com/investor/content/aug2008/pi2008084_564875.htm.

¹⁷ *Id.*

¹⁸ See *Recent Trends in Military Expenditure*, STOCKHOLM INT'L PEACE RES. INST. (2012), <http://www.sipri.org/research/armaments/milex/resultoutput/trends>.

In the United States, outlays for 'National Defense' plus State Department outlays for Foreign Military Financing (FMF) and International Military Equipment and Training (IMET) in 2010 amounted to \$698 billion, an increase of 2.8 per cent in real terms. This also represents a considerable slowing of the rate of increase.

Id.

The US military will cut \$485bn from its planned spending over the next decade but will still maintain a larger force than it had before 9/11. After 11 years of significant budget increases, the Pentagon started to outline on Thursday measures to restrain the growth in its spending, including lower pay increases and higher health insurance premiums for the serving military, base closures and the scrapping of some smaller weapons programmes.

Geoff Dyer, *Pentagon To Cut \$485bn Over Next Decade*, FIN. TIMES (Jan. 26, 2012), <http://www.ft.com/intl/cms/s/0/eedfdbce-4865-11e1-941c-00144feabdc0.html#axzz1kn2AG2yQ>.

¹⁹ See Fareed Zakaria, *Cut Defense Spending*, CNN (Aug. 9, 2011, 1:00 AM), <http://globalpublicsquare.blogs.cnn.com/2011/08/09/cut-defense-spending/>.

Everyone in Washington this week is having a nightmare about a guillotine. I'm talking about the proposed cuts to the Defense Department. If the Congressional super-commission cannot agree on ways to reduce the debt by about \$1.5 trillion over 10 years,

for example, governments are going to experience a decline in their tax revenues due to the drop in economic activity and unemployment. If you couple that with essential social expenditures associated with high, long-term unemployment, you will see rising government expenditures.²⁰ Thus, the government is confronted by two problems.²¹ One is that they have to use declining revenues to fund the deficit, and second, the national debt continues to rise due to the continuing deficits.²² This, of course, translates into governments reexamining all their big programs, and defense programs most certainly are not being left out of the equation.²³ Being an election year (2012), this only exacerbates the problem. Across the board, we are seeing very serious and deep thought being given to our defense plans and priorities, and strategic defense reviews are being carried out at every level of the military and security establishment.²⁴ “Which will effectively mean that we can expect some reductions to take place in defense expenditures?”²⁵ Predictably, the first serious phase of defense cuts occurred in early 2012 when the White House announced “a reshaping and shrinking of the military.”²⁶ The strategic defense reviews are “not

that pulls the trigger. And half those cuts automatically come from expenditures on national security. . . . After the Korean War, President Eisenhower cut defense spending by 27 percent. Nixon cut the budget by 29 percent after Vietnam. Even Ronald Reagan scaled back military spending in the 1980s as the Cold War was becoming less tense. And, of course, as it got over, that process was accelerated by Presidents George H.W. Bush and Bill Clinton - all of it adding up to a 35 percent decrease in the defense budget by the mid ‘90s.

Id.

²⁰ *From Finance to Defence: Adrian Kendry Discusses Paths Linking Financial Crisis to Security*, NATO REVIEW, <http://www.nato.int/docu/review/2009/FinancialCrisis/Adrian-Kendry/EN/index.htm> (last visited Nov. 2011) [hereinafter *Finance*].

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ See Richard L. Kugler, *New Directions in U.S. National Security Strategy, Defence Plans, and Diplomacy: A Review of Official Strategic Documents*, CTR. FOR TECH. AND NAT’L SEC. POL’Y (2011), <http://www.ndu.edu/CTNSP/docUploaded/New%20Directions.pdf>.

²⁵ *Finance*, *supra* note 20.

²⁶ See Robert Burns, *Obama Unveiling Defense Strategy, Military Cuts*, HUFFINGTON POST (Jan. 5, 2012), http://www.huffingtonpost.com/2012/01/05/obama-defense-strategy-military-cuts_n_1186025.html. “Looking beyond the wars he inherited, President Barack Obama on Thursday launched a reshaping and shrinking of the military. . . . [T]he changes won’t come without risk, Defense Secretary Leon Panetta said. But he called it acceptable and, because of budget restraints, inevitable.” *Id.* “The Pentagon unveiled a 2013 budget plan that would cut \$487 billion in spending over the next decade by eliminating nearly 100,000 ground troops, mothballing ships and trimming air squadrons in a bid to create a smaller, agile force with a new strategic focus.” David Alexander & Jim Wolf, *Pentagon Cuts Reshapes Military, Trim Costs*, REUTERS (Jan. 26, 2012), <http://www.reuters.com/article/2012/01/26/us-usa-defense-budget-idUSTRE80P1SP2012012>.

only about how much money will be spent, but also about how it will be spent.”²⁷

The large equation that has to be solved is the balance that must be had between (a) “providing the money to meet the current operations where forces and equipment are needed to meet operational requirements, and (b) the question about what money is needed for future programs and future commitments.”²⁸ “The trade-off between these two [opposing forces is] something that is heatedly debated [in Washington D.C.].”²⁹ For example, there is a rigorous debate over whether to focus on various naval programs or aircraft programs; and choices over manned aircraft programs versus unmanned aircraft programs.

2. Positive Impact on Security

From a security standpoint, however, there are some positives of the financial crisis: the two that stand out are that armed forces recruitment is on the rise and that very deep defense cuts are unlikely given fears of terrorism networks and increased tensions with Iran.³⁰

Moreover, it is important to remember that the United States’ debt problem of over fifteen trillion³¹ is very different than that of the European³² sovereign debt crisis.³³ United States’ debt is in part struc-

²⁷ *Finance*, *supra* note 20.

²⁸ *Finance*, *supra* note 20.

²⁹ *Finance*, *supra* note 20.

³⁰ Jim Michaels, *Military Recruitment Seen Rising Amid Job Woes*, USA TODAY (Nov. 18, 2008), http://www.usatoday.com/news/military/2008-11-18-recruiting_N.htm.

³¹ The U.S. Public debt is \$15.2 trillion. *The Debt to the Penny and Who Holds It*, TREASURY DIRECT, <http://www.treasurydirect.gov/NP/BPDLogin?application=np> (last visited Jan. 28, 2012) (search debt for specific date by using “Daily History Search Application”).

³² This is particularly true for the seventeen Eurozone countries. *See Map of Euro Area 1999-2011*, EURO. CENT. BANK, <http://www.ecb.int/euro/intro/html/map.en.html> (last visited Feb. 25, 2012). “17 Member States of the European Union use the euro as their currency” (Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, The Netherlands, Austria, Portugal, Slovenia, Slovakia, and Finland). *Id.* Non-participants are Bulgaria, Czech Republic, Denmark, Latvia, Lithuania, Hungary, Poland, Romania, Sweden and the United Kingdom; they are European Union Member States, but they do not currently use the single European currency. *Id.*

³³ *See European Public Debt At A Glance*, CNN (July 21, 2011), <http://edition.cnn.com/2011/BUSINESS/06/19/europe.debt.explainer/index.html>.

Fourteen out of 27 countries in the European Union had public debt exceeding 60% of their gross domestic product at the end of 2010, according to official statistics. The report by Eurostat, the statistical office of the European Union, showed that the ratio of government debt to GDP across all 27 member states increased from 74.4% in 2009 to 80.0% in 2010. For the 17 euro zone countries, the debt is even higher, increasing from 79.3% in 2009 to 85.1% last year. Topping the European debt league is Greece with 142.8% government debt to GDP ratio, followed by Italy (119.0%), Belgium (96.8%) Ireland (96.2%), Portugal (93.0%), Germany (83.2%), France (81.7%), Hungary (80.2%), and the United

tural but is also in part event driven. The four key events that almost doubled the size of the debt in a very compressed period of time were the Iraq and Afghanistan wars and the financial bailout and stimulus.³⁴ The United States has the ability to reduce, and, in fact, eliminate the debt if it so chooses; but the current political deadlock and dysfunction is preventing this from occurring.³⁵ The southern Europeans, however, have what is known as a classic, old-fashioned third-world debt problem.³⁶ They borrowed too much and do not have the actual money to pay it back.³⁷ Moreover, the austerity program placed in many Eurozone countries and the United Kingdom are ensuring little and flat growth rates of approximately one percent over the short- to medium- term.³⁸ Thus, despite the United States Federal Reserve's

Kingdom (80.0%). The lowest government debt to GDP ratios were recorded in Estonia (6.6%), Bulgaria (16.2%) and Luxembourg (18.4%), according to the Eurostat report. Under the Stability and growth pact, agreed when the euro began in 1999, member states are supposed to ensure their debt does not exceed 60% of their GDP.

Id.

³⁴ See Tom Blummer, *AP Claims Bush Tax Cuts Caused National Debt to Grow by \$1.6 Trillion*, NEWSBUSTERS (July 17, 2011, 2:43 PM), <http://newsbusters.org/blogs/tom-blumer/2011/07/17/ap-claims-bush-tax-cuts-caused-national-debt-grow-16-trillion>.

How did the debt grow from \$5.8 trillion in 2001 to its current \$14.3 trillion? The biggest contributors to the nearly \$9 trillion increase over a decade were: (a) 2001 and 2003 tax cuts under President George W. Bush: \$1.6 trillion, (b) Additional interest costs: \$1.4 trillion, (c) Wars in Iraq and Afghanistan: \$1.3 trillion, (d) Economic stimulus package under Obama: \$800 billion, (e) 2010 tax cuts (these weren't cuts at all; they were really a continuation of the current income tax structure -- Ed.), a compromise by Obama and Republicans that extended jobless benefits and cut payroll taxes: \$400 billion, (f) 2003 creation of Medicare's prescription drug benefit: \$300 billion, (g) 2008 financial industry bailout: \$200 billion, (h) Hundreds of billions less in revenue than expected since the Great Recession began in December 2007, and (i) Other spending increases in domestic, farm and defense programs, adding lesser amounts.

Id.

³⁵ *The Debt-Ceiling Deal: No Thanks to Anyone*, THE ECONOMIST (Aug. 6, 2011), available at <http://www.economist.com/node/21525446>; Meet the Press Transcript for August 7, 2011: Kerry, McCain, Greenspan, Maddow, Castellanos, MSNBC (Aug. 18, 2011), http://www.msnbc.msn.com/id/44050464/ns/meet_the_press-transcripts/t/meet-press-transcript-august/#.T23nPjGmiHc (Mr. Greenspan states: "the United States can pay any debt it has because we can always print money to do that").

³⁶ See *Greek Bondholders Won't Be Paid, For Now: Transcript of Interview with Scheherazade Rehman*, NAT'L PUBLIC RADIO (NPR) (Mar. 1, 2012), <http://www.npr.org/2012/03/01/147752406/greek-bondholders-wont-be-paid>; *New Efforts to Bail Out Greece: Transcript of Interview with Scheherazade Rehman*, THE DIANE REHM SHOW (Feb. 21, 2012), <http://thedianeremshow.org/shows/2012-02-21/new-efforts-bail-out-greece/transcript>.

³⁷ See *Greek Bondholders Won't Be Paid*, *supra* note 36; *New Efforts to Bail Out Greece*, *supra* note 36.

³⁸ See *Recession 'To Return' To Europe, Say Economists*, BBC NEWS (Dec. 29, 2011, 7:39 PM), <http://www.bbc.co.uk/news/business-16361047>.

Growth in Europe has slowed in recent months as the eurozone debt crisis has forced governments to rein in spending and has undermined confidence in global financial markets.

pessimistic outlook for the United States economy for 2012-2013, communicated in the form of an announcement that interest rates will remain low and unchanged until 2014,³⁹ comparatively, from a United

The eurozone economy grew by 0.2% between July and September, while the 27 economies of the European Union grew collectively by 0.3%.

Id.

The International Monetary Fund sharply lowered its global economic outlook today and warned that an intensified euro crisis could tip the world back into recession. Its latest forecast is for the world to grow 3.3% this year and the advanced countries 1.2%, sharply lower than it saw just four months ago. Those numbers, it warns, are predicated on a comprehensive solution to Europe's crisis. In the euro zone, Germany, France, Spain and Italy all managed to reduce their structural budget deficits, the latter three thanks to austerity. All are expected to reduce those deficits further this year. But this is not the good news it seems. Austerity, the IMF has found, could be making Europe's crisis worse, rather than better.

G.I., *The IMF's Latest Forecast, Perverse Austerity*, THE ECONOMIST ONLINE (Jan 24, 2012, 8:09 PM), <http://www.economist.com/blogs/freeexchange/2012/01/imfs-latest-forecast-3>.

³⁹ Press Release, Board of Governors of the Federal Reserve System (Jan. 25, 2012), <http://www.federalreserve.gov/newsevents/press/monetary/20120125a.htm>.

Information received since the Federal Open Market Committee met in December [2011] suggests that the economy has been expanding moderately, notwithstanding some slowing in global growth. While indicators point to some further improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment has slowed, and the housing sector remains depressed. Inflation has been subdued in recent months, and longer-term inflation expectations have remained stable. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects economic growth over coming quarters to be modest and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that over coming quarters, inflation will run at levels at or below those consistent with the Committee's dual mandate. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of re-investing principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability. Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Dennis P. Lockhart; Sandra Pianalto; Sarah Bloom Raskin; Daniel K. Tarullo; John C. Williams; and Janet L. Yellen. Voting against the action was Jeffrey M. Lacker, who preferred to omit the description of the time period over which economic conditions are likely to warrant exceptionally low levels of the federal funds rate.

Id.

States' perspective, the defense cuts would be significantly smaller than what is forecasted in Europe.⁴⁰

Source: Robert, Lance. *US Debt to GDP Hits 98.9% and Rising*, BUSINESS INSIDER (Nov. 17, 2011), http://articles.businessinsider.com/2011-11-17/markets/30409247_1_debt-growth-debt-ceiling-financial-crisis.

IV. FINANCIAL CRISIS, SECURITY, AND DEVELOPING COUNTRIES

The linkage of “economic desperation” (measured through poverty on the individual’s level and various economic indicators on the societal level) and security issues (terrorism, extremism, nationalism, xenophobia) has been investigated in-depth in the post 9-11 era - especially the link between poverty and terrorism.⁴¹ It is important to

⁴⁰ See James Blitz, *Western Alliance: European Cutbacks Raise US Concerns*, FIN. TIMES (Sept. 12, 2011), <http://www.ft.com/cms/s/0/f7906184-d7c8-11e0-a06b-00144feabdc0.html#ixzz1ko4JiCtm>.

A fundamental driver of US worries about Europe’s military capability is the extent to which European states are cutting back on defence spending. The US, to be fair, faces its own budgetary pressures and is cutting the Pentagon budget. But the pace at which Europe has moved to slash military budgets is striking. As Anders Fogh Rasmussen, Nato secretary-general, said in a speech in February, Europe has in the past two years reduced defence spending by a figure equivalent to the value of the annual German defence budget.

Id.

⁴¹ Alberto Abadie, *Poverty, Political Freedom, and the Roots of Terrorism*, (Nat’l Bureau of Econ. Res. (NBER), Working Paper No. 10859, 2004), http://www.nber.org/papers/w10859.pdf?new_window=1; Alan B. Krueger & Jitka Maleckova, *Does Poverty Cause Terrorism?*, THE NEW REPUBLIC (June 24, 2002), <http://www.tnr.com/article/books-and-arts/91841/does-poverty-cause-terrorism>.

note that this line of investigation is inundated with contradictions and complexities arising from national interests.⁴²

The discussion can be made simple using data that shows “suicide bombers . . . come from lower socioeconomic groups when compared to other, non-suicidal, terrorists,”⁴³ or made more complex if one considers that the linkage between terrorism and poverty is too simple, and often incorrect. Instead, the links have to do with the structure of rewards and systems of incentives that evolve in many societies. And the role of economics in fighting terrorism can involve far more than trying to disrupt financial networks. Terrorism, and the measures taken to counter terrorism, both carry economic costs. Yet terrorism does have economic sources, and the attempt to offset, and even defeat, terrorism would benefit from the adoption of economic strategies. Terrorism is a complex phenomenon that is difficult to pin down.⁴⁴

This debate can become hideously complicated if one asks the ultimate central question regarding the security-development nexus - whose security we are talking about? Failure to adequately distinguish between terrorism and other forms of violent conflict contributes to the vagueness of statements about ‘security’ being furthered by development and vice versa. While it is of course undeniable that states ravaged by internal conflict will face substantial development difficulties, this is a very different issue from using ‘development’ to make donor country citizens feel less insecure at home in the North. All too often the development-security nexus exists to manipulate development for ‘them’ with the ultimate purpose of enhancing security for ‘us’. This approach is not only a rewriting of the aims of ODA [official development assistance] but is also potentially dangerous and self-defeating, tearing huge holes in the overall development goals of progress, prosperity and peace,⁴⁵ or for that matter, “turning development into a vehicle for security may actually make the latter more elusive.”⁴⁶

⁴² Krueger, *supra* note 41.

⁴³ Claude Berrebi, *Evidence About the Link Between Education, Poverty, And Terrorism Among Palestinians* (Princeton University Industrial Relations Section, Working Paper No. 477, 2003), available at http://webarchives.cdlib.org/wayback/public/SUL_ag_2/20100421001309/http://www.irs.princeton.edu/pubs/pdfs/477.pdf.

⁴⁴ David Gold, *Some Economic Considerations in the U.S. War on Terrorism*, 3 THE QUARTERLY JOURNAL 1 (Mar. 2004), available at <http://www.worldpolicy.org/sites/default/files/imported/projects/arms/study/GoldConnections.pdf>.

⁴⁵ Jo Beall, Thomas Goodfellow & James Putzel, *Introductory Article: On The Discourse Of Terrorism, Security, and Development*, 18 J. INT’L DEV. 1, 51-67 (2006).

⁴⁶ *Id.*

In spite of this confusion about poverty and security, we ultimately understand that the lack of development, increasing poverty and the increasing gap between the rich and poor, and the hopelessness of bettering one's own or one's children's future are detrimental to national security (everyone's national security).⁴⁷

Approximately 1.2 billion of the seven billion world population lives in abject global poverty (one dollar a day or less).⁴⁸ The financial crisis added fifty-three million more people living on less than two dollars a day or less,⁴⁹ as many more individuals become more dependent on foreign aid and remittances from families abroad.⁵⁰ The arenas of foreign aid and remittances are two areas that not only suffer after a lag in the aftermath of a financial crisis, but whose impacts are much longer term. The G8 nations⁵¹ had committed to double foreign aid spending by 2010.⁵² The financial crisis has significantly

⁴⁷ Frances Stewart, *Development and Security* (Ctr. for Research on Inequality, Human Sec. and Ethnicity (CRISE), Working Paper No. 3, 2004), <http://www.crise.ox.ac.uk/pubs/workingpaper3.pdf>.

⁴⁸ See *Freedom From The Want*, UNITED NATIONS 19 (2000), <http://www.un.org/millennium/sg/report/ch2.pdf>. "Nearly half the world's population still has to make do on less than \$2 per day. Approximately 1.2 billion people-500 million in South Asia and 300 million in Africa- struggle on less than \$1." *Id.*

⁴⁹ *Id.*

⁵⁰ ALEXIS ARIEFF ET AL., CONG. RESEARCH SERV., R 40778, THE GLOBAL ECON. CRISIS: IMPACT ON SUB-SAHARAN AFRICA & GLOBAL POL'Y RESPONSES 12 (Aug. 25, 2009), available at <http://fpc.state.gov/documents/organization/128815.pdf>.

⁵¹ The Group of Eight is a forum for the governments of the seven of the world's leading industrialized nations, and Russia: United States, Canada, France, Germany, Italy, Japan, and the United Kingdom. In 1997, the group (then G7) added Russia, thus becoming the G8. The European Union is represented, but cannot host or chair the G8.

With no headquarters, budget or permanent staff, the Group of Eight is an informal but exclusive body whose members set out to tackle global challenges through discussion and action. . . . The leaders of these countries meet face-to-face at an annual summit that has become a focus of media attention and protest action. The G8's roots lie in the oil crisis and global economic recession of the early 1970s, and was created by France in 1975.

Profile G:8, BBC WORLD NEWS (June 26, 2010), http://news.bbc.co.uk/2/hi/americas/country_profiles/3777557.stm.

⁵² See *Aid Statistics*, OECD (2012), http://www.oecd.org/document/49/0,3746,en_2649_34447_46582641_1_1_1_1,00.html.

Aid flows from OECD Development Assistance committee (DAC) donor countries totaled USD 129 billion in 2010, the highest level ever, and an increase of 6.5% over 2009. This represents about 0.32% of the combined gross national income (GNI) of DAC member countries. Bilateral Official Development Assistance (ODA) to Africa was USD 29.3 billion, of which USD 26.5 billion was for sub-Saharan Africa. These amounts represent an increase in real terms of +3.6% and +6.4% respectively over 2009. However, excluding debt relief grants, bilateral ODA fell slightly (-0.1%) for Africa but rose (+1.7%) for sub-Saharan Africa. According to recent analyses, Africa is likely to receive less than half of the USD25 billion increase envisaged at Gleneagles, mainly a result of the underperformance of some European donors.

slowed down the progress to fill that obligation.⁵³ In addition, we have seen a resurgence of spikes in food prices.⁵⁴ Food price indices have increased nineteen percent from September 2011 to early 2012 and we are in the midst of yet another food crisis.⁵⁵ Among the many reasons for this are the floods in Thailand (floods that occurred in July 2011).⁵⁶ The horn of Africa currently has over 13.3 million people hungry – to the point of starving.⁵⁷ Food prices dipped slightly in 2012, but prices are very volatile.⁵⁸

Id.; see also *Development: Aid Increases, But With Worrying Trends*, OECD (2012), <http://www.oecd.org/newsroom/developmentaidincreasesbutwithworryingtrends.htm>

⁵³ Larry Elliot, *G8 Has Hit a Cynical Low on Aid*, GUARDIAN (July 25, 2010) <http://www.guardian.co.uk/commentisfree/2010/jun/25/g8-cynical-low-aid>.

⁵⁴ *FAO Food Price Index*, FOOD AND AGRIC. ORG. OF THE UNITED NATIONS (Feb. 9, 2012) <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>.

⁵⁵ See *Food Price Watch*, WORLD BANK (Nov. 2011), <http://siteresources.worldbank.org/EXTPOVERTY/Resources/336991-1311966520397/Food-Price-Watch-November-2011.htm>.

Global food prices remain high even though the World Bank global Food Price Index remained unchanged between July and September 2011. Despite dipping marginally in September 2011 by 1% and settling at 5% below its February 2011 peak, the food price index is still 19% above its September 2010 levels. . . . There is general consensus that high and volatile global prices will continue in the medium term due to structural factors. The recent 2011 State of Food Insecurity report by the Food and Agriculture Organization (FAO) argues that rapidly growing economies and populations; increasingly intertwined relations between food prices and energy prices; and increasing production of biofuels are all structural factors affecting both volatility and high prices. Similarly, high domestic price volatility is also likely to continue.

Id.

⁵⁶ See *id.*

Rice markets will need to be monitored closely because the Thai Rice Mortgage Scheme has increased export prices of Thai rice (5% broken), which went up from an average of US\$566 in August to US\$598 in September. A number of analysts continue to expect further price rises in the coming months. In addition, recent floods in Thailand -- the worst in 50 years -- may bring further uncertainty in the short run following production losses estimated at 4-6 million tons of rice (or about 16-24% of the forecasted total production). The flooding has affected the north, northeast and central regions of the country, with 2.4 million people affected and substantive extensions of farm lands covered by water. Floods are hampering shipments (although news of defaults has not yet been received) and are reported to have destroyed a number of rice warehouses and mills.

Id.

⁵⁷ See *id.*

The crisis in the Horn of Africa continues to affect over 13.3 million people in the region. This is an additional million people since the last *Food Price Watch* in August. Famine continues in Somalia and it was declared in the southern Bay region on September 3. An estimated 50,000 people from primarily poor agropastoral households in Gedo and Juba and pastoral households in Bakool also face famine-level food deficits. The number of people facing a humanitarian crisis in Somalia has risen to 4 million; 750,000 are at risk of death due to famine in the next four months "in the absence of adequate response.

Id.

⁵⁸ *FAO Food Price Index*, *supra* note 54.

By mid-2008, international food prices had skyrocketed to their highest level in 30 years. This, coupled with the global economic downturn, pushed millions more people into poverty and hunger. In December 2010, the UN Food and Agriculture Organization (FAO) food price index rose above its 2008 peak. The index dropped to an 11-month low in October 2011, but food prices still remain generally higher than last year and are very volatile.⁵⁹

Source: UN Food and Agriculture Organization 2012, <http://www.fao.org/isfp/isfp-home/en/>.

High and volatile domestic food prices require households to formulate coping strategies (borrow money from other family members to buy food, eat less, get additional jobs, eat whatever food is available i.e., cheaper and less preferred food, buy food on credit, etc.).⁶⁰ These tend to increase conditions that are detrimental⁶¹ (i.e., economic deprivation) to national security.

⁵⁹ *FAO Initiative On Soaring Food Prices*, FOOD AND AGRIC. ORG. OF THE UNITED NATIONS (2012), <http://www.fao.org/isfp/isfp-home/en/>.

⁶⁰ U. Usfar, Fahmida & J. Februhartanty, *Household Food Security Status Measured by the US-Household Food Security/Hunger Survey Module (US-FSSM) Is In Line with Coping Strategy Indicators Found in Urban and Rural Indonesia*, 16 ASIA PAC. J. CLINICAL NUTRITION 2, 368-74 (2007), available at [http://apjcn.nhri.org.tw/server/APJCN/Volume16/vol16.2/Finished/Usfar\(368-374\).pdf](http://apjcn.nhri.org.tw/server/APJCN/Volume16/vol16.2/Finished/Usfar(368-374).pdf); Anders Petersson, et al., *Food Security in the Northern, Eastern and North Central Provinces: A Food Security Assessment Report*, WORLD FOOD PROGRAMME (Apr. 2011), <http://documents.wfp.org/stellent/groups/public/documents/ena/wfp243519.pdf>.

⁶¹ *Media Brief: Costing Lives: The Devastating Impact of Rising and Volatile Food Prices*, SAVE THE CHILDREN (Oct. 2011), <http://www.savethechildren.org.uk/sites/default/files/docs/Costing%20Lives.pdf>. Studies on the impact of food price increases on nutrition after 2006 estimate annual increases in hunger for 63–91 million people, depending on the period analyzed. Sailesh Tiwari & Hassan Zaman, *The Impact of Economic Shocks on Global Under-nourishment* (The World Bank, Policy Research Working Paper No. 5215, 2010), available at http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2010/02/23/000158349_20

A. Transmission of Financial Crisis and The Threat to National Security

The 2007+ global financial crisis and the subsequent European sovereign debt crisis spread and contaminated various regions of the world through four main transmission mechanisms with lags.⁶² The first transmission occurred from the United States to all major developed countries via the financial markets, as global financial markets are not only electronically connected at the speed of light, but also through a collective interconnected mindset among traders and money managers.⁶³ This type of transmission can occur within hours due to electronic trading.⁶⁴ A second type of transmission occurs through trade flows.⁶⁵ This takes a longer period of time - perhaps six months or more and ultimately impacts the medium - and long-term development of an economy.⁶⁶ The third type of financial contamination occurs in through remittances.⁶⁷ About three percent of the World's population (more than 215 million people) reside outside their birth country, and more than "700 million migrate within their countries. Remittances, the money sent home by migrants, are three times the size of official development assistance and they provide an important lifeline for millions of poor households. Remittances to developing

100223161348/Rendered/PDF/WPS5215.pdf.; Hink-Jan et al., *High Food Prices and the Global Financial Crisis Have Reduced Access to Nutritious Food and Worsened Nutritional Status and Health*, 140 J. OF NUTRITION 153S,161S (Jan. 2010), available at <http://jn.nutrition.org/content/140/1/153S.full>.

⁶² Ravi Balakrishnan, et al., *The Transmission of Financial Stress from Advanced to Emerging Economies* 1 (Int'l Monetary Fund, Working Paper No. 09/133, June 2009), available at <http://www.imf.org/external/pubs/ft/wp/2009/wp09133.pdf>.

⁶³ For example, if a panic begins in the Asia stock market, it will spill over into Europe as the markets open and the American stock market could actually be crashing before the market opens in pre-market trading.

⁶⁴ Nidal Rashid Sabri, *Roots of Stock Market Volatility and Crisis: A Synthesis and Suggested Solutions*, in INT'L FINANCIAL SYSTEMS AND SHOCK VOLATILITY: ISSUES AND REMEDIES 14-15 (2002); Pelin Berkmen, et al., *The Global Financial Crisis: Explaining Cross-Country Differences in the Output Impact* (Int'l Monetary Fund, Working Paper No.09/280, 2009), available at <http://www.imf.org/external/pubs/ft/wp/2009/wp09280.pdf>.

⁶⁵ Roberta De Santis, *Had Trade any Importance in the Transmission of Currency Shocks: An Empirical Application for New EU Member States from Central and Eastern European Countries* (European Network of Economic Policy Research Institutes, Working Paper No. 28, 2004), available at http://aei.pitt.edu/6733/1/1132_28.pdf; Kristin J. Forbes, *Are Trade Linkages Important Determinants of Country Vulnerability to Crises?*, in PREVENTING CURRENCY CRISES IN EMERGING MARKETS (Sebastian Edwards & Jeffrey A. Frankel eds., 2002), available at <http://www.nber.org/chapters/c10634.pdf>.

⁶⁶ Shan-Chi Gong, et al., *Crisis Transmission: Some Evidence from the Asian Financial Crisis*, 13 INT'L REV. OF FIN. ANALYSIS 463 (Issue 4, 2004); Forbes, *supra* note 65.

⁶⁷ Berkmen, *supra* note 64; Massimiliano Calì & Salvatore Dell'Erba, *The Global Financial Crisis and Remittances: What Past Evidence Suggests* (Overseas Development Institute, Working Paper No. 303, 2009), available at <http://www.odl.org.uk/resources/docs/4408.pdf>.

countries are estimated to reach \$351 billion in 2011.”⁶⁸ There is generally a longer lag time for this type of transmission.⁶⁹ The last mechanism of financial stress transmission occurs through foreign aid and tends to have the longest lag time of the cotangent - perhaps up to a year or more.⁷⁰ In the 2007+ crisis, it was the transmission of trade, remittances, and foreign aid that mainly impacted emerging markets and developing economies.

1. Trade and Security

The impact on trade in the aftermath of any financial crisis (banking or currency crisis) is well documented.⁷¹ Generally, empirical studies show that “the effects of financial crises on international trade . . . [are] that banking crises [have] had a negative impact on imports but a positive impact on exports, in the short term, whereas currency crises [have] decreased imports in the short term and stimulated exports in the longer term.”⁷² The impact on trade in the aftermath of the current global financial crisis was perhaps the most damaging and is longer-lasting than any other crisis over the last thirty

⁶⁸ *Migration and Remittances*, THE WORLD BANK (2012), <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20648762~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>.

Remittances sent home by migrants accounted for 2 percent of GDP for all developing countries in 2008, but 6 percent of GDP for low-income countries in particular. In several small low-income countries, remittances exceed a fifth of GDP and provide the largest source of foreign exchange. Remittances sent home by migrants to developing countries are three times the size of official development assistance and represent a lifeline for the poor. In 2010, remittances recovered to the 2008 level of \$325 billion after having dropped to \$307 billion in 2009 as a result of the global financial crisis. Flows are projected to rise to \$346 billion in 2011 and \$374 billion by 2012. Remittances generally reduce the level and severity of poverty. They frequently lead to higher human capital accumulation, higher health and education expenditures and access to information and communication technologies, more involvement in private enterprise; reduce child labor; and help households be better prepared for natural disasters. Governments should treat remittances like private transactions and not as a substitute for debt or aid flows. Diasporas can be an important source of trade, capital, technology, and knowledge for origin countries. Their savings and wealth can be leveraged for development projects through diaspora bonds and remittance-backed bonds.

Id.

⁶⁹ Scheherazade Rehman, GW Korea Global Forum Speech on “Financial Crisis and Asia” (Mar. 17, 2012) (on file with author).

⁷⁰ Martin Kohr, *Statement at the UN General Assembly Extraordinary Thematic Dialogue on the World Financial and Economic Crisis and Its Impact on Development*, SOUTH CENTRE (Mar. 25, 2009) <http://www.africafocus.org/docs09/gec0904a.php>.

⁷¹ De Santis, *supra* note 65; Forbes, *supra* note 65.

⁷² Zihui Ma & Leonard Cheng, *The Effects Of Financial Crises On International Trade*, NAT'L BUREAU ECON. RES. (Dec. 2003), http://www.nber.org/papers/w10172.pdf?new_window=1.

years (see chart below).⁷³ It not only slowed the growth of almost every country in the world, but also significantly slowed the fastest growing economies of China and India.⁷⁴ For example, China's and India's change in merchandise export levels between February 2008 and February 2009 were -25.7% and -22.4%, respectively.⁷⁵

Chart 1

Global Trade Falls in Financial Crisis

Source: *Economic Letter – Insights From the Federal Reserve Bank of Dallas*, FEDERAL RESERVE BANK OF DALLAS, Vol. 4, no. 8 (Nov. 2009), <http://dallasfed.org/research/eclett/2009/el0908.html>

Over the last several decades, from an economist standpoint, we have seen “a period of increasingly outwardly orientated policies, i.e.

⁷³ Mark A. Wynne & Erasmus K. Kersting, *Trade, Globalization, and the Financial Crisis*, 4 FED. RES. BANK DALLAS 8 (Nov. 2009), available at http://www.researchgate.net/publication/46567046_Trade_globalization_and_the_financial_crisis.

⁷⁴ James Lamont & Jamil Anderlini, *India and China Voice Growth Fears*, FIN. TIMES (Dec. 14, 2011), <http://www.ft.com/intl/cms/s/0/5437b324-265c-11e1-85fb-00144feabdc0.html#axzz1oO66QG5f>.

⁷⁵ DICK K. NANTO, CONG. RESEARCH SERV., R 40496, THE GLOBAL FINANCIAL CRISIS: FOREIGN AND TRADE POLICY EFFECTS (Apr. 7, 2009), available at <http://www.fas.org/sgp/crs/misc/R40496.pdf>.

globalization.”⁷⁶ A “pullback from these types of policies would be a serious concern”⁷⁷ in a new era of not only slow and flat growth in the developed world, but slower growth in the BRIC (Brazil, Russia, India, and China) countries.⁷⁸ It “would be the wrong lesson to take from the crisis. Certainly globalization played a central role, in terms of the propagation”⁷⁹ and cotangent of the global spread of the crisis and “how synchronized the global economic downturn has been, but at the same time, that should not overshadow all the benefits that globalization has brought”⁸⁰ over the last three decades.

“The challenge for us will be how to manage the risks of globalization, while tapping into its enormous benefits - an on-going balancing act.”⁸¹ What one would like to see, “obviously, [are] policies moving in a direction consistent with globalization rather than a retrenchment away from globalization . . . which . . . ultimately would do more to harm the global economy in the long run.”⁸² In turn, any movement in the direction of protectionism and less transparency would ultimately impact security negatively.⁸³

2. Remittances and Security

As a result of the financial crisis, the World Bank estimated that global remittances dropped by approximately 5.5 percent in 2009 and 12 percent in 2010.⁸⁴ It should be noted that remittances have increased in 2011.⁸⁵ Officially recorded remittance flows to developing countries were estimated at \$351 billion in 2011, this is an 8 percent increase from 2010.⁸⁶

Growth of remittances in 2011 exceeded the earlier expectations in four regions, especially in Europe and Central Asia (due to higher

⁷⁶ *Finance*, *supra* note 20.

⁷⁷ *Id.*

⁷⁸ *Lamont*, *supra* note 74.

⁷⁹ *Finance*, *supra* note 20.

⁸⁰ *Finance*, *supra* note 20.

⁸¹ *Id.*

⁸² *Id.*

⁸³ *10 Benefits Of The WTO Trading System*, WORLD TRADE ORGANIZATION (2008), http://www.wto.org/english/res_e/doload_e/10b_e.pdf.

⁸⁴ THE WORLD BANK, *MIGRATION AND REMITTANCES FACT BOOK 2011* 19 (2d ed. 2011), *available at* <http://siteresources.worldbank.org/INTLAC/Resources/Factbook2011-Ebook.pdf>.

⁸⁵ *Id.*

⁸⁶ Sanket Mohapatra, Dilip Ratha & Ani Silwal, *Outlook For Remittance Flows 2012-14: Remittance Flows To Developing Countries Exceed \$350 Billion In 2011*, MIGRATION AND DEVELOPMENT BRIEF #17 (Dec. 1, 2011), <http://siteresources.worldbank.org/TOPICS/Resources/214970-1288877981391/MigrationandDevelopmentBrief17.pdf>. This is the first increase since the commencement of the global financial crisis. *Id.*

outward flows from Russia that benefited from high oil prices), and Sub-Saharan Africa (due to strong south-south flows and weaker currencies in some countries that attracted larger remittances).⁸⁷ By contrast, growth in remittance flows to Latin America and the Caribbean was lower than previously expected, due to continuing weakness in the United States' economy and Spain.⁸⁸ Flows to the Middle East and Africa were also impacted by the "Arab Spring."⁸⁹

Figure 1: Remittance flows to developing countries have recovered after the global financial crisis, but are forecast to grow at a slower pace in 2012-14

Source: THE WORLD BANK, MIGRATION AND REMITTANCES FACT BOOK 2011 19 (2nd ed. 2011), available at <http://siteresources.worldbank.org/INTLAC/Resources/Factbook2011-Ebook.pdf>.

Following this rebound in 2011, the growth of remittance flows to developing countries is expected to continue at a rate of 7-8 percent annually to reach \$441 billion by 2014. Worldwide remittance flows, including those to high-income countries, are expected to exceed \$590 billion by 2014. However, there are serious downside risks to this outlook. Persistent unemployment in Europe and the United States is affecting employment prospects of existing migrants and hardening political attitudes toward new immigration. Volatile exchange rates and uncertainty about the direction of oil prices also present further risks to the outlook for remittances.⁹⁰

A number of countries are heavily dependent on the flow of remittances as a percentage of their Gross National Product (GDP).

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.*

For example, in 2009, in Tajikistan, remittances comprised 35.1 percent of GDP, Tonga 27.7 percent, Lesotho 24 percent, Moldova 23 percent, Nepal 22.9 percent, Lebanon 22.4 percent, and Honduras 19.3 percent.⁹¹ The countries which were the highest recipients of remittances, in 2012, were India \$55.1 billion, China \$51.0 billion, Mexico \$22.6 billion, Philippines \$21.3 billion, France \$15.9 billion, Germany \$11.6 billion, Bangladesh \$11.1 billion, Belgium \$10.2 billion, Spain \$10.2 billion, and Nigeria \$10 billion.⁹² This data is interesting as a large portion of remittances inflow can be explained by diaspora (“any group migration or flight from a country or region”⁹³) in large European countries working in other countries.⁹⁴

The top ten remittance senders, in 2009, were as follows: the United States, (\$48.3 billion), Saudi Arabia (\$26.0 billion), Switzerland (\$19.6 billion), Russian Federation (\$18.6 billion), Germany (\$15.9 billion), Italy (\$13.0 billion), Spain (\$12.6 billion), Luxembourg (\$10.6 billion), Kuwait (\$9.9 billion), and the Netherlands (\$8.1 billion).⁹⁵ The top ten remittance senders, in 2009, as a percentage of GDP, were as follows: Luxembourg (20.1%), Lebanon (17.0%), Oman (9.9%), Maldives (8.9%), Kuwait (8.2%), Bahrain (6.6%), Saudi Arabia (6.5%), Guinea-Bissau (5.4%), Guyana (5.2%), and Tonga (4.3%).⁹⁶

Moreover, by and large, over 50 percent of those who are working overseas (and send money home) hold jobs in developed countries⁹⁷ and are in what is generally recognized as vulnerable employment.⁹⁸ Workers in such employment most typically do not have any

⁹¹ THE WORLD BANK, *supra* note 84.

⁹² *Id.*

⁹³ *Diaspora* Definition, DICTIONARY.COM, <http://dictionary.reference.com/browse/diaspora> (last visited Mar. 23, 2012).

⁹⁴ Suhas L. Ketkar & Dilip Ratha, *Diaspora Bonds: Tapping the Diaspora During Difficult Times*, in DIASPORA FOR DEVELOPMENT IN AFRICA 127 (Suhas L. Ketkar & Dilip Ratha eds., 2011), available at http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/DfD_FullReport.pdf; Manuel Orozco, *Diaporas, Development and Transnational Integration: Ghanaians in the U.S., U.K. and Germany*, INTER-AMERICAN DIALOGUE (Oct. 23, 2005), <http://w.thedialogue.org/PublicationFiles/Ghanaian%20transnationalism.pdf>.

⁹⁵ THE WORLD BANK, *supra* note 84.

⁹⁶ *Id.*

⁹⁷ *Vulnerable Employment and Poverty on the Rise, Interview with ILO Chief of Employment Trends Unit*, INT'L LABOR ORG. ONLINE (Jan. 26, 2010), http://www.ilo.org/global/about-the-ilo/press-and-media-centre/insight/WCMS_120470/lang-en/index.htm.

⁹⁸ A vulnerable (employment) worker is generally defined as “someone working in an environment where the risk of being denied employment rights is high and who does not have the capacity or means to protect themselves from that abuse.” U.K. Dep’t of Trade and Indus., *Success at Work: Protecting Vulnerable Workers, Supporting Good Employers*, THE NAT’L ARCHIVES 25 (Mar. 2006), <http://www.bis.gov.uk/files/file27469.pdf>.

formal work arrangements or contracts, working conditions are sub-par, there is little if any job security, and because most either do not have access to the formalized legal system or, in fact, no legal system for worker protection rights may exist, there are very few avenues for taking retaliatory action against violations of labor rights. According to an International Labor Organization (ILO) annual report - "Global Employment Trends 2010" - it was estimated that as a result of the financial crisis the "share of workers in vulnerable employment worldwide may have increased by more than 100 million in 2009, and with it global poverty."⁹⁹ Prior to the global financial crisis and subsequent economic and social crisis, "the share of workers in vulnerable employment was on a downward trend in all regions, decreasing globally by around 4 percentage points between 1998 and 2008."¹⁰⁰ In 2010, "the total number of vulnerable workers worldwide is estimated at between 1.48 and 1.59 billion - around half of the total global workforce."¹⁰¹ This is an increase in the "number of workers in vulnerable employment [from approximately] 41.6 [to] 109.5 million from 2008 to 2009."¹⁰²

Monitoring shifts in remittance flows is beginning to play a more pivotal role in national and global security. It is clear that while domestic financial stress causes many young men to become foreign guest workers,¹⁰³ a severe global financial crisis causes these young men to lose their jobs overseas and forces them to return to their homes which are invariably in developing countries.¹⁰⁴ For example,

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ See *Foreign Worker Definition*, WIKIPEDIA, http://en.wikipedia.org/wiki/Foreign_worker (last modified Feb. 11, 2012).

A foreign worker is a person who works in a country other than the one of which he or she is a citizen. The term migrant worker as discussed in the migrant worker page is used in a particular UN resolution as a synonym for "foreign worker". In nations that have yet to ratify this resolution such as the United States the term migrant worker is not synonymous with foreign worker.

Id. "UN Secretary-General Ban Ki-moon recently suggested that the financial crisis could uproot entire communities of foreign workers around the world and cause major changes to the dynamics of international migration." Ron Synovitz, *Global Financial Crisis Costs Many Migrant Workers Their Jobs*, RADIO FREE EUROPE - RADIO LIBERTY (Dec. 18, 2008), http://www.rferl.org/content/Global_Financial_Crisis_Costs_Many_Migrant_Workers_Their_Jobs/1361209.html.

¹⁰⁴ Francis Calpotura & Debayani Kar, *Summary Report for La Liga / TIGRA's Delegation to WARBE Development Foundation and Partners*, TRANSNATIONAL INST. FOR GRASSROOTS RESEARCH & ACTION (Oct. 2009), <http://www.laligaglobal.org/wp-content/uploads/2009/10/BangladeshFinalReport.pdf>.

the Malaysian government rescinded approximately 55,000 Bangladeshi men's work visas in March 2009.¹⁰⁵ Bangladesh has a population of 150 million, of which twenty million live in the nation's capital of Dhaka. The daily wages is just a little more than \$2 a day, and 6 million migrant workers are trying to eke a living outside their country of birth. From Saudi Arabia, Dubai and other countries of West Asia, along with counterparts in Singapore, Australia and the United States, these workers sent \$9 billion in remittances last year - a full 10% of the country's GDP, and is ten times more than Foreign Direct Investments (FDI) to its industry.¹⁰⁶

Bangladesh is what is known in economics as a fragile state.¹⁰⁷ According to a DFID 2008 Country Governance Analysis report,¹⁰⁸ "Bangladesh is a fragile state with widespread social and political marginalisation of the poor, which has the potential to feed into political conflict."¹⁰⁹ The Bangladeshi government was reported as weak in general, lacking accountability across the board.¹¹⁰ It was reported that the weak national governance system mixed with the unstable political environment has "restricted growth potential and limited those who benefit from growth."¹¹¹ With regards to national and global security, high unemployment, low incomes, and fragile states are a volatile combination.¹¹²

3. Foreign Aid and Security

The issue of foreign aid is a pressure point for overall security. The international economic crisis means that we are looking at a situation which will probably lead to less money for defense and a wider security agenda, at a time when the consequences of the economic

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ "Fragile states' is the term used for countries facing particularly severe development challenges: weak institutional capacity, poor governance, and political instability. Often these countries experience ongoing violence as the residue of past severe conflict. Ongoing armed conflicts affect three out of four fragile states." *Definition of Fragility and Conflict*, THE WORLD BANK, <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/EXTLICUS/0,,contentMDK:22230573~menuPK:4448982~pagePK:64171531~piPK:64171507~theSitePK:511778,00.html> (last updated Sept. 13, 2009).

¹⁰⁸ INTERNATIONAL DEVELOPMENT COMMITTEE, DFID'S PROGRAMME IN BANGLADESH, 2009-10, H.C. 95-I (U.K.), *available at* <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmintdev/95/95i.pdf>.

¹⁰⁹ *Id.* at 8.

¹¹⁰ *Id.* at 8-16.

¹¹¹ *Id.* at 8.

¹¹² NATO Review, From Finance to Defence: How Did The Financial Crisis Arrive and Where Will It Lead?, (2009), <http://www.nato.int/docu/review/2009/FinancialCrisis/Adrian-Kendry/EN/index.htm>.

crisis have led to greater social disorder, problems of rising poverty, tensions that could erupt in certain regions through tribal tensions or tensions to do with further conflict in certain continents,¹¹³ tensions over food and water and other recourses (oil and gas being the obvious one). This means that “foreign aid and foreign assistance . . . is absolutely crucial”¹¹⁴ while we face daunting pressures in this arena to cut back in these programs, so there needs to be serious “international coordination in this field.”¹¹⁵

The fact of the matter is that in the absence of foreign aid, the consequence of what is largely a developed world financial crisis could be exacerbated well beyond its current limit and into the developing world. We are already seeing instability arising, we already know from the World Bank that the number of people who will be impoverished this year will rise by many millions We will see people dispossessed, people losing not only their livelihoods but also their homes, we will probably see more patterns of internal migration, all of this is going to accelerate the competition for resources . . . we have to take into account a climate change, which is a factor not directly caused by the economic crisis, but is one of these huge issues which accompany the economic downturn, and this will mean that the conjunction of these issues could bring about a perfect storm. So if we don’t respond positively and with the right kind of coordinated approach, then I think we could be heading into some very stormy periods ahead.¹¹⁶

B. The National Recourses, Security, and Failed States

In addition to trade, remittances, and foreign aid, another explosive mixture with implications for national and global security is the case of failed states that are highly dependent on natural resources or commodity exports.¹¹⁷ When these prices spiral downward, standard of living and employment is directly impacted, and amidst corruption and no short- or medium-term growth and career prospects, young men tend to look for alternative lifestyles.¹¹⁸ It is this type of environment, which is ripe for the growth of extremism. A prime example of the explosive mix of distressed economics, national recourses, and

¹¹³ *Finance*, *supra* note 20.

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ ASHRAF GHANI & CLARE LOCKHART, *FIXING FAILED STATES: A FRAMEWORK FOR REBUILDING A FRACTURED WORLD* (2008).

¹¹⁸ ANTHONY H. CORDESMAN, & NAWAF E. OBAID, *NATIONAL SECURITY IN SAUDI ARABIA: THREATS, RESPONSES, AND CHALLENGES XXI* (2005).

security is Yemen. Approximately seventy percent of Yemen's GDP government revenue comes from oil exports and income from oil constitutes about ninety percent of exports.¹¹⁹ Rapidly decreasing oil reserves, however, coupled with a fall in global oil prices, have had a severe impact on the Yemeni economy.¹²⁰ "Oil exports in Yemen have declined sharply in recent years, from more than 450,000 barrels per day at the peak in 2003 to roughly 280,000 barrels per day in January 2009, according to Amir Salem al-Aidroos, the minister of oil and minerals."¹²¹ While any direct correlation is difficult to make, this was about the same time (January 2009) that Yemeni militants announced the local creation of "Al Qaeda of the Arabian Peninsula" (AQAP).¹²² AQAP has declared itself as a militant Islamist organization and is primarily active in Yemen and Saudi Arabia.¹²³ Within almost exactly the same timeframe, January 2009, the Saudi Arabian government made public its list of eighty-five of its most wanted militants living around the world.¹²⁴ The majority of them were based in Yemen. "Barring any major new discoveries, energy experts generously estimate that Yemen's oil exports will cease in ten years. The World Bank posits that by 2017 the government of Yemen will earn no income from oil. Other assessments suggest that the proved oil reserves will be exhausted in just five years."¹²⁵

C. Financial Crisis Impact in Post-Conflict and Conflict Countries

Yet another danger of a financial crisis of this magnitude is the potential to be a trigger for post-conflict countries to lapse back into conflict or perpetuate conflict in a conflict zone.¹²⁶ "Post-conflict

¹¹⁹ *MENAP Oil Exporters: Benefiting from High Oil Prices Amid Growing Risks*, INT'L MONETARY FUND, 14 (2012), <http://www.imf.org/external/pubs/ft/reo/2011/mcd/eng/pdf/oilexporters.pdf>; *Geopolitics and the Arab Spring in the Gulf*, WORDPRESS (Sept. 27, 2011), <http://saudirevolt.wordpress.com/2011/09/27/yemen-hdi-gdp-per-capita-comparisons/>; Martin Plaut, *Yemen 'Faces Crisis as Oil Ends'*, BBC NEWS (Nov. 20, 2008), <http://news.bbc.co.uk/2/hi/7739402.stm>.

¹²⁰ Christopher Boucek, *Yemem: Avoiding a Downward Spiral*, CARNEGIE PAPERS (Sept. 2009), http://carnegieendowment.org/files/yemen_downward_spiral.pdf.

¹²¹ *Id.*

¹²² Jonathan Masters, *Al-Qaeda in the Arabian Peninsula*, COUNCIL ON FOREIGN REL. (Dec. 7, 2011), <http://www.cfr.org/yemen/al-qaeda-arabian-peninsula-aqap/p9369>.

¹²³ *Id.*

¹²⁴ *Kingdom Unveils List of 85 Wanted Militants Abroad*, ARAB NEWS (Feb. 3, 2009), <http://archive.arabnews.com/?page=1§ion=0&article=118850&d=3&m=2&y=2009>.

¹²⁵ BOUCEK, *supra* note 120.

¹²⁶ Alemayehu Geda, *Capacity Building In Fragile And Post-Conflict States In Africa*, 7 WORLD JOURNAL OF ENTREPRENEURSHIP, MGMT., AND SUSTAINABLE DEV. 217 (2011).

countries” are defined by the World Bank’s International Development Association (IDA) as

(i) a country that has suffered from a severe and long-lasting conflict, which has led to inactivity of the borrower for an extended period of, or at least a substantial decline in the level of external assistance, including from IDA; (ii) a country that has experienced a short, but highly intensive, conflict leading to a disruption of IDA involvement; and (iii) a newly sovereign state that has emerged through the violent break-up of a former sovereign entity.¹²⁷

The simple answer is “yes” to the question of whether financial crisis has further damaged conflict zones and lapsed post-conflict countries back into conflict. We are seeing it in southern Sudan and other African countries that are oil exporters or are natural resource dependent for growth as demand for minerals and copper decline due to the decline in global growth.¹²⁸ All this in turn increases the dependency on aid.¹²⁹ But one has to be very cautious as “each [post-conflict] country has a tipping point [that is different for] when these problems get so severe that they lapse back into conflict.”¹³⁰

One thing is clear, that within the post-conflict and conflict states,¹³¹ the mindset of the population is fragile. “Long periods of fragility and conflict that are accompanied by economic stagnation usually leave the population mindset [where] . . . life is a zero-sum game - the only way they can go up is if others go down.”¹³² This becomes especially true in the national and regional politics of these countries.¹³³ This mindset does not allow for cooperative politics but rather competitive politics, i.e. a power struggle.¹³⁴ It should be added: “during periods of internal conflicts and state fragility, governments

¹²⁷ *Definition of Fragility and Conflict*, *supra* note 107.

¹²⁸ Angus Deaton & Ron Miller, *International Commodity Prices, Macroeconomics Performance, and Politics and Sub-Sahara Africa*, 79 PRINCETON STUD. IN INT’L FIN. (1995), available at http://www.princeton.edu/~deaton/downloads/International_Commodity_Prices.pdf.

¹²⁹ *Id.*

¹³⁰ *Financial Crisis*, *supra* note 57.

¹³¹ The International Peace Research Institute of Oslo (PRIO) database on armed conflict defines events resulting in more than 25 battle-deaths per year as minor conflicts; events resulting in more than 1,000 battle-deaths are defined as major conflicts. *Definition of Fragility and Conflict*, *supra* note 107. Research such as the Armed Conflict Database also differentiates between international conflicts, intrastate conflicts (civil wars) and one-sided violence by state and non-state actors. *Id.*

¹³² *Podcast Interview with Paul Collier on Financial Crisis*, NATO REVIEW <http://www.nato.int/docu/review/2009/FinancialCrisis/Paul-Collier/EN/index.htm> (last visited Nov. 2011).

¹³³ *Id.*

¹³⁴ *Id.*

are typically very corrupt. And so the politicians that flourish in those environments are basically the crooks and crocks, and people with a mindset of the zero-sum game typically dominate the populations of politics in the early post-conflicts settings.”¹³⁵ “So you need a decade of good growth before mindsets can move on to realizing that they’re scope of cooperation and not just a zero-sum game, it can be a positive-sum game.”¹³⁶

So . . . the economy leads the politics -- and perhaps it’s been a big mistake of international policy and an illusion to think that the politics could lead the way. Of course, [you have to have] enough politics and enough security so you get order first . . . it is not possible to build the economy in conditions of serious security disorder.¹³⁷

Prolonged and deep global financial crisis, as the one we are experiencing in the West, ultimately pushes post-conflict countries back into conflict and perpetuates conflict in conflict-ridden zones.

V. FINANCIAL CRISIS, SECURITY, AND DEVELOPED COUNTRIES

It is important to emphasize that the scale and magnitude of the financial crisis has been such that security threats have also emerged in developed western economies.¹³⁸ There is an abundance of evidence that growth of extremism during the global financial meltdown and the ongoing European sovereign debt crisis is not limited to the developing world.¹³⁹ This has especially been true in Europe where far-right-wing parties are making electoral gains in several European countries.¹⁴⁰ Many of these gains are based on anti-Muslim and anti-immigrant platforms amidst severe economic austerity measures implemented in the wake of the financial crisis.¹⁴¹ Stagnating economic growth, rising unemployment, and social benefits being cut, have led voters to lose faith in their conventional parties.¹⁴² For example, in June 2010, European Union parliamentary elections, far right extremist parties gained an alarming amount of the popular vote in a number of European Union countries, such as, Austria, Belgium, Bulgaria,

¹³⁵ *Id.*

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Tackling EU’s Security Threats*, EURO. COMMISSION (Nov. 22, 2010), http://ec.europa.eu/unitedkingdom/press/frontpage/2010/1003_en.htm.

¹³⁹ *Id.*

¹⁴⁰ Deepa Kumar, *Threat of the Far Right in Europe*, SOCIALISTWORKER.ORG (Oct. 7, 2010), <http://socialistworker.org/2010/10/07/threat-of-the-right-in-europe>.

¹⁴¹ *Id.*

¹⁴² *Id.*

Denmark, France, Finland, Greece, Hungary, Italy, Latvia, Romania, and Slovakia.¹⁴³ A specific case, for example, is the United Kingdom, where the “the British National Party (BNP), which has its roots in fascist parties of the past, got almost a million votes and its first two seats in the European parliament.”¹⁴⁴ This is evident in domestic European elections as well.¹⁴⁵ For example, in Sweden, “the party of Jimmie Akesson, the Sweden Democrats, gained power in the parliament running on blatantly anti-Muslim campaigns. Akesson called for restricting immigration, stating that Islam is the greatest threat facing the Swedish nation,”¹⁴⁶ and in Holland, “the PVV won 24 seats in the Dutch general elections in 2010,”¹⁴⁷ while in Switzerland, two right of centre parties (Swiss People's Party and the Federal Democratic Union) have gained popularity.¹⁴⁸ As economic conditions worsen while the Eurozone leaders struggle to contain the crisis, the United States Department of Homeland Security has become increasingly concerned about the security on two fronts in Europe. First, the conditions have ripened and are conducive to the recruitment by right wing extremist groups,¹⁴⁹ and second, they believe that there is an extremely elevated risk of small terrorist homegrown cells becoming active.¹⁵⁰ The Department of Homeland Security believes this threat is the highest within the last decade. The latter they believe to be true in the United States as well.¹⁵¹

The United States is far from immune to this. The far right parties in the United States are in close collaboration with their European counterparts.¹⁵² For example, the Tea Party has adopted some of its rhetoric from European far right parties, and, in fact, learned a valuable lesson watching European elections - that within “the con-

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ In the 2010 general election, the Dutch right-wing Party for Freedom (Dutch: Partij voor de Vrijheid, PVV) won 24 seats, making it the third largest party. *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ U.S. DEP'T OF HOMELAND SEC., OFFICE OF INTELLIGENCE AND ANALYSIS, RIGHTWING EXTREMISM: CURRENT ECONOMIC AND POLITICAL CLIMATE FUELING RESURGENCE IN RADICALIZATION AND RECRUITMENT (Apr. 7, 2009), *available at* <http://www.fas.org/irp/eprint/rightwing.pdf>.

¹⁵⁰ KRISTIN ARCHICK ET AL., CONG. RESEARCH SERV., RL 33166, MUSLIMS IN EUROPE: PROMOTING INTEGRATION AND COUNTERING EXTREMISM (Sept. 7, 2011), *available at* <http://www.fas.org/sgp/crs/row/RL33166.pdf>.

¹⁵¹ JEROME BJELOPERA, CONG. RESEARCH SERV., R 41416, AMERICAN JIHADIST TERRORISM: COMBATING A COMPLEX THREAT (Nov. 15, 2011), *available at* <http://www.fas.org/sgp/crs/terror/R41416.pdf>.

¹⁵² Kumar, *supra* note 140.

text of a prolonged economic crisis, racism and the politics of scapegoating can enable them to reach a wider audience.”¹⁵³ Generally, right-wing extremism is being fueled by the current financial and ensuing economic crisis and has resulted in a resurgence of radicalization and recruitment.¹⁵⁴

VI. CONCLUDING REMARKS: GREATEST DANGER FOR SECURITY EMANATING FROM THE FINANCIAL CRISIS

Perhaps the most distinct and impending threat to national security is the notion that democracy, capitalism, and market economies (the Western ideal) are the best path to economic development. This premise is being severely challenged because of the current global financial crisis, which has exposed “the prospect of an unsustainable debt burden, unprecedented federal budget deficits, the success of mixed economies with both state-owned and private business, huge imbalances in international trade and capital flows, and high unemployment.”¹⁵⁵ It is because of this that United States’ economic recovery is crucial, as

one consequence of the economic crisis is that market economies have lost much of their luster, and the United States has lost much of its credibility in this realm. [And this only. . .] adds to the importance that the U.S. economy get back on track, lest the lasting casualty of the crisis be the perception of modern capitalism itself.¹⁵⁶

Developing and emerging market countries are looking at the China model with some envy (even the United States is adopting more centralized approach in its crisis management with more government intervention and industrial policy).¹⁵⁷ We may worry about ideology - but others who are not developed yet - worry first and foremost about economic success and, second, ideology.

Traditionally the focus, strategy, and desire of western countries have been to use democracy as the method to transform fragile states

¹⁵³ *Id.*

¹⁵⁴ U.S. DEP’T OF HOMELAND SEC., OFFICE OF INTELLIGENCE AND ANALYSIS, *supra* note 149.

¹⁵⁵ NANTO, *supra* note 75.

¹⁵⁶ *Security Challenges Arising from the Global Financial Crisis Before the H. Comm. on Armed Services*, 111th Cong. (2009) (statement of Richard N. Haass, President, Council on Foreign Relations).

¹⁵⁷ Meg Handley, *Why We’re More Dependent on Government Support Than Ever*, US NEWS (May 5, 2011), <http://money.usnews.com/money/personal-finance/articles/2011/05/05/why-were-more-dependent-on-government-support-than-ever>.

to functioning ones.¹⁵⁸ However, given the severity and destruction of the ongoing financial crisis on the wealth and ideology of western systems and institutions, the long-term impact on security could be far more damaging than just economic growth rates or standard of living issues. Thomas P.M. Barnett in his book “Great Powers: America and the World after Bush”¹⁵⁹ advocates that the United States should “go slow on politics (multiparty democracy) while getting our way on the economics (expanding world middle class).”¹⁶⁰ The subtle pressure to shift away from focusing more on the political system in place and instead focusing on growing a middle class to keep society functioning (i.e. focus on the economic growth) effectively resonates with the notion of “forget democracy, build the economy.”¹⁶¹ This pressure to shift is not only due to the security benefits yielded by stable economic growth and a large middle class, but also the “trade-off between spending to protect against external threats and spending to provide jobs and income to citizens at home.”¹⁶²

This might resonate as an enhanced United States’ policy shift that better serves us domestically and internationally given the economic devastation of the financial crisis, but one must keep in mind that China is already the greatest sponsor of this philosophy . . . and the emerging market economies are listening by example. From a United States’ security standpoint, this is perhaps the most dangerous outcome of the current financial crisis.

¹⁵⁸ Michelle Dowst, *Working with Civil Society in Fragile States*, INT’L NGO TRAINING & RES. CTR. (May 2009), <http://www.intrac.org/data/files/resources/621/Briefing-Paper-23-Working-with-Civil-Society-in-Fragile-States.pdf>.

¹⁵⁹ THOMAS P.M. BARNETT, *GREAT POWERS: AMERICA AND THE WORLD AFTER BUSH* 30 (2010).

¹⁶⁰ *Id.*

¹⁶¹ Michael Fullilove, *Forget Democracy, Build the Economy*, BROOKINGS (Mar. 8, 2009), http://www.brookings.edu/opinions/2009/0308_foreign_policy_fullilove.aspx (originally appeared in WASH. POST).

¹⁶² NANTO, *supra* note 75.