



Prosperity and Security

The Challenges of Uncertain Economic Times

Highlights from the workshop series
November 2009 - April 2010

*A workshop series organised by the
Canadian Security Intelligence Service,
Public Safety Canada and
Export Development Canada*

*Series report by Greg Fyffe, Adjunct Professor
Graduate School of Public and International Affairs
University of Ottawa*



This report is based on the views expressed by presenting experts and other participants at three workshops organised by the Canadian Security Intelligence Service, Public Safety Canada and Export Development Canada. Offered as a means to support ongoing discussion as part of Canada's participation in the Global Futures Forum, the report does not constitute an analytical document, nor does it represent any formal position of the organisations involved. The workshops were conducted under the Chatham House rule; therefore no attributions are made and the identity of speakers and participants is not disclosed.

Published June 2010

Her Majesty the Queen in Right of Canada



Cover photograph © James Watkins 2009

The Series

As part of its involvement in the Global Futures Forum, Canada's intelligence community hosted the Security and Prosperity series of workshops, held on 9 November 2009, as well as 8 March and 15 April 2010. Designed through a partnership amongst the Canadian Security Intelligence Service, Public Safety Canada and Export Development Canada, the series examined a broad range of consequences triggered by the financial crisis of 2008 and the related global economic downturn. Presentations sought to determine whether the economic upheavals which characterised the period from 2007 to 2009 are likely to increase the risks of international insecurity. Discussions covered the origin of the crisis, the impact on specific populations, regions and countries, as well as many aspects of the global economic and political system that could have repercussions on security.

The series generated a view of events and trends that was extensive in time, in geography, and in levels of analysis. Common media interpretations put the blame for the crisis at the feet of short-sighted regulators and greedy investment bankers, with implications for the shifting global balance of power; prominent examples include the twin focus on the rise of China and the diminished dominance of the United States. These themes were covered in significant depth over the course of the three workshops.

The speakers and participants also explored the important roles of demographics, social policy, party politics, technological change, and the characteristics of national populations. Some countries have a large surplus labour force which, if employed at all, is employed in the informal sector, or in work which is highly vulnerable to shifts in global consumption, or to the constant transfer of work to countries within even lower wage rates. Of particular concern was how material conditions, especially inequality and poverty, affect unmet expectations, resentment and fear—emotions which, under the right conditions, can drive violent challenges to the status quo. In this context, several speakers noted that states better able to weather the crisis were those, like Canada and Brazil, which are successfully limiting poverty and inequality, have regulated their banking sector and become significantly self-sufficient from the point of view of energy.

Put differently, several experts on labour markets, political extremism, public health and economic history view the social dimension as a key contributing factor to national resilience in the face of economic downturns. The contrast between Canada's ability to face the recent crisis with difficulties in the United States was striking. The story was not just of subprime mortgages and dangerously opaque financial instruments, but of a return of anti-state extremism in the U.S. At the same time, it was

noted that Canada is losing ground on measures of income distribution in ways which may be worrying.

The range of expert perspectives heard throughout the series linked the domestic to the international, and back again. They put into sharp relief the importance of taking a multi-disciplinary approach to understanding those relationships amongst states, populations, security issues and policy areas.

What Caused the Crisis?

Economic crises can produce security crises because they destroy the economic security of individuals and classes, upset power relationships which have supported stability, or induce ideological revolution against the status quo. Populations in stagnant or declining economies are likely to be discontent and prone to civil disorder.

Why and how a crisis happens is relevant to its course, but also to the way the outcomes are interpreted. Destructive consequences which are seen to flow from a dominant but faulty ideology may provoke the elaboration of a counter-ideology, sometimes including a rationale for violent action.

The sub-prime crisis arose because there was a political will to encourage home ownership in the United States amongst people with lower incomes. Had this simply resulted in the non-payment of a higher proportion of loans to local banks, the consequences of such bad lending would have been modest.

The damage was compounded by the aggressive marketing of low-quality, mortgage-backed securities, and the removal of many of the restrictions on financial institutions which had been put in place as a result of the Great Depression of the 1930s. Markets themselves, not regulators, were judged to be the most effective adjudicators of risk. The unfortunate result was that the incentives to local banks were reversed. Because they were rewarded for the volume of loans they created, they pushed loans on whoever would take them, with little regard to the ability to re-pay, a reversal of their previous gate-keeper role. Loans were then securitised and widely sold.

As some market players realised that the feedstock for many mortgage-based funds were toxic—that is the likelihood of catastrophic default was very high—they used complex financial instruments to bet billions of dollars against them. This multiplied the costs of a collapse far beyond the actual total of outstanding loans. When massive defaults did occur, banks involved

in buying or insuring the toxic securities faced collapse. Some disappeared completely or merged with competitors. Others were propped up by governments, particularly in the United States and the United Kingdom. The shock to the overall economy in many countries clearly had the potential to lead to a major global depression, which was averted by the commitment of governments to massive bail-outs and stimulus spending.

However, the crisis has left many governments deeply, or even more deeply, in debt. Recovery in the stock market does not mean recovery of all the sectors providing employment. Political anger at the bail-out is highly visible in the United States, driven in part by the knowledge that the leaders of several major financial institutions took incredible risks with impunity. These risks destroyed billions of investors' funds, created global economic chaos, and often destroyed their own companies.

Depression and Recession—the Security Consequences of Economic Distress

Periods of economic depression and recession can have highly disruptive and long-lasting consequences for national and international stability. Populations which have had their standards of living dramatically reduced may quickly withdraw legitimacy from their government, and in extreme cases, from the constitutional structure and its supporting ideology.

The strength of the reaction to crises depends on the extent and the origin of a given crisis. If such episodes can seldom be restricted to one country, some are truly international while others mostly local.

The Great Depression had a severe global impact. Recovery started in the mid-1930s but the long-term negative impact was a major contributing factor to the Second World War and to the Cold War. In contrast, the crisis in today's Zimbabwe is severe, but the impact outside the country is minimal.

Some of the typical consequences of economic crises historically have been:

- Bankruptcies, unemployment, inflation and an overall decline in economic activity;
- Tension in national finances as income sources decline and social protection expenditures rise;
- A reduction in discretionary expenditures by government, which

may have an early impact on military, diplomatic and foreign aid capacities;

- A loss of international economic pre-eminence which may have permitted the arrangement of international finances for domestic advantage (reserve currency, treaties, market access, terms and conditions of trade);
- A need to work in partnership with, or subservience to, former partners who have emerged stronger;
- Internal questioning of the legitimacy of the current government or even the system of government;
- The rise of radical ideologies and interpretations of the causes of the crisis;
- The emergence of new political movements or of illegal organisations, or the return of old ones, prepared to challenge the current legitimate authority;
- A rise in crime because governments lack the resources to fight it; criminal employment may be the only alternative for some, as crime continues to supply forbidden items or circumvent tax regimes;
- Tension between classes and ethnic groups as they struggle to attain an acceptable share of scarcer resources;
- Verbal attacks on foreigners and foreign governments as a means of diverting attention from domestic distress;
- A loss of the international moral authority and leadership which was formerly validated by success and prosperity;
- War, as countries try to fight their way out of financial difficulty by absorbing the resources of others.

All of these will not necessarily occur in every country affected by a depression or recession, but remain the possible consequences of any severe crisis.

Global Political Activism

According to one expert, movements against the status quo, while rare, are born of three necessary conditions: rising but unmet expectations; the availability of spaces for mobilisation; and constraints on state control. The global economic downturn, in combination with other trends, suggests there is activity in all three areas: a) current demographic trends are creating large numbers of people with rising but unmet expectations (some countries like Iran have a significant youth bulge, while others, including Canada, feature such bulges amongst certain minority groups only); b) urbanisation and the increasing use of the Internet and social media provide spaces and tools for mobilisation; and, c) the capacity and legitimacy of a number of states has been reduced owing to the economic crisis, budget pressures, perceived or real corruption, and failed regulatory roles. Suggestive empirical examples include the mass mobilisation of lawyers in Pakistan against the Musharraf government, youth movements in Iran, and widespread albeit local popular protest in China.

Today: Divided Opinion

Although the downturn has been described as the most serious economic recession since the 1930s, its consequences so far do not appear to be close to the severity of that period. There has been a rapid recovery, although one very costly to governments. The security consequences of the recession may not lead to historical discontinuities if the recovery is permanent.

There are, however, some important qualifications.

- There are still a large number of sub-prime loans and over-valued homes in the U.S. with the potential for further defaults and cascading impacts;
- Government stimulus programs, responsible for much of the recovery, will end soon or have already ended;
- Economic observers are divided on whether the economy has regained fundamental strength, or been temporarily stimulated by discrete programs;
- It is not clear if there is the political will nationally or internationally to return to a more regulated financial marketplace, and therefore the possibility of another crisis is possible.

Morality, Ideology, Resilience and Revolt

The greatest threat to security, although initially invisible, will occur if populations believe that the social order is fundamentally unjust, unfair or corrupt. Communism and fascism both maintained that capitalism gave unacceptable power and wealth to a tiny minority, and both believed the power of the state had to impose an economic and constitutional order which would distribute wealth in a way that was more just in popular or historical terms. The more recent protests against globalisation opposed both the migration of jobs from the traditional industrial countries, and their re-establishment in countries where workers were seen as shamelessly exploited in a manner comparable to the early years of western capitalism.

So far, economic turmoil does not seem to have generated a swelling radical critique of contemporary capitalism. Instead, the critique comes from within capitalism and the current order. The causes are not seen as proof that market capitalism works only to the advantage of the privileged few, but that specific choices around economic policy allowed the markets to work to the advantage of a small group of risk-takers. The debate focuses chiefly on the modalities of market capitalism, not alternatives to it.

This is a significant conclusion in assessing the possible overall impact of the crisis on national and international security, but it is too early for a final judgement. There is also no guarantee that this conclusion will be shared in cultures and social groups already immersed in narratives which portray the G-7 countries as imperialistic, exploitive, selfish or irreligious.

In light of its implications for prosperity, the downturn could well have security repercussions other than anti-capitalism. Notable is how the downturn varied according to gender in countries like Canada, as unemployment spiked far more steeply amongst men than women. Further, with more limited social safety nets in comparison with prior recessions, the long-term impact could spell the long-term “scarring” of the labour market, with permanent reductions in income for entire age cohorts.

Of importance for the interaction of prosperity and security is that weaknesses in the social security net may exacerbate the fear and resentment that an economic crisis can produce. Populations may turn against their government, or each other. Some will be attracted by criminality or extremism. History has many examples of populations which reacted to economic hardship by turning away from the tolerance and protections of a liberal democracy.

As observed by some experts during the series, where there is optimism, where people feel they are benefiting from the current order, there tends

to be a more tolerant, collaborative approach to supporting the existing social contract. When the public loses its hope of forward progress, or feels that prosperity and security are threatened, intolerance rises. Even before the current crisis, many in the U.S. had found that their prospects had diminished, while the very wealthy appeared to capture the benefits of economic growth. These trends are in turn posited as underlying both the recent degradation of political discourse in the U.S., and the return of right-wing militia activity.

In the European case, commonly noted is the rise of anti-minority and anti-immigrant sentiments. Organisations like the British National Party or France's Front National are portrayed as playing on the failure of the EU to live up to its promise of prosperity, and stoking resentment among working classes. While right-wing extremism is not seen as an imminent threat in Europe, some trends of concern were noted. Historical comparisons suggest that extremism is most dangerous when fear, fed by real or imagined problems, is combined with a perception of defeat in achieving a collective objective. EU integration has not brought prosperity and power for everyone, and the resulting frustration can be directed against minorities. Individual economic hardship is mitigated in western democracies by the social safety net, but this is not a guaranteed protection if significant regions or populations have not realised the high economic expectations of European integration. International institutions can prevent extreme government responses in terms of protectionism or attacks on minorities, but this depends in part on the legitimacy of those institutions.

Canada does well on a number of measures of equality and prosperity, but there are disconcerting trends. One speaker noted that incomes for the bottom 90% of Canadians are down or have been flat over the past 25 years, and that a 2007 poll found 67% of Canadians saying they do not benefit from the current economic order.

The Direct Consequences of the Downturn

The impact of the crisis on countries and regions has not been uniform and has depended on:

- The degree to which national economic institutions tried to profit from financial instruments related to U.S. sub-prime loans;
- The degree to which national markets were de-regulated;
- Existing government indebtedness;

-
- The vulnerability of key private companies to an economic downturn;
 - The degree to which key financial institutions linked to governments were highly leveraged in their borrowing;
 - The extent to which normal business activity suffered from a global dlow-down in business activity;
 - Existing rates of business activity and employment;
 - Vulnerability to costs for social safety net programs;
 - Labour market flexibility;
 - Natural competitive advantages;
 - Financial reserves and financial protection options, such as currency value.

By these measures the United States and United Kingdom suffered heavy damage, and of course, Iceland, Ireland and Greece suffered a dramatic impact. Many other countries, including Canada, have faced a reduction in economic activity in important sectors, and governments have had to take on a debt load to finance stimulus programs. This debt load will be a burden for many years to come.

Security-Related Consequences

Complex events produce complex reactions, and it is clearly too early to write with any authority on the definite, long-term security consequences of the financial crisis. Many repercussions from the downturn, however, do appear to have transformed lastingly the geopolitical and security landscape.

A) Shifts in Economic and Political Power

THE UNITED STATES

The dominance of the United States has decreased. Its financial sector is under attack as under-regulated and irresponsible, the automobile sector had to be salvaged and downsized, government indebtedness has increased considerably, and there is no political consensus on what steps need to be taken to prevent a repetition of the financial crisis.

The U.S. dollar remains the global reserve currency, and at present there is no serious candidate for replacement. China, with considerable holdings in U.S. dollars and bonds, has an interest in maintaining the value of the dollar.

Average incomes in the U.S. have been stagnant since at least 2000. The nature of current political discourse suggests a high degree of frustration among those who have considered themselves as middle class. Many see the statistics and the corresponding disenchantment as evidence that there is a restructuring of economic classes in the industrially advanced economies and prosperous democracies which is forcing many to lower their expectations and question their self-identity as members of the middle class.

National economic wealth has a direct impact on both hard and soft power. The attractiveness of the U.S. economic model has been severely impaired and its political culture, which one expert emphasised has been characterised lately by “incivility and partisan bitterness”, has lost much of its appeal. A decline in U.S. moral authority will have direct consequences for the potential of soft power. A decline in government financial resources will have direct consequences for military assistance, diplomatic initiatives, and foreign aid capacity.

CHINA

China has emerged stronger from the recession, despite an initial plunge in economic activity and rise in unemployment. Its wealth has allowed it to buy manufacturing and resource assets available at affordable prices. The strategy that was previously employed to buy assets in underdeveloped countries is now viable in acquiring capacity in developed economies. To this is added China’s success in moving up the value chain from low-cost manufacturing to strength in sectors such as information technology, automobiles and alternative energy.

Some of China’s new wealth supports its military, and China is increasingly able to supply loans and credit to countries of resource or strategic interest. China’s soft and hard power potential is increasing.

Energy and the Balance of Power

An expert argued that in the coming decades energy will have more limited influence on prosperity and security than some of the common dire scenarios suggest. High prices tend to destroy demand and lead to alternative solutions or behaviours. Natural gas is poised to take a much bigger role in global energy markets, especially with recent advances in extracting shale gas, of which there

are plentiful supplies. Advances in technologies supporting the more efficient use of renewable energy sources are proceeding rapidly. Setting aside possible environmental problems, shale gas extraction is predicted to favour North America and the Asia-Pacific as suppliers, at the expense of traditional producers like Russia. Also, a different strategic development in the field of renewable energy may have a lasting effect. The sector has witnessed significant drops in cost, but a key material for green technologies, the so-called “rare earth” materials, are currently dominated by China, which produces roughly 95% of the global supply. While there are some untapped sources in countries like the US, the question is, would a rise in renewable energy mean trading one kind of energy dependence (oil) for another?

So far, however, it is not clear that China is prepared to play the creative, problem-solving role in international affairs that its prominence and success has earned it. It is more often seen as selfish, looking exclusively after its strict economic and political interests, and less those of the global collective. Should this persist, it would lead to an overall reduction of the ability of the international community to intervene in crisis situations, since a major power would consistently define desirable outcomes exclusively by reference to its sole needs, and stay aloof from, or veto, collective action.

RUSSIA

The recession has led to decreased demand for Russian resources, which were the main drivers of economic vigour in this country. Moscow has benefitted from two well-endowed sovereign wealth funds, which grew spectacularly until 2008: its Stabilisation Fund and its Heritage Fund. Those and other financial reserves are being rapidly depleted, and its social and industrial infrastructure needs significant investment. The next period in the political life of Russia may be less dynamic and more prone to tension; some experts estimate that the government will have used up all its available financial reserves by the end of 2011, which could trigger serious social imbalances in the following year. Russia is dealing with a significant number of internal threats, including resurgent terrorism and persistent large-scale criminality, some of which features a ruthless alliance of criminal gangs and corrupt bureaucrats. Reduced government revenues will also make it more difficult to address these problems.

EUROPEAN UNION

Before the recession the EU seemed poised to become a major geopolitical power; the euro was strong and a serious candidate for reserve currency status. Several members of the EU suffered seriously during the recession, and the disparity between the fundamental economic strengths of the northern and southern EU states has been underlined by the Greek debt crisis. The common currency appears to be a barrier to the adaptation of

national economies to straightened circumstances. A fiscal crisis combining ageing populations and declining state revenues (in absolute and relative terms) will not help quell some of the extreme political views that have begun circulating and are in certain countries well entrenched. One estimate is that European right-wing movements enjoy the support of 10% to 15% of voters across the Union, something which could influence centrist parties to lean more towards one or another extreme.

The EU is likely to be a less effective contributor to global collective solutions, and will have more difficulty in resolving internal security problems. Individual countries, particularly Germany, are now more assertive outside the EU framework, a trend expected to last.

Germany Turning East?

Some argue that German-led limits on monetary and fiscal policy are a key reason why some of the weaker European economies are facing difficulty. Germany is seen as acting increasingly as a global player, and turning away somewhat from its Atlantic partnerships. One speaker noted in this context evidence of a possible turn to the east. This includes: significant energy dependence on Russia, including German banks taking major stakes in Russian energy firms; German officials taking positions on boards of Russian companies; and Germany supporting the exclusion of Georgia and Ukraine from NATO membership.

THE G-7(8) AND THE G-20 GLOBAL GOVERNANCE

Even before the recession there was a move towards more inclusive international economic discussions through the G-20 rather than exclusively through the G-7. Since the financial crisis originated within and had the greatest impact on the G-7, the G-20 looks increasingly representative of the current locus of financial power. Institutions with the most influence on financial levers have historically also been the most effective at creating order: might the G-20 be called upon to play a role in international security in the future?

MIDDLE EAST AND NORTH AFRICA

Many of the governments in the Middle East and North Africa have benefitted from their wealth in hydrocarbon resources, and their sovereign wealth funds have enabled them, like China, to acquire hard assets in industrialised and other countries. Most have successfully dealt with the security challenges of recent years although few, if any, have used their prosperity to implement successfully reforms that would help them fare through future crises with more resilience. Experts have stressed that, other than small-scale corruption opportunities, there is no room in many Arab countries to allow a middle class of any size to emerge as an engine

of growth. Whoever is “in the state” (officials, security services, politicians) can take part in the national economy. The problem is that most citizens find themselves de facto out of it.

Sovereign wealth funds reinforce the existing divisions between the ruling elite and the rest of society. The global downturn has increased unemployment among the demographic group most vulnerable to terrorist and criminal activity: young males who have little to lose. It has simultaneously decreased the potential to offset the lack of domestic opportunity through legal or illegal immigration to southern Europe, which has much less capacity to absorb surplus labour from elsewhere. Little has been invested in education.

INDIA

India continues to grow economically, despite continued poverty and internal security threats. It may offer the best hope for stabilisation with Pakistan by according the latter favourable trade conditions. Cross-border economic relations can improve mutual trust despite long-standing hostility and terrorist provocation.

FRAGILE STATES

Many of the countries which already had fragile economies (e.g., Pakistan, Jamaica, Nigeria, Yemen, Congo, Afghanistan) are now in a more negative position because of the global recession. Internal security problems, which make them unattractive for investment at the best of times, have become more serious. Investment from abroad and internal investments alike tend to avoid areas where the government cannot provide safety, or threaten investments through conflict, corruption or the absence of the rule of law. Officials can be bribed if not reasonably paid, and bribed officials allow the taxation system to be circumvented, continuing the vicious circle.

As unemployment rises and governments are less able to afford expenditures in good governance, security and safety, the attractiveness of both terrorism and criminality rise for vulnerable male youth. High levels of criminality in countries such as Nigeria and Jamaica are harder to combat. Growing, transporting and selling drugs become more attractive as opportunities in the legitimate economy are impaired.

The Changing Patterns of War and Prominence of Value Conflicts

There are a range of positive indicators for reduction in conflict and battle deaths since the 1950s, and especially since the end of the Cold War. Significant credit was given to the relative effectiveness of peace-keeping and peace-making since end of Cold War, albeit with much room for improvement. There is also reason for

pessimism. Conflicts to which a government is a party have been multiplying in the last five years. Some 36% to 65% of all conflict deaths now involve violent Islamist action in one way or another. Conflicts are becoming more intractable. Up to 1970 fewer than 20% of conflicts lasted ten years; by 2007 the proportion was 50%. Values-based conflicts are the most intractable. Those centred on practical issues, such as access to water, have proven more amenable to co-operative solutions.

B) Multi-country Factors

FOREIGN AND DEFENCE AID

Many countries, because of their national debts, are less able to contribute foreign aid to partners abroad, less able to support expanded diplomatic representation abroad, and have to consider carefully the considerable costs of military interventions. “Imperial overstretch”—a mismatch between military ambitions and financial capacity—is a common diagnosis for a decline in the influence of great powers. Today a lack of financial capacity will not only have an impact on the United States, but on its allies as well.

Recipient countries, already suffering from diminished economic activity, face a declining ability of foreign donors to provide foreign aid or other support.

Economic problems cause a growth in state power, which in turn increases the likelihood of state-to-state conflict. When the state uses wealth generation to undertake some social redistribution, this promotes long-term stability. Asian countries tend to generate wealth without active redistribution: could this become a source of vulnerability in the future? Although some of the most dynamic Asian economies have witnessed a relatively balanced distribution of income occurring naturally, China and Russia are likely sensitive spots—one an emerging power, the other with bleaker economic prospects. For hints of trouble, observers might turn their gaze to where state power has grown but social welfare has not.

REMITTANCES AND THE MOVEMENT OF PEOPLE

Countries without a sufficient economic base to employ their own populations, such as Pakistan, Bangladesh, and the Philippines, benefit from substantial remittances from workers employed overseas. The reduction of economic activity in host countries has a direct impact on those receiving the remittance payments. It is estimated that over 200 million migrants worldwide send an annual US\$328 billion in remittances, which is twice as much as overseas development aid (ODA). However, given that roughly 80% of ODA is said to return to donor countries through contractors, the role of remittances is even more important than the comparative figures indicate.

Pakistan has a large number of workers in the United Arab Emirates. Workers in these circumstances may return to their home country, or stay in the host country because they fear if they leave they cannot return. In either case they are unemployed and a possible source of unrest.

Overall, migration is expected to be a growing, even more integral part of the global economy, although it has been affected by the economic turmoil. The downturn reduced the flow of migrants, and led to substantial returns of migrants to their countries of origin, though less than expected. Indeed, a large number of irregular migrants did not move back to their country of origin, but stayed where they were without employment, exacerbating the potential for exploitation and poor labour conditions. Large numbers of irregular migrants can strain state capacity to safeguard public health, deter crime, and guarantee border security. This diminishes public confidence in government; particularly, the presence of a large migrant labour pool threatens the job prospects for residents. These issues will increase in seriousness as global labour market flows increase to meet labour market needs in advanced economies, in the absence of legitimate global mechanisms to match labour supply and demand. Given increasing future demands for labour in countries with ageing populations, such governance and social cohesion problems may only worsen without more legitimate global mechanisms to match labour supply and demand.

GLOBAL CRIMINALITY

Globalisation has benefitted illegal as much as as legal enterprises, but in an era of fiscally handicapped governments, the tools to fight organised crime are harder to pay for. Poorer governments face difficulty paying officials at a rate which will defeat corruption and have fewer resources for police and military to respond directly to criminal activity. Major international cities are also major crime centres.

Not all areas of criminal behaviour prosper during difficult economic times, but some core activities, such as illegal drugs, seem to sustain a high level of demand. As some criminal activity becomes extremely sophisticated, such as Internet fraud and illicit entry into databases, criminality attracts the well-educated and technically sophisticated. Because of the nature of the Internet, detection and prosecution is challenging, so some of this activity appears to be low-risk for the high-tech recruits.

An economic downturn also gives organised crime the opportunity to buy into the legitimate economy, which increases the threat of illegal behaviour and business crime, and ultimately of political corruption. Further, with fewer opportunities for legitimate jobs, significant populations will turn to the underground economy. Where there are limited opportunities in the

underground but licit economy (e.g., the grey economy for smuggled but legal goods has been squeezed by the largest retailers, which can compete on price with the underground market), significant numbers may turn for employment in the illicit sector.

Changing Patterns vs. Changing Levels of Crime

Even with large-scale economic downturns, many experts stressed that observers should not necessarily expect spikes in crime, organised or otherwise. Instead, what is more common is to see shifts in manifestations of criminality. In many cases, property crime actually goes down during a recession, perhaps because with more people out of work, there are fewer empty houses to burgle. At the same time, domestic abuse is expected to rise. With respect to organised crime, which is generally plagued with measurement difficulties, what evidence we do have shows more changes in pattern than size – but these changes can have significant long-term consequences. With desperate banks, and fewer opportunities for criminals to launder money, and with individuals and companies desperate for sources of credit, there can be greater infiltration of the banking system and licit businesses by organised crime groups.

What Could Make it Worse

The observations above are in part descriptions of actual manifestations of the economic turmoil, and speculations on others which could occur in the longer term. What number of factors could heighten the negative consequences for security of the financial crisis?

1. **A repeat** One of the most difficult but vital debates is about whether government has to be re-assigned many of the authorities it once had to prevent reckless risk-taking in the marketplace. If there is no reform, and there is a repeat in some form of the recent crisis, then all of the dangers that are currently present would be intensified.

Reaching a consensus on what steps need to be taken will not be easy, neither in the fractious U.S. political system, nor amongst international players with different interests.

2. **Downturn in the U.S.** Since there are still default-prone mortgage loans in the U.S. marketplace, a new crisis, even circumscribed to the U.S., could quickly weaken the country's influence and generate geopolitical uncertainty.
3. **The AQ narrative** Al Qaida will likely internalise further the consequences of the financial turmoil into its anti-American

narrative. Since the latter is already anchored in the ruthless exploitation of Islamic societies by western powers, it is not hard to imagine the addition of critiques reinforcing the image of western materialism, selfishness and subservience to financial interests. Al Qaida rhetoric may increase in appeal if it echoes globally popular critiques of “western ills”.

4. **Anti-globalisation narrative** The financial crisis might spark a renewed or intensified anti-globalisation protest. Since some aspects of the crisis could easily be interpreted to validate some elements of the anti-globalisation critique, it is possible that anti-globalisation protests will emerge in a new and more virulent form.

Financial institutions are a more diffuse target than companies or G-7 meetings, but a possible focus for future protests could be international meetings looking at necessary reforms, particularly if conflicting national interests make it difficult to achieve progress.

5. **Deteriorating environmental conditions** Global warming bears no relation to the financial crisis, but it will be harder for governments to make necessary mitigation investments when resources are limited, and the impacts of global warming will be harder on poor populations already in difficulty because of the impacts of the recession. Some have argued that a small, though very serious form of extremism—“dark green activism”—could stem from the “immorality of materialism” and pressing environmental concerns left unattended.

Conclusions

In the immediate aftermath of the global economic downturn, some of the systemic consequences of the 2008 crisis have become apparent. However, it is more difficult to speculate on the future security threat environment and forecast specific possibilities.

There has been a decline in the ability of the United States and some of its allies to exercise moral leadership and to allocate hard power and resources in the form of military and humanitarian aid. The rise of a more wealthy and ambitious China may make an international consensus in crisis situations more difficult to achieve. Whether this shift in influence is minor or long-term and critical depends on the future course of the economic recovery.

The recession has led to a diminished capacity in many countries vulnerable to terrorist recruitment to employ the male youth population. Similarly, criminal activity will be more attractive in some countries than before, and to some skilled workers not previously seen as inclined to accept employment in the illicit economy.

It is possible that the impact of the recession on security will be minimal, but that is unlikely since there are already changes in the relative political influence of major countries. The destruction of billions in shareholder value and the increased indebtedness of governments are certain to have consequences for where and how money is invested and spent.

One possibility, perhaps the best case, is that the impact on global security will be incremental and not revolutionary. The anti-western narratives will be more trenchant and more credible, and novices will continue to join in as terrorists, suicide bombers and criminals. But the future world will be recognisable as an extension of the present, coloured in a slightly darker shade as a result of the cumulative effect of the changing global economic, political and social conditions.

An immediate danger is a loss of the ability of the international community to collectively address pressing global problems, a capacity which is already under severe strain. The collective response to the recession itself is encouraging.

A series of workshops, such as those that are the source of this report, are in part exploratory and they do not in themselves produce an integrated story or suggest next steps. Many of the themes in this report require further discussion and elaboration. Still, the opportunity to think about future possibilities with such a diverse group of global experts is rare, and the potential needs to be fully developed.

A useful next step would be to elaborate a series of warning indicators which would help signal whether the ultimate consequence of the 2007-09 crisis is likely to be a variation of the present, or a dramatic and dangerous recasting of our world.