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International security in the face of the economic, financial and climate crisis

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Economic and political analysis of free trade and democracy always suggests that the market economy paves the way for world peace. However, military crises or wars have not ceased in the modern world and they can interrupt trade, production and financial flows. In times of economic and financial crisis, governments have to improvise, without much regard for the diplomatic, economic and social consequences of their actions on other countries. The policy of every man for himself has often been the rule in these periods, but today international bodies are seeking to develop common actions, often influenced by the lobbying of the interests of multinational firms. The large monopolies or oligopolies know how to shape the rules of international law that constrain national public authorities and how to escape their financial contributions to public services. Today, with global warming, it is the entire market economy system that must innovate and reinvent itself, or make way for other forms of society more concerned with collective interests.

L'analyse économique et politique du libre-échange et de la démocratie suggère toujours que l'économie de marché ouvre la voie à la paix mondiale. Les crises militaires ou les guerres n'ont pourtant pas cessé dans le monde moderne et elles peuvent interrompre les flux commerciaux, productifs et financiers. En période de crise économique et financière, les gouvernements doivent improviser, sans tenir trop compte des conséquences diplomatiques, économiques et sociales de leurs actions sur les autres pays. La politique du chacun pour soi a souvent été la règle dans ces périodes, mais aujourd'hui les instances internationales cherchent à développer des actions communes, souvent influencées par le lobbying des intérêts des firmes multinationales. Les grands monopoles ou oligopoles savent comment façonner les règles du droit international qui contraignent les pouvoirs publics nationaux et comment échapper à leurs contributions financières aux services publics. Aujourd'hui, avec le réchauffement climatique, c'est l'ensemble du système d'économie de marché qui doit innover et se réinventer, ou laisser la place à d'autres formes de sociétés plus concernées par les intérêts collectifs.

Economic crisis, wars, international conflicts, market economy, global warming
Crise économique, guerres, conflits internationaux, économie de marché, réchauffement climatique

The international financial crisis (Credit Crunch) of August 2007 caused a profound disruption of the global commercial and economic system. Economic crises always have strong geopolitical consequences, often unpredictable. The interactions between the economy and security are difficult to identify, and therefore to analyze, notably because the real and financial economy and economic policy follow distinct logics, operating at random speeds, depending on the time horizon of their operators. A priori, the credit crisis should partially discredit liberal economic ideology; the geopolitical crisis may also call into question liberal interventionist ideology, with a collective questioning of the ultimately balancing and optimal character of free markets. The bailout of bankers highlights the dominant doxa in economics, which is first to save the functioning of markets, before questioning the social and humanitarian issues raised by the crisis. Governments are massively increasing their debt with the increase in public deficits and the rise in social spending induced by the rise in unemployment. The fundamental choice will be to massively support the monetary and banking companies. The economic difficulties may call into question the sustainability of international security policies, especially concerning interventions outside national borders.

In August 2007 the credit markets seized up, without directly affecting the equity markets. The credit crisis was neither rapid nor localized. It was the collapse of Lehman Brothers in September 2008 that helped spread the contagion and financial panic. The millennium economic boom was supported by an oversupply of financial services, driving down the price of risk and generating excess demand for commodities. This was characterized by rising prices for oil and other commodities, which were largely priced politically as major sources of revenue for exporting governments. Risk and commodity prices are security issues for importing states. With the credit crisis and economic downturn, this has resulted in the insolvency and bankruptcy of many financial firms and the rapid decline in commodity prices. It also resulted in the vulnerability of commodity and energy exporting countries,

leading to a generalized economic crisis, with all the problems inherent in both the national security of the countries concerned and the potential impoverishment of the populations.

The credit crisis led to calls for new international economic governance. While the central banks coordinated quite quickly and successfully, the joint inter-governmental institutions had more difficulty in responding in a liberal system that was always suspicious of their appropriateness when they did not directly affect them through massive support. Governments have had to improvise, without considering the diplomatic, economic and social consequences of their actions and reactions on other countries. The beggar-thy-neighbour policy has often been the rule of national public actions. The question of a new regulation has reappeared, with a tightened recurrence. The Greek crisis constituted a considerable challenge for the euro, called into question by the default of Greece, which was threatened for a time with exclusion from the common monetary system. Confidence in the European Central Bank has been undermined and the European Commission has been criticized on the basis of the concrete ineffectiveness of the Stability Pact, its coordination of recovery plans and the failure of the Lisbon Strategy.

The divergence of economic and budgetary policies of the States has created heterogeneities that have weakened the entire zone through the development of economic risks due to both financial derivative assets and the opacity of the public and private debts of each national economy. They make common policies questionable and contested. The global economic governance of the European Union is thus clearly called into question.

Unreliable financial flows have caused "global imbalances". The United States has maintained a large long-term balance of payments deficit financed, at very low interest rates, by foreign countries, especially China. From being the world's largest net creditor, the US has become the world's largest debtor. Countries cannot continually increase their debts without the prospect of repayment. Reducing U.S. consumption in order to restore global indebtedness may lead to the expression of "perverse" effects on domestic policies and international reactions. The financial power of the United States is likely to be challenged by sovereign wealth funds, including the forces of Chinese capitalism (which also has no shortage of potential crisis factors).

International security, economic flows and states

The World Trade Organization regulates trade in goods, but there are no fewer than four organizations to regulate the arms trade. The WTO and the European Union (EU) explicitly exclude armaments from their trade rules. This separate treatment leads to the isolation of the two spheres from each other, which sometimes encourages a functional approach. However, actions in one sphere may have unintended consequences in another. For example, the 1919 Treaty of Versailles led the "victors" to demand substantial short-term reparations from Germany, which led to German inflation in the 1920s, economic depression, and heightened feelings of revenge on the part of the defeated. It is difficult to rewrite history, but economic imbalances, supported by the spirit of revenge, were essential elements of Hitler's rise to power and of the Second World War.

In concrete terms, military crises or wars can interrupt commercial, productive and financial flows. Unsustainable economic trends can be identified, but it may be almost impossible to predict the political consequences of the crisis. The USSR of the late 1970s suffered a fall in life expectancy and a deterioration in economic performance. Yet the political adjustments were not predictable because the system was closed in a status quo. It takes an aggravation or an exceptional event for the system to begin to shake, weaken, and then collapse, rapidly. In the case of the Soviet Union, it was the whole economic system that was weakened, as well as the loss of popular and elite confidence in its goals and development.

In a market economy, economic changes are quickly noticeable by the volatility of prices and the frequency of financial crises. The volatility of certain economic variables has important political consequences; the price of oil can influence citizens' perceptions of the success of economic management and the political competence of a government. Russia's latent economic and social crisis is less noticeable when the price of oil rises¹. Crises and

¹ In 1998, when Russia under Boris Yeltsin defaulted on its debts and allowed a devaluation of the ruble, the price of oil was around \$12 a barrel. A decade later, in the summer of 2008, when Prime Minister Putin and President Medvedev began their dual rule, the price of oil was over \$100 a barrel. As 20% of Russian production and 60% of its exports are oil and gas, the price of oil has a large impact on Russian revenues. See Fontanel, J. (2011), Introduction. Reflections on today's financial crisis. *Annuaire Français des Relations Internationales (AFRI)*, Vol. XII.

fluctuations in commodity prices can have short-term political effects, but the long-term political effects of economic trends can be much slower.

In this context, policy choices are reduced. France gradually abandoned its policy of "Grandeur"² in view of its reduced available means, in the face of economic crises and the end of the Cold War. Conflicts and latent or potential wars require strong economic efforts to avoid and dissuade them. In a context of conflict or economic war, the state can borrow, but successive deficits increase the cost of borrowing. The behaviour of financial markets sometimes informs the strategic development of potential conflicts, depending on their probability. However, they are subject to many misinterpretations. Government bond yields can sometimes reveal the economic, political and security prospects of each nation, even if they do not rise exclusively because of the influence of inflation, for example. Between 1845 and 1880, the greatest short-term variations in yields occurred on dates that are more significant to the political historian than to the economist. Although the possibility of war was not ruled out, in 1914 economists did not really anticipate the rapid emergence of world war, because predicting the consequences of war seemed to be a crucial deterrent. During the Cold War, American and Soviet strategists had detailed plans for nuclear war, but it never happened, given the deterrent nature of the destruction threatening the whole of humanity.

The integration of economics and strategy is central to the reconstruction of countries after a war or economic crisis. After the Second World War, a new international order had to be rebuilt, both economic (Bretton Woods Agreement), Marshall Plan, Comecon), political (UN) and security (NATO or Warsaw Pact). There was an alternative Morgenthau Plan, which aimed to deindustrialize Germany and transform it into a pastoral agrarian economy that would no longer be able to threaten the world. This solution was rejected in the light of the experience of the Treaty of Versailles.

With the end of the Cold War, more opportunities for international intervention in civil wars arose and a considerable effort was made in conflict resolution, reconstruction and peacekeeping. However, interventions that stimulate economic development may well increase the risk of conflict. Excessive

² Fontanel, J., Hébert, J-P. (1997), The French policy of "Grandeur", *Defence and Peace Economics*, Vol. 8, pp. 37-55, 1997. Coulomb, F., Fontanel, J. (2005), An economic interpretation of French military expenditure, *Defence and Peace Economics*.

military or internal security spending also reduces a country's economic potential. Today, how can societies be rebuilt after civil wars or military invasions like those in Afghanistan and Iraq? The international financial crisis will complicate transitions to peace. There are normally three desirable transitions, first from war to peace, then the establishment of appropriate political structures and finally the establishment of new forms of economic functioning. To initiate these transitions, demilitarization, political transformation in favor of pacifist values, and economic incentives are needed to stabilize the situation and prevent conflict from recurring. The countries that try to intervene must be able to finance the necessary aid actions towards these transitions, but the credit crisis reduces the potential of this support policy.

The interest and limits of globalization for national and international security

The perception of globalization is not new. The Pax Britannica promoted the establishment of freedom on the seas, actions to restrict slavery, free trade and the development of the role of the banker in the world. After World War II, Washington took over the hegemony in the market economy system, despite competition from the socialist bloc dominated by the USSR. With the end of the Soviet Union, the American domination appeared to be decisive, even if today China has awakened and is taking an increased place on the geo-economic and political chessboard of the 21st century world. With globalization, the process of cultural homogenization is underway, even if the hegemonic question is still under debate.

As the system became more globalized, more and more specific forms of organization had to be created, in order to allow trade to spread throughout the world. Most international organizations originated from initiatives, sometimes informal, from dominant states³. States have agreed to reduce their sovereignty in order to promote peace, regulate diplomatic affairs, provide an international legislative code and encourage the economic and social development of each of the partner members. Admittedly, these international organizations lack organizational efficiency. They are subject to a variety of restrictions that limit their influence and performance, but these restrictions still allow

³ Fontanel, J. (1995), *Organisations économiques internationales*, Masson, Paris.

them to maintain the membership of nations in a collective global organization, in order to create a public good.

The trend of global markets, the functioning of multinational firms and the agreements of international organizations often influenced by lobbyists lead to the reduction of the autonomy of the governments of the States, without thorough analysis of some deleterious effects on national sovereignty⁴. Today, large monopolies or oligopolies know how to shape the rules of international law that constrain national public authorities, just as they also know how to escape their financial contributions to public services through tax optimization and evasion, often made possible by the international division of the added value that they monopolize.

The collateral damage of the credit crisis could have led to a strong challenge to the liberal economy, in the capacity of free markets to allocate resources efficiently. The search for solutions by states values liberal interventionism, the belief in the capacity of governments to intervene economically only when the crisis is present and cannot be fought without strong action by national and international public authorities. The economic and political analysis of free trade and democracy always suggests, on the basis of often heroic assumptions, that while war has a long history, the market economy paves the way to world peace⁵. In this context, just as Marxists saw a war that rolled back capitalism as a step toward peace, so liberals in the nineteenth century saw a right to military intervention, a form of "right of interference," to prevent the economic and social injustices of authoritarian governments that refused free and fair trade⁶, in the words of Montesquieu. Most wars are fought in the name of peace, not the peace of today, but the peace of tomorrow.

The preservation of peace, human rights, and the generalization of economic and social development of the peoples

⁴ Smith, R., Fontanel, J. (2008), International security, defence economics and the powers of nations, in « War, Peace and Security », edited by Jacques Fontanel and Manas Chatterji - Emerald, Bingley (UK). Fontanel, J., Chatterji, M. (2008), The controversial economic question of peace and war, in « War, Peace and Security », Volume 6, edited by Jacques Fontanel and Manas Chatterji, Emerald, Bingley (UK). Bensahel, L., Fontanel, J., Corvaisier-Drouart, B. (2009), Les organisations non gouvernementales, Collection Librairie des Humanités, L'Harmattan, Paris. 2009. Fontanel, J. (1995), Organisations économiques internationales, Masson, Paris.

⁵ Cf. Thibault Richard (2010), Démocratie, économie de marché et paix, in. Fontanel, J. Ed. Economie politique de la sécurité internationale, La librairie des Humanités, L'Harmattan, Paris, 2010.

⁶ Howard, Michael (1981) *War and the Liberal Conscience*, Oxford University Press.

of the world are also central themes of international law. The United Nations Charter affirms the primacy of human rights and state sovereignty. Article 42 authorizes the Security Council to introduce measures that may be necessary to "maintain or restore international peace and security" against those responsible for threats to the peace, breaches of the peace and acts of aggression. These measures may include not only economic sanctions but also military action against a country that violates the Charter. The moral imperative for peacekeeping may be universally accepted, but the "right of humanitarian intervention" is one of the most controversial foreign policy issues of recent decades.

Global security and the control of the excesses of the world economy

Traditionally, the environmental link between the economy and security has focused on the price of oil and gas, energy materials essential to contemporary economic development. However, this productive cycle is gradually changing the conditions of life on Earth. Indeed, the crucial question for world security concerning the threat of global warming and the uninterrupted rise of pollution must be answered. Productive processes generate carbon dioxide and other greenhouse gases. In this case, there is no obvious global military response. Similarly, the scarcity of water, rare earths and other essential resources can quickly become a source of interregional tensions and international insecurity. Thus, oil has always been a resource whose evolution in terms of supply and demand depends on the collective behavior of exporting countries, the importance of global economic growth, international conflicts between producing countries, the development of alternative energies and the erratic evolution of short-term prices. Today, the climate issue tends to exclude it from the realm of possibility in view of the definitive pollution it produces.

However, inertia prevails. The development of new oil fields, the use of new technological equipment or the rise of alternative energy sources often occur in politically unstable environments, such as the Middle East and Central Asia, or in situations of painful economic transition (Russia). Oil has already been involved in national conflicts, notably in Nigeria and Angola. The international community's support for Kuwait in the face of the invasion of Saddam Hussein's Iraq would probably not have been so strong and interventionist if this country did not have large

oil reserves, if it did not constitute a state favorable to humanist and democratic values.

In the long run, fundamental economic indicators, such as the long-run marginal cost of production, should be clearly taken into account in political and economic decisions. However, the long-term cost of production is very uncertain and depends on the strategies of states, which are themselves influenced by multinational firms. Under these conditions, energy markets become volatile, with fluctuations as violent as they are unexpected. Despite the normal application of fundamental economic rules and laws translated into sophisticated economic calculations, forecasters are unable to accurately predict the evolution of demand, supply and prices of energy in the short term. The result is forms of international instability that encourage conflicts of interest, and sometimes predispose states to conflict or other threats of war.

The credit crisis has already raised questions about the reform of the international economic and financial architecture. The prevention of global crises will inevitably require international coordination on new banking regulations and the more or less extensive loss of economic sovereignty. It may also raise questions about the architecture of international security and the nature of economic globalization. The relative precariousness of economic conditions does not place all economic actors in the same conditions of competition or solidarity. Today, the improbable is never discarded. Possible paths, even improbable ones, are called "Black Swans" by Nicholas Taleb⁷ and "unknown unknowns" by Donald Rumsfeld, the former US Secretary of Defense. The underestimation of strategic risks and speculative phenomena is becoming dangerous for the global economic and political system.

Moreover, institutions or innovations designed to reduce risk sometimes make the system even more vulnerable, such as the derivatives or off-balance accounts that haunt the banking system. This raises the question of whether our security risk reduction mechanisms, such as the UN or NATO, are really reducing risk. Finally, the spread of unacknowledged implicit liabilities, such as those banks and governments discovered during the credit crisis, is problematic. The main strategic danger is that politicians, still preoccupied with domestic fiscal and financial

⁷ Taleb, Nassim Nicholas (2007) *The Black Swan: The Impact of the Highly Improbable*, Random House.

crises, do not respond to potentially explosive international issues with the necessary speed and interest.

Economists are often accused of being overconfident on issues of resource scarcity. They argue that the market economy is capable of adjusting through several long-run equilibrium economic processes, such as changes in relative prices, the introduction of new technologies, and national and international changes in income distribution. To be sure, some analyses have challenged this. Economists point to earlier fears that did not materialize. Thomas Malthus in the early 19th century predicted that population would be in excess of food production. William Stanley Jevons in the late 19th century predicted that the world would run out of coal. The book "Stop Growth" and the report of the Club of Rome predicted a rise in the price of primary products and the rise of environmental constraints on growth before the end of the 20th century.

Economists tend to forget that people do not like creative destruction, that they find adjustments very unpleasant, and that they may consider preparation for war preferable to the usual process of regaining economic equilibrium over the very long term, after periods of heavy social sacrifice.

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