

# NSA Spying's Economic Fallout

Many Americans were shocked at Edward Snowden's leaks about the extent of the U.S. government's electronic surveillance but another downside is that people around the world are now bailing out on U.S.-based Internet companies, as best they can, writes Sander Venema.

By Sander Venema

In the last six months or so, former National Security Agency contractor Edward Snowden has disclosed quite a few of the NSA's surveillance programs, revealing that the agency disregards civil rights and spies on everything and everyone, all over the world, in a Pokémon-style "Gotta catch 'em all!" fashion. The actions of the NSA are also having a real effect on the U.S. economy.

The actions of the U.S. government and more specifically what the NSA is doing with its surveillance programs are having a big impact, especially on the tech industry in Silicon Valley. As a European, why would I store my data on servers in the United States, where this data is easily accessible by the NSA, among others, if I can just as easily store it in Europe or some other, more secure place?

To understand the U.S. hegemony when it comes to IT companies and services, it is good to have a look at the history of the investment climate. Why did these companies pop up in the United States? Why wasn't Google invented in, say, Germany, or Finland?

The reason many of these cloud storage services and Internet companies popped up in Silicon Valley as opposed to Europe, say, is because of the investment climate in the United States, which made it much easier to start an Internet company in the United States. Large institutional investors, venture capitalists, are less likely to invest in a start-up in Europe.

Also, bankruptcy laws are much more relaxed in the U.S. as opposed to Europe. Whereas in the U.S., you can be back on your feet in a year or so after going bankrupt, in Europe, this is generally a much longer process. According to the Economist, it takes a minimum of two years in Spain, six years in Germany, and a whopping nine years in France.

In my own country, The Netherlands, it takes three years to be debt-free again after a bankruptcy, but if you go bankrupt in Paris, good luck, you've just ruined your future. This makes it far riskier to try new things and set up shop in Europe, because the consequences if things go bad are so much worse.

Unfortunately, this has left us Europeans in the position that we currently don't really have a European "Silicon Valley."

We don't have a lot of viable, easy-to-use alternatives, and these desperately need to get developed. We depend too much on American companies right now, and I think it's good if we diversified more, so that we will get a healthy market with plenty of good alternatives, instead of what we have now, which is a U.S. monopoly on Web-mail (Gmail/Hotmail etc.), social networks (Facebook, Twitter, LinkedIn, Foursquare, etc.), Internet search (Google), cloud storage (Dropbox, Microsoft, Amazon), and other things.

Already, cloud storage providers in Silicon Valley currently are seeing big drops in their revenues because of the disclosures of Snowden. Why would we store our data across the pond? This is the central question and this is having real economic consequences for the United States.

Cloud providers based in the U.S. were experiencing significant profit drops when the NSA revelations were made public. People outside the United States suddenly began to question whether their sensitive data was safe on American soil. All these U.S.-based companies are subject to the PATRIOT Act, which requires them to hand over any information and data they have on their customers, and they are prohibited by the U.S. government to tell their customers about it.

So the conclusion can quite definitively is: No, your data cannot be trusted to stay secure if you send it over to the United States, by using "convenient" cloud services like Dropbox or Amazon, among others.

This is the **critical criterion**. It doesn't matter that the company tells you that they use the most high-end *military-grade* encryption, it doesn't matter that they thought of an interesting technical solution to try and circumvent surveillance, it doesn't matter that they write glowing blog posts solemnly promising not to hand over your data, all that matters is that it is a U.S. company, required to obey U.S. law, and required to hand over your data. Few companies will be able to resist the pressure and forfeit their entire business model to protect your privacy.

This is also what strikes me as funny when I read about major U.S. tech companies, like Google, Apple and Microsoft, which found out that their server-to-server connections were being intercepted by NSA. These intra-server connections were not encrypted, sent in the clear, probably on some private fiber-optic cable. Of course, this could be intercepted given the NSA's technical competence.

So now these companies are trying really hard to sell the story to their overseas customers that their intra-server communications are now fully encrypted. This is a feeble attempt to keep some of their customers from switching to alternatives (of which there are not many, unfortunately), as these companies are still U.S. companies, with offices and infrastructure in the U.S., and the need to obey U.S. laws. So it's totally irrelevant that these tech companies are now encrypting their intra-server communications, as the U.S. government can simply request the data via other, more official means.

But these companies aren't just promoting irrelevant measures. They actively act against our interests. After Snowden's revelations, Facebook is making data hand-offs to U.S. authorities easier (fully automated, without judicial oversight). Facebook is also partnering with police to make protests harder to organize. And still we insist in using its social network. These are instruments of control and surveillance.

We're not their customers. We're the product being sold. But we have a distinct lack of viable alternatives which aren't based in the U.S., and it's important to remember that social networks have a social aspect. It isn't enough for you to change over to a competitor, you have to convince your friends to switch as well. This is what keeps social networks afloat for so long, because this is indeed very hard to do.

But the U.S. is on a march to irrelevance. In October 2013, Congress raised the debt ceiling again, which will buy some time until January 2014. Then they will have the exact same problem. The United States is structurally spending more money than they have available, and the current U.S. national debt (\$17 trillion dollars) can never be repaid. They are pretty much already in default. But since the financial system is based on trust and hearsay, smoke and mirrors, it takes a while for people to face the reality, wake up and smell the coffee. At which point the United States will be an irrelevant relic from the past.

In Europe, we need to protect our own citizens' interests, and start developing viable alternatives to the U.S. hegemony, because the U.S. hegemony will be over one day.

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