

Peace and prosperity in a fragmented world

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Economy and Peace: a possible alliance

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Today, our world is facing an alarming rise in geopolitical tensions and conflicts. The number of wars, which had decreased after the fall of the Berlin Wall, has turned upward again in the last fifteen years; in 2023 it reached its highest level since World War II (Figure 1).

In many regions, war – often fratricidal – is a daily reality.¹ Day after day, the news brings us dramatic images, reawakening fears linked to the traumatic experiences of the two world wars. In Western Europe, the debate about significantly increasing defence spending has resurfaced after a long time.

But conflicts are not the only cause for concern. The denial of basic needs, which still affects large parts of the world's population, is also a form of violence.

After decades of ever stronger international cooperation and economic integration, history now seems to be taking a step backwards.

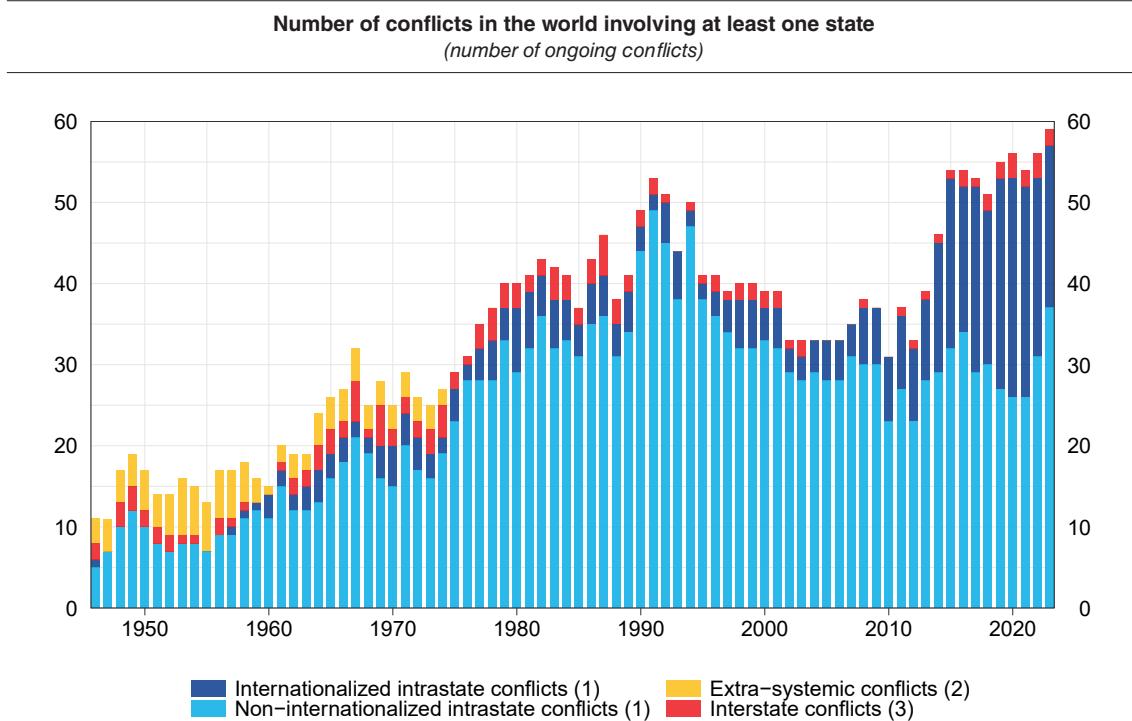
It is a very different world from the days when I started working as a central banker. In many ways, it is a world of greater uncertainty and less hope for the future, although even back then there was no shortage of stark clashes and dramatic tensions.²

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¹ Most of the ongoing armed conflicts are civil wars. Those in Myanmar, Sudan and Ethiopia are among the bloodiest (Source: ACLED). The war in Sudan is causing a devastating humanitarian crisis: some 25 million Sudanese are suffering from food shortages; 10 million have fled their homes and 2 million have sought refuge abroad.

² In the 1980s, despite signs of progress and hope – such as the possible rapprochement between the superpowers – there were still geopolitical, social and economic tensions. The Cold War shaped world politics, fuelling fears of an imminent nuclear conflict. In the Middle East, the Iran-Iraq war and the conflict in Afghanistan, with the Soviet invasion, strained international relations. Apartheid in South Africa was a further sign of the persistence of racial segregation dividing societies around the world. In Poland, the Solidarity movement and political tensions under the Communist regime exposed the internal struggles within Eastern Europe.

Figure 1



Sources: Uppsala Conflict Data Program (UCDP) and Peace Research Institute Oslo (PRIO), 2024.

(1) Intrastate conflict: a conflict between a government and a non-governmental armed group within the territory of a given state, resulting in at least 25 battle-related deaths in one calendar year. If a foreign state is involved, the conflict is defined as 'internationalized'. If this is not the case, it is defined as 'non-internationalized'. – (2) Extra-systemic conflict: a conflict between a state and a non-state group outside the state's own territory, resulting in at least 25 battle-related deaths in one calendar year. – (3) Interstate conflict: a conflict between states, resulting in at least 25 battle-related deaths in one calendar year.

It was therefore with great pleasure that I accepted the invitation from the Centro San Domenico and the Centesimus Annus Foundation to reflect, as an economist and with due humility, on such a fundamental issue as the link between peace and prosperity.

I welcome this important opportunity to acknowledge the Centro San Domenico's patronage of Catholic cultural activities for over fifty years. These efforts, like those of the Fondazione Centesimus Annus and above all of the Italian Episcopal Conference, are part of the Catholic Church's long-standing commitment to addressing social and economic issues, with a particular focus on inequalities and conflicts.³

³ The first encyclical on economic and social matters – the *Rerum novarum*, promulgated at the end of the 19th century – was not the origin but the outcome of Catholic engagement on these issues. As far back as the middle of the century, at the height of the industrial revolution, many prominent Catholics were actively analysing the risks of industrial capitalism and of colonialism. At that time, when class conflicts broke out and the *Communist Party Manifesto* by Engels and Marx was published, important Catholics such as Cardinals De Bonald in Lyon, Manning in Manchester and Gibbons in Baltimore spoke out on the distortions of the capitalist industrial system, while people such as Von Ketteler, a German bishop, engaged with the most important representatives of socialism. Catholic economists and sociologists – from the Italian scholar Giuseppe Toniolo to the Germanic intellectual Carl von Vogelsang – analysed the problems of capitalism and proposed new models of work organization (see O. Köhler, *La formazione dei cattolicesimi nella società moderna*, in *Storia della Chiesa*, Vol. IX: *La chiesa negli Stati moderni e i movimenti sociali 1878-1914*, Milan, Jaca Book, 1982, pp. 234-239, and O. de Dinechin, SJ, *Rerum novarum*, in 'Aggiornamenti sociali', 3, 2019, pp. 258-262).

1. War cannot generate prosperity

Humanity cannot thrive without peace, and neither can the economy.

In the countries involved in a conflict, war seriously damages the drivers of growth.⁴ Hostilities destroy productive capital: infrastructure, machinery and raw materials. They claim victims, especially among the young generations, bending learning opportunities and the formation of a skilled workforce to the requirements of war. This reduces the availability and quality of 'human capital'. Furthermore, wars often erode social capital,⁵ thereby weakening social cohesion and trust in institutions.

The war effort supports aggregate demand and can stimulate innovation, but seriously distorts its purposes. The economic benefits are short-lived and do not remove the need to reconvert the economy once a conflict is over, even in countries that were involved in the conflict but suffered no direct damage to their territory. The high inflation and the steep fall of economic activity that often mark wartime periods are signs of the damage that wars inflict on the economic fabric (Figure 2).

The manufacturing of war equipment does not help increase a country's growth potential.⁶ Development comes from productive investment, not from arms. That is why, in the 1930s, John Maynard Keynes proposed a massive rise in public investment spending as a solution to economic depression in the United States, suggesting that President Roosevelt's focus should be on 'the rehabilitation of the physical condition of the railroads'.⁷

Moreover, it is misleading to attribute technological progress to military expenditure. It is scientific research that sparks innovation. Military investment can generate innovation if it is allocated to research.⁸ However, we do not need to resort to war for this: technologies developed for military purposes only translate into progress when they later find civilian applications.

War is therefore a form of 'development in reverse'⁹ and cannot bring prosperity.

⁴ M. Schularick, speech at the ECB Forum on Central Banking, Sintra, 2 July 2024.

⁵ Research on the importance of social capital for economic development has been influenced by Robert Putnam's work on Italy (see R.D. Putnam, *Making democracy work: civic traditions in modern Italy*, Princeton, Princeton University Press, 1993).

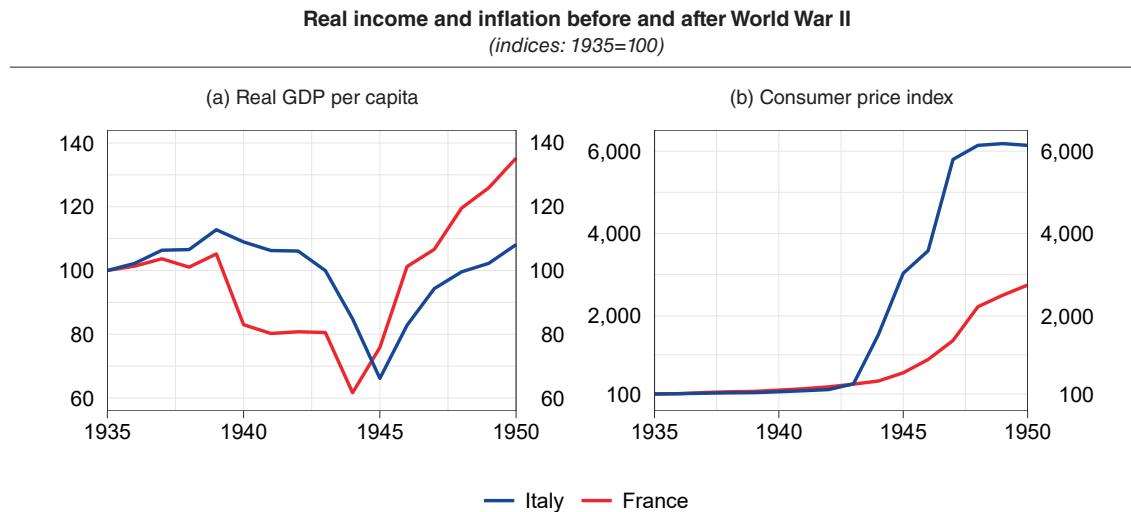
⁶ The fact that military spending is not, in and of itself, an instrument of economic development does not mean that it does not play a necessary role in national defence.

⁷ J.M. Keynes, 'From Keynes to Roosevelt: our recovery plan assayed', *The New York Times*, 31 December 1933. See also G.B. Eggertsson, 'Great expectations and the end of the depression', *American Economic Review*, 98, 4, 2008, pp. 1476-1516.

⁸ For example, the Manhattan Project, developed in the US during World War II, led to the exploitation of nuclear energy. Similarly, the Defense Advanced Research Projects Agency (DARPA) programme, set up in the 1950s, produced the internet. NASA's moon landing in the 1960s resulted in aviation and satellite technology advancements, such as GPS. But only military spending dedicated to research can generate long-term economic benefits (see J. Antolin-Diaz and P. Surico, 'The long-run effects of government spending', *American Economic Review*, forthcoming).

⁹ P. Collier et al., *Breaking the conflict trap. Civil war and development policy. A World Bank policy research report*, Washington DC, World Bank and Oxford University Press, 2003.

Figure 2



Source: Ò. Jordà, M. Schularick and A.M. Taylor, 'Macrofinancial history and the new business cycle facts'; in M. Eichenbaum and J.A. Parker (eds.), *NBER Macroeconomics Annual 2016*, Volume 31, 2017, pp. 213–263.

2. Growth and integration as instruments of peace

Economic growth, prosperity and peace are instead closely linked.¹⁰

To understand this connection, we must recognize that development in modern economies is based on integration and international trade.¹¹ The free movement of goods, capital, people and ideas facilitates the transfer of knowledge and technology, thereby helping to bring peoples together.

The idea that open trade and deep integration of production can secure lasting peace inspired the global economic framework that emerged after World War II.

The relationship between economic integration and peace is explicitly cited in the Havana Charter, which in 1948 sought to create an international organization for world trade to promote stability and prosperity. The Charter never did enter into force, but the talks led to the General Agreement on Tariffs and Trade (GATT), which was succeeded by the World Trade Organization (WTO) in 1995.

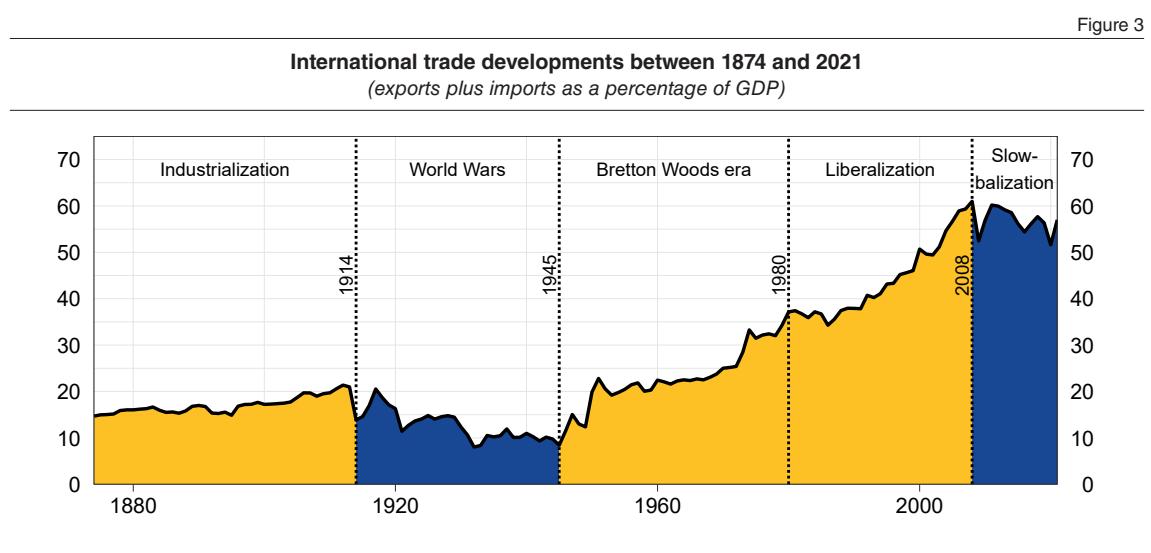
¹⁰ For Kant and Montesquieu, economics was the foundation of peace. In *Perpetual peace*, Kant argued that 'the commercial spirit cannot co-exist with war' and that international economic relations must be underpinned by international law 'based upon a federation of free states' (I. Kant, *Perpetual peace*, London, 1795, pp. 157 and 68). Montesquieu, in turn, wrote: 'L'effet naturel du commerce est de porter à la paix' (Montesquieu, *De l'esprit des lois*, 1748, book XX, chapter II, p. 349).

¹¹ The correlation between open trade and growth after World War II has been studied by J. Feyrer, 'Trade and Income-Exploiting Time Series in Geography', *American Economic Journal: Applied Economics*, 11, 4, 2019, pp. 1-35; see also J.A. Frankel and D.H. Romer, 'Does Trade Cause Growth?', *American Economic Review*, 89, 3, 1999, pp. 379-399; D. Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, Princeton and Oxford, Princeton University Press, 2007; M.J. Melitz and S.J. Redding, 'Trade and Innovation,' NBER Working Paper Series, 28945, 2021.

In 1944, the Bretton Woods Conference established a multilateral system to promote cooperation and trade on a global scale. Other institutions followed over time, such as the World Bank (1944), the International Monetary Fund (1945), the OECD (1961), the G20 (1999) and the Financial Stability Board (2009).

The European project itself was conceived as a way of preventing new conflicts between neighbouring countries, following the devastations of World Wars I and II. In the words of Robert Schuman, the economic unification of Europe aimed to make war 'not merely unthinkable, but materially impossible'.¹²

These initiatives fuelled the globalization that has taken off since the middle of the last century. The ratio of international trade to GDP rose from 20 per cent in 1950 to 34 per cent in 1975 (Figure 3) and then increased further in the following decades, mainly because of the end of the Cold War and the integration of new countries into the global economy, notably China. In 2019, this ratio reached 60 per cent.



Source: Based on M. Klasing and P. Milionis, 'Quantifying the evolution of world trade' 1870-1949, *Journal of International Economics*, 92, 1, 2014, pp. 185-197.

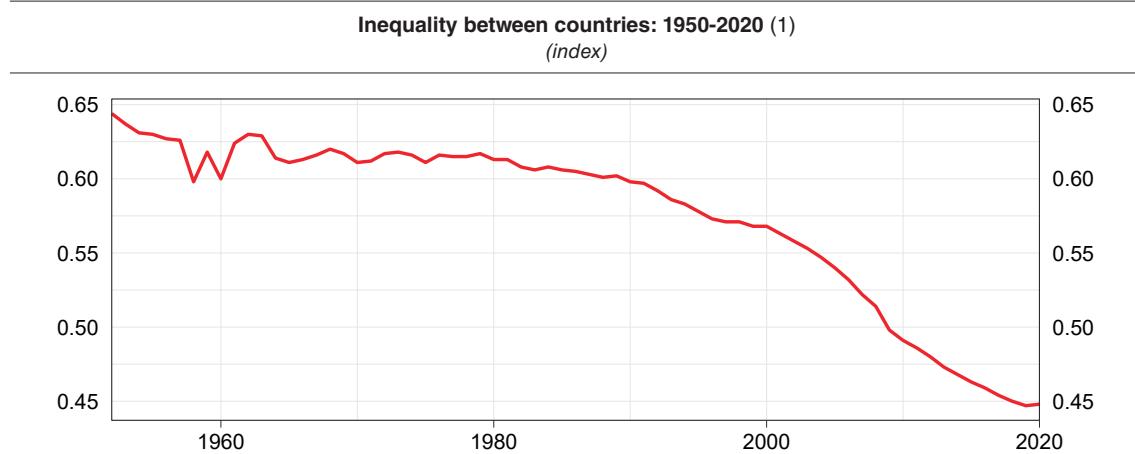
Meanwhile, the global production structure has become increasingly complex and interconnected due to the creation of global supply chains and an increase in trade agreements, from 50 in 1990 to 300 in 2021.¹³

This open, multilateral trade system has fostered development. The freedom to trade goods and services, to invest across borders, and to share knowledge and ideas has improved economic well-being for much of the world's population, creating new job opportunities – especially for women – and reducing inequalities between advanced and developing countries (Figure 4).

¹² For more information, see the EU website: [Schuman declaration May 1950](#) and F. Panetta, 'Europe's shared destiny, economics and the law', *Lectio Magistralis* on the occasion of the conferral of an honorary degree in Law by the University of Cassino and Southern Lazio, 6 April 2022.

¹³ For further information, see the WTO's website: [Regional trade agreements](#).

Figure 4



Source: B. Milanovic, 'Global income inequality by the numbers: in history and now. An Overview', World Bank, Policy Research Working Paper, 6259, 2012.
(1) Inequality between countries is calculated by assuming that all citizens of a given country have the same income.

Access to international markets has allowed many emerging economies to grow,¹⁴ lifting hundreds of millions of people out of extreme poverty. It is estimated that without the progress made over the last 35 years, 2.4 billion more people would be living in destitution today.¹⁵

As the role of international cooperation grew stronger, conflict between states subsided.

All this progress led Steven Pinker to consider globalization as one of the reasons for the 'long peace' following the end of World War II.¹⁶

3. Globalization, its discontents, and geopolitical shifts

Globalization has brought indisputable benefits, but there have been unwanted effects too, which have not always been fully understood or properly addressed by governments and international institutions.

Although openness to foreign trade has improved living conditions in emerging economies and reduced income inequalities between countries, it has also often exacerbated inequalities within States.

¹⁴ Openness to trade has benefited developing countries both directly and indirectly. Direct benefits include access to new production technologies and new markets. Indirect effects include greater competition between businesses and, consequently, higher domestic production efficiency. This openness has also prompted governments to improve the quality of their fiscal and monetary policies (see A. Chari and P.B. Henry, 'Learning from the doers: developing country lessons for advanced economy growth', *American Economic Review*, 104, 5, 2014, pp. 260-265).

¹⁵ In 1990, the world population was 5.3 billion, 38 per cent of which lived in extreme poverty (defined by the World Bank as living on less than \$2.15 per day, at current prices). Had the share of people in poverty not decreased, today – with a world population of 8.2 billion – there would be 3.1 billion people living in absolute poverty; instead, there are 700 million (see United Nations, *World Population Prospects: Summary of Results*, New York, July 2024).

¹⁶ S. Pinker, *The better angels of our nature: why violence has declined*, New York, Viking, 2011.

In advanced economies – in the absence of reforms in areas such as education, health and social protection – globalization and the relocation of production have contributed to a slowdown in the income dynamics of workers in low-skill and low-paid jobs, but also of many in the middle class.

Many low-income countries – in Sub-Saharan Africa especially – have remained trapped in extreme poverty and high debt, in spite of the economic progress afforded by their involvement in the global economy and in spite of aid from multilateral development banks¹⁷ and advanced countries.

Over 700 million people are suffering from food and water shortages globally, and even more lack access to adequate healthcare.¹⁸ Almost 700 million people have no electricity, while 2.3 billion have to rely on using polluting fuels for cooking, posing serious health risks.¹⁹ Around 250 million children aged between 6 and 18 are excluded from education,²⁰ with marked gender inequalities.²¹

Moreover, the increasing economic clout of emerging economies has not been accompanied by corresponding advances in political freedoms. This is partly why leading countries have been reluctant to review the governance of international institutions in order to grant these new economic powers more representation, which has led to dissatisfaction on their part.

These factors have caused many to view globalization as an elitist project, whether rightly or wrongly,²² fuelling resentment among large sections of the population. The 2007-08 financial crisis further undermined trust in the ruling classes, eroding confidence in the global

¹⁷ Multilateral development banks include the World Bank and regional development banks, foremost among which are the Inter-American Development Bank, the Asian Development Bank and the African Development Bank. In Europe, the European Investment Bank and the European Bank for Reconstruction and Development financed investments in Central and Eastern European countries after the fall of the Berlin Wall.

¹⁸ FAO, IFAD, UNICEF, WFP and WHO, *The state of food security and Nutrition in the world. Financing to end hunger, food insecurity and malnutrition in all its forms*, Rome, 2024. Estimating the number of people without adequate healthcare is a complex issue: according to the World Bank and the World Health Organisation, over half of the world's population (4.5 billion people) have no access to essential medical services; for more details, see the page on the World Bank's website: [Universal Health Coverage](#).

¹⁹ For more details, see the page on the World Bank's website: [Energy](#).

²⁰ UNESCO, *251M children and youth still out of school, despite decades of progress (UNESCO report)*, press release, 31 October 2024.

²¹ Girls are often unable to attend school because of conflicts and social fragility, and girls are twice as likely as boys to be excluded from school in war-torn countries. See UNICEF, *27 million children out of school in conflict zones*, press release, 18 September 2017.

²² Much of the negative effects on the labour market in advanced economies have in fact been driven by technological development and falling transport costs, which have facilitated the offshoring of production to emerging countries. However, in the public debate and according to general perception, these effects are often attributed to globalization. See F. Panetta, 'The future of Europe's economy amid geopolitical risks and global fragmentation', *Lectio Magistralis* delivered on the occasion of the conferral of an honorary degree in Juridical Sciences in Banking and Finance by the University of Roma Tre, Rome, 23 April 2024. Moreover, not all countries have complied with WTO rules: for example, industrial development in China has benefited from public subsidies that have outpriced companies and workers in other countries (see European Commission, *EU imposes duties on unfairly subsidised electric vehicles from China while discussions on price undertakings continue*, press release, 29 October 2024).

governance model based on free trade, economic integration, the role of international financial institutions and that of supranational bodies in the resolution of disputes.

The world is now evolving in the direction of a multipolar and fragmented system, with rising nationalist and protectionist sentiments and growing competition among opposing blocs of countries. Geopolitical tensions are escalating as a result.

On the economic front, these strains have led to trade disputes between the United States and China, to Brexit and to a growing number of vetoes by governments on foreign investments in domestic companies. Global trade is fragmenting and is increasingly being used for strategic purposes, especially in the race for technological dominance. In the next few years, a rise in protectionism can be expected, driven by US policies.

Meanwhile, military conflicts are spreading dramatically, and have now come to Europe too.

In this context, a growing tendency to reject shared international principles has emerged, even to the point of questioning the efficiency of democratic rules in global competition.²³ This raises very serious concerns for the future of international relations.

4. What economic policies are needed for peace?

The priority must be to preserve a global economy that remains open to international trade. Severing economic and trade links would lead to a significant loss of well-being for the world's population, further weakening the multilateral framework that has underpinned global economic development since the end of World War II, with repercussions that would extend beyond the boundaries of economics and finance. I will not dwell on these aspects, as I have discussed them elsewhere.²⁴

That said, it is necessary to correct the imbalances that have emerged over time in order to prevent deprivation and frustration from fuelling tensions and conflicts.

To achieve these goals, it is essential to act on several fronts, both domestically and internationally. I will only mention a few key points here, without claiming to be exhaustive.

The first step is to combat inequalities, in both poor and advanced countries.²⁵ Reducing gaps in income and opportunities is not only key to building a fairer and more equal society, but is also essential to guarantee social stability. Moreover, it is a prerequisite

²³ In the words of the President of the Italian Republic Sergio Mattarella: 'Our public opinions are instilled with the doubt that democratic power is weak, inefficient, slow, and unfit to govern quick-paced evolutions. Or even that it is a penalizing factor in competing with non-democratic systems.' (speech by the President of the Italian Republic Sergio Mattarella at the Ceremony for the exchange of end-of-year greetings with representatives of institutions, political forces and civil society, Rome, 17 December 2024).

²⁴ F. Panetta, 'The future of Europe's economy amid geopolitical risks and global fragmentation', 2024, op. cit. and F. Panetta 'Economic developments and monetary policy in the euro area', speech at the 30th ASSIOM FOREX Congress, Genoa, 10 February 2024.

²⁵ The Magisterium of the Roman Catholic Church constantly addresses economic inequalities. See, among others, Benedict XVI, Encyclical letter *Caritas in veritate*, 29 June 2009, no. 42; Francis, Encyclical letter *Fratelli tutti*, 3 October 2020, no. 116.

for development: if a significant part of the population is excluded from economic opportunities, the entire economy suffers.

Another step is improving education and training systems. Fair access to education is necessary to break the poverty cycle and build a skilled and productive workforce capable of adapting to market changes and starting new economic activities. Investing in the education of young people, regardless of their initial conditions, means leaving no one behind and making full use of the human capital available.

It is also vital to step up social protection and ensure access to efficient health services. This would enable workers to weather difficult times without falling into poverty, encouraging their active participation in the labour market while promoting social cohesion and economic stability.

Another priority at international level is managing the external debt of the poorest countries,²⁶ which has reached \$1.1 trillion.²⁷

Today, as was the case forty years ago, we must think about how to relieve the burden of this debt, which is hindering productive investment and holding back development in many countries.²⁸

However, the success of current initiatives is challenged by the involvement of new major creditors, such as China, and by current geopolitical tensions.²⁹ Accelerating these efforts would be one concrete step towards finding solutions to improve the living conditions of the populations affected.

But that is not all. It is essential to adopt policies that support development, countering the pressure that extreme poverty exerts on migratory flows, making them difficult to control. Investing in the management of these flows is critical to supporting the economies of the migrants' countries of origin and to responding to the consequences of demographic decline in the destination countries. Additionally, pursuing sustainable

²⁶ The issue of debt of poor countries was raised by Pope John Paul II as early as 1986 in his speech to the United Nations (see CEI, 'Etica e finanza', supplement to no. 19, *Quaderni della Segreteria CEI*, August 2000, pp. 40-42). It was recently revisited by Pope Francis for the 2025 Jubilee (see Francis, Bull of Indiction for the Ordinary Jubilee, *Spes non confundit*, no. 16, 9 May 2024).

²⁷ The figure refers to the debt held at the end of 2023 by the poorest countries, i.e. those that have access to concessional loans from the World Bank. The long-term external public debt of these countries has reached \$780 billion. According to debt sustainability analyses conducted by the IMF and the World Bank, more than half of poor countries are considered as being in 'debt distress' or 'at high risk of debt distress'; the share was less than one quarter ten years ago.

²⁸ We must not repeat the experience of the 1980s, the 'lost decade' in the development of many countries, caused by the delay in recognizing the need to reduce their external debt and by the ensuing insolvency crises.

²⁹ The Common Framework for Debt Treatment, signed by the G20 countries in 2020, is the most significant attempt to regulate the debt restructuring processes of low-income countries, expanding the participation in the governance of these processes to non-Paris Club countries, such as China. The Global Sovereign Debt Roundtable, created in 2023 and comprising official bilateral creditors, private creditors and debtor countries, is a useful complement to the Common Framework, focusing on fostering debate on the most important challenges facing restructuring.

development models is necessary to ease tensions over access to scarce resources, like water and energy, which often fuel conflicts.

Conclusions

Globalization has undoubtedly increased integration between countries and created opportunities for economic and social progress in many regions of the world.

However, it has also exposed very clear limitations. Current trade and geopolitical tensions are symptoms of a system that has not fully met the expectations and needs of the world's population. Every day, thousands of people continue to suffer from deprivation and violence, often from seemingly endless fratricidal conflicts.

The economy appears to have become globalized without fostering a 'global consciousness'.

Economic integration and international cooperation need to be revived, and their flaws corrected with policies that promote sustainable and inclusive development – policies that combine growth with social justice, environmental protection and the eradication of poverty.

Peace and prosperity are closely intertwined.

Peace is not merely the absence of conflict; it is also about creating the conditions for every individual to live in dignity, free from fear and poverty. At the same time, any prosperity that does not contribute to widespread well-being will prove fleeting, and risks generating conflicts and instability.

As Pope Paul VI stated in his encyclical *Populorum progressio*, 'development means peace'.³⁰ Today, these words remind us of the urgent need to work for a future of fairer and more peaceful prosperity.

³⁰ Paul VI, Encyclical letter *Populorum progressio*, 26 March 1967, no. 87.