

## **‘Igitur qui desiderat pacem, praeparet bellum’ ‘Let him who desires peace, prepare for war’**

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According to data from the Project Mars International Conflict Data program cited in “Our World in Data,” since 1800, 37 million soldiers have died in battle with 75% of that total accounted for by the two world wars: 1914-18, 1939-45. It is perhaps hard to believe in the current geopolitical circumstances that the world has been a more peaceful place since.

Deaths due to conflict have been in steady decline, except for the Serbian-Bosnian war of the early nineties which cost upwards of a million lives. Sadly, the early 2020s showed an upward trajectory in conflict deaths that has yet to show any signs of slowing. But even here death rates are far below those registered in the brutal 20<sup>th</sup> century, now regarded by historians as the “age of total war.”

Einstein once noted that though he didn’t know how WW3 would be fought, WW4 would be fought with sticks and stones. And there’s the rub; short of the threat of nuclear annihilation, “armed conflict is a rare cause of death in most years and countries.” No matter how tragic the local conflict, for most, life goes on as usual.

Despite the sharp initial reaction to Vladimir Putin’s march on Kyiv, markets have recovered their losses and have largely shrugged off the threat of renewed conflict in the Middle-East. Put simply, black gold (Oil) simply isn’t as important as it used to be and disruption in the region is offset by production in the US, Brazil, Guyana, and Canada.

The International Energy Agency noted this month that despite oil demand growing, the rate of growth is slowing. Indeed, for the first time, the IEA noted that the world was at the “beginning of the end” of the fossil fuel era and that oil demand would peak before the end of the decade.

It is thus highly unlikely that the current Middle-East and Ukraine conflicts can administer the same inflation shock to the global economy as those of us who did their homework by candlelight experienced in the 1970s. Sources of energy are much more diverse by region and type than they were at the time of the first oil shocks. It is, in fact, rather remarkable how quickly the world has adapted to the recent increase in conflict on its borders and how resilient energy supplies have been.

Nonetheless, the “peace dividend,” if it ever really existed at all, has been revealed to be the chimera it always was. Although major conflict has declined along with death rates, the world is not a peaceful place, and the numbers of ongoing regional and local conflict has begun to rise.

It is sobering to recall that in 1947, the UK spent 16% of GDP on defence. It fell to 7% by 1960; the defence budget troughed at 1.9% of GDP in 2017/18 having been as high as 5.5% as recently as 1984.

One of the lasting consequences of the upturn in regional violence is a return to defence spending taking a much larger share of national budgets in Western economies, reversing the long decline that commenced in the mid-1980s.

That is likely to be fiscally painful however for Western economies. Markets have largely shrugged off the risks associated with war in Ukraine and the Middle-East. Economies have adapted to Russian revanchism and are no longer dependent on Middle-Eastern oil. Yet, unquestionably recent events have placed further strains on depleted public budgets across the West that will impact inflation, monetary policy, investment, and growth over the coming years as the Pandemic did before them.

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