

A significant speech by a central banker

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The governor of the Italian central bank, Fabio Panetta, last week delivered a major speech in which he pointed to the economic forces and geo-political tensions that are creating the conditions for a return to the type of conflicts in the 1930s that led to World War II.

Panetta gave the speech at a ceremony to confer an honorary degree on him by the Roma Tre University. He used the occasion to depart from some of the immediate issues dealt with by central bankers to conduct a broader review of the present situation.

The picture he painted was one in which the institutions and economic relations established in the post-World War II period aimed at preventing further conflict between the major powers, are breaking down.

While clearly worried, he called for measures by the European Union to strengthen the “competitiveness, strategic autonomy and international standing of its economy,” which would only increase, not lessen, the level of international political and economic tensions and conflicts.

He began by noting that rules governing international relations were being “severely tested” by conflicts in many parts of the world, from Eastern Europe to the Middle East and from Africa to Asia.

“The number of violent conflicts in 2023,” he said, “was the highest since the Second World War.” These conflicts generated economic risks and hindered international trade and investment “potentially splitting the global economy into opposing blocs. The weaponisation of trade and financial policies exacerbates these risks.”

Panetta, no doubt conscious of the need to maintain diplomatic sensibilities, did not name the United States as the chief driver of these policies as part of its global economic and military rampage. However, even the least politically literate member of his audience would have understood that was where he was pointing.

He noted the European economy was particularly vulnerable to the fragmentation of world trade because of its close economic integration with the rest of the world. Its growth model relying “heavily on the import of raw materials and the export of final goods and services to foreign markets.”

That characterisation applies not only to Europe but can be said of every major economy such is the extent of the globalisation of production and the development of a global financial system over the past four decades.

After noting how the Great Depression of the 1930s contributed to the political, economic, and social tensions that led to the outbreak of World War II, he said that after the devastation “a paradigm took hold in Western democracies... whereby only close international economic integration could ensure lasting peace.”

He cited the statement by Robert Schuman that economic integration would make war “not merely unthinkable, but materially impossible.” Schuman was one of the founders of the European Coal and Steel Community in 1951, which was to lead to the formation of the

European Economic Community in 1957, and eventually to the European Union.

Economic integration proceeded with the participation of new countries in international trade, notably when China joined the World Trade Organisation in 2001. But now he continued: “The three pillars of the post World War II multilateral order—openness, economic growth and geopolitical stability—are all being tested today.”

He could not offer any real explanation, citing only secondary factors based on the misconception that globalisation is a zero-sum game, which stokes up social divisions leading to anti-immigrant measures and anti-globalisation sentiments.

No doubt these factors, seized on and promoted by right-wing populist politicians and outright fascists, play a role. But they are not the fundamental reason.

The underlying cause was identified by Lenin in his work *Imperialism* written in 1915, analysing the reasons for the outbreak of World War I. He explained that whatever the outcome of the war there could be no permanent peace under capitalism.

This was because any political equilibrium, which seemed to provide peace at one point, was always based, in the final analysis, on the set of economic relations that prevailed at the time. Further economic development would inevitably alter the relative strengths of the major powers upsetting the equilibrium and inexorably to another conflict.

Lenin’s analysis provides the framework for understanding the breakdown of the post-war economic order which, although he does not say as much, Panetta clearly recognises is leading in the direction of world war.

The post-war order was based on the economic strength of the United States. But the relative economic stability it gave rise to, led to its progressive weakening. The initial expression of that process was seen in 1971 when US President Nixon shattered one of the pillars of the post-war order, the Bretton Woods monetary system under which the US dollar was the global currency backed by gold.

Such was the expansion of the European economies and their increased competitiveness that the balance of trade surplus the US had previously enjoyed was turned into a deficit. The US could no longer make good on its pledge to redeem dollars for gold at the rate of \$35 per ounce.

Since then, the US dollar has functioned as a fiat global currency dependent not on gold, but the economic power of American capitalism. However, this strength has been further eroded in the period since the scrapping of Bretton Woods. The US has tried to counter this decline but to no avail.

In the 1990s, after the dissolution of the Soviet Union and restoration of capitalism by the Stalinist regimes throughout the former Soviet bloc as well as China, the US considered it could emerge triumphant from the globalisation of production and overcome

its developing weaknesses.

This agenda was taken forward on two fronts. Starting in 1990 with the first Gulf War, the US embarked on a continuous series of military operations, particularly the carve-up of Yugoslavia, aimed at establishing both military and economic dominance.

The connection between the two was laid out by *New York Times* columnist Thomas Friedman at the start of the three-month bombing campaign against Serbia in 1999.

“The hidden hand of the market will never work without the hidden fist—McDonald’s cannot flourish without McDonnell Douglas, the builder of the F-15. And the hidden fist that keeps the world safe for Silicon Valley’s technologies is called the United States Army, Air Force, Navy and Marine Corps,” he wrote.

As it stepped its military operations, the US was the chief proponent for the integration of China into the international trading system, in the belief that it would benefit from its lower-cost production. And for a limited period that belief was borne out as the surplus value extracted from the labour of the Chinese working class flowed into the sclerotic arteries of American capitalism.

However, the very economic development of China, as at it became the cheap-labour manufacturing centre of the world and the site for large investments by global corporations, upset the previous economic equilibrium.

The economic rise of China further weakened the position of the US. It has now reached the point where it is regarded as the chief threat to US global economic dominance. China has passed from being a “strategic partner” to a “strategic competitor” that must be suppressed at all costs.

That is the source of the resurgence of economic nationalism in the US—economic warfare proceeding hand in glove with militarism and war, the last remaining area in which the US enjoys supremacy.

In other words, as Lenin had explained so clearly, the very economic and political conditions which led to peace at one stage, resulted in the shattering of those arrangements, the erosion of multilateral collaboration, the return of economic nationalism and the re-emergence of war as an active policy.

In his speech, while having no real grasp of these contradictions, Panetta did at least point to them tangentially.

In an ideal world, he said, trade integration brought undoubted benefits, allowing producers to rely on the most efficient suppliers but in the real, geopolitically unstable world “interconnectedness can quickly turn into vulnerability.”

Governments were now less willing to rely on imports from countries with which they had less stable relations and “some of them are offering incentives to bring back previously offshored production to their country of origins (reshoring) or to ‘friendly’ countries (friend-shoring.) This is sometimes to the detriment of political allies.”

Once again Panetta was not so impolite as to name the US. But in a footnote to the print version of his speech he cited the Inflation Reduction Act of the Biden administration, which has provoked significant opposition in Europe as a protectionist measure as an example.

In reviewing the deepening conflict in the global economy, Panetta could not advance any program or policy through which multilateralism might be restored.

Rather his concern was to advance policies by which Europe might better engage in the global struggle which has ensued from its demise. This included measures on both the economic and military fronts.

The European growth model had to be reconsidered. It had to turn away from over dependence on external demand and make more of the single market—that is a turn to a European-based nationalism.

While he did not allude to it, seeking to promote a united European front, that road is no less fraught with contradictions because there are significant and deepening economic, political and financial tensions among the European “partners.”

With technology now front and centre of all economic development, Europe was very much a laggard and its “competitiveness in this sector must be strengthened and its foreign dependence reduced,” he said.

Reflecting the weaker economic position of Italy and others within the EU, and the conflicts to which this has given rise, he said the European Commission’s Green Deal industrial plan favoured countries with “greater fiscal space [that is, Germany]. It “risks segmenting the single market in a race to the bottom by triggering a race to the bottom in which member states seek to offer greater incentives than the others.”

And Europe must gear up its armaments.

“In the current international context,” he said, “it is clear that the EU must strengthen its capacity to protect its own international security.”

In conclusion he returned to the essential theme of his address that geopolitical conflicts are threatening the international trade and the stability of the world economy and “old fears of a world divided into economic, political and even military blocs have, resurfaced.”

With geopolitical conflicts threatening to undermine the multilateral economic order that had ensured a “lasting peace among the major powers since the end of World War II,” it was necessary as Europeans to defend the progress made so far in global openness and integration.

However, this perspective was contradicted in the very next sentence when he said: “At the same time we cannot ignore geopolitical risk and consequences. We must find ways to operate effectively in a less stable and less open world.”

This underscores the fact that the capitalist ruling classes have no solution to the crisis which is moving like a wrecking ball through all the institutions and arrangements established in the post-war period.

Another world war, the first stages of which are underway, arises from the contradiction between world economy and the bankrupt nation-state system, a contradiction that was intensified by the very economic developments which seemed to bring peace and prosperity in an earlier period.

The bourgeoisie and its defenders always ascribe the crises of capitalism to external or accidental factors, but they are rooted in the capitalist system itself.

US imperialism is seeking to resolve these contradictions by means of war in which it maintains its position as the dominant power, threatening a global conflagration.

The working class must resolve them by means of world socialist revolution, the perspective which will be the theme of the online May Day rally convened by the International Committee of the Fourth International on May 4.



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