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Are geopolitical events the cause or effect?

Published on: 8 December, 2023 | Author: Investment Team

At Tacit we believe that economics is a powerful factor in geopolitics. The connection between economic growth and conflict is intricate, with scarcity often serving as a catalyst for social unrest and conflict. Economic downturns intensify competition for resources, exacerbate inequalities, and strain governance structures, creating conditions conducive to conflict.

The relationship between economic growth and conflict is complex, but there are several key factors that can help explain why more conflicts tend to occur when economic growth is scarce compared to when it is abundant.

Firstly, economic scarcity often leads to heightened competition for limited resources. When a society experiences economic downturns or stagnation, there is increased pressure on the fabric of stable societies such as jobs, housing, and essential goods. This competition can create social tensions and fuel grievances, as individuals and groups vie for access to the dwindling opportunities. In extreme cases, this competition can escalate into conflicts, as people become desperate and frustrated with their economic circumstances.

Secondly, economic scarcity can exacerbate existing inequalities within a society. When economic growth is scarce, the burden of the economic downturn is often disproportionately borne by the most vulnerable segments of the population. High unemployment rates, reduced social services, and increased poverty can deepen existing social divides, creating a fertile ground for social unrest and conflicts. Those who feel marginalized and excluded are more likely to mobilize against the perceived injustices, leading to increased social and political instability.

Moreover, economic scarcity can strain the capacity of governments to meet the needs of their citizens. A struggling economy may result in reduced public spending on essential services such as education, healthcare, and infrastructure. Inadequate government responses to economic challenges can erode public trust and confidence, potentially triggering protests and even rebellions. As dissatisfaction with the government's handling of economic issues grows, conflicts may arise as people demand change and reform.

Conversely, when economic growth is abundant, societies generally experience improved living standards, increased employment opportunities, and enhanced social services. A booming economy can contribute to a sense of stability and prosperity, reducing the likelihood of conflicts driven by economic grievances. Individuals and communities are more likely to cooperate and collaborate when they perceive that they are benefitting from the overall economic growth.

Abundant economic growth tends to promote stability, cooperation, and social harmony by providing opportunities for prosperity and improvement in living standards.

We live in a strange economic time following a decade of Quantitative Easing. QE, compounded by furlough schemes and other support packages during Covid, has propped up many weak businesses and stimulated demand, leading to low unemployment rates across the US and UK. This has, until recently, created the illusion that the general health of the economy is better than it is. In reality, our analysis shows that competition for economic leadership and a new set of political alliances has intensified. We anticipate that geopolitical upheaval will likely become the norm over the coming years as countries grapple with poor economic outcomes for their citizens.

Strangely, in such an environment, the US, even with its own peculiar political outcomes, warrants a premium valuation and its status appears safe to us as the safe haven of choice for the coming decade at least.

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