

THE PEACE DIVIDEND MANDATE

A Structural Framework for Pricing Conflict Externalities

Executive Summary

Christopher Louis | Peace Economy Institute | September 2026

Companion document to the working paper “The Peace Dividend Mandate” (with Appendix A, a formal model). Full paper available on SSRN and at peaceeconomyinstitute.org.

The Problem

Global military expenditure reached \$2.887 trillion in 2025, the highest in recorded history outside of a world war and the eleventh consecutive annual increase. The Institute for Economics and Peace puts the total economic impact of violence at \$21.8 trillion in 2025 (10.5 percent of global GDP in purchasing-power terms), a figure that has run between \$17.5 trillion and \$21.8 trillion across recent editions. Against contemporaneous military expenditure, that is a ratio of roughly 5:1 to 7:1.

That ratio is the unpriced externality. The defense industry generates revenue from weapons production. The casualties, infrastructure destruction, refugee flows, and decades-long developmental setbacks that follow appear on no balance sheet the contractor must keep. Manufacturing weapons is the only major industry in which producers bear no financial responsibility for the downstream consequences of their products’ use.

Greenwald and Stiglitz (1986) established why this matters: where information is imperfect or risk markets are incomplete, which is always, externalities are pervasive and standard market outcomes are not constrained Pareto efficient. Stiglitz has subsequently argued, in a body of work running from “The Myth of the War Economy” (2003) through *The Road to Freedom* (2024), that the war economy is a market failure in need of structural correction. What that body of work does not provide (and what no existing work provides) is a structural mechanism for the political economy problem at the heart of the diagnosis: the tendency of any industry burdened by externality pricing to capture the correction mechanism and neutralize it.

The paper proposes that mechanism, and identifies the formal condition under which the capture problem is structurally resolved.

The Mechanism

The Peace Dividend Mandate (PDM) requires every dollar a defense contractor spends on weapons research, development, production, or marketing to be matched by mandatory peace infrastructure investment under a dynamic ratio:

Global Conflict Level	Required Ratio
Active Major Conflicts	5:1
Elevated Regional Tensions	3:1
Relative Stability	2:1 (baseline)
Sustained Peace Benchmarks	1:1
Verified Long-Term Peace	0.5:1

The 5:1 active conflict ratio is calibrated to independent estimates of the documented externality cost ratio, not chosen for rhetorical force. Ratio classifications are governed by an algorithmic conflict-level index drawing on Uppsala UCDP data, the IEP Global Peace Index, and UNHCR displacement figures, removing discretionary classification from the trigger process entirely.

Investment deploys through certified peacemaking organizations governed by an independent multilateral body, the Peace Dividend Certification Authority, with supermajority civil society representation, mandatory transparency, independent funding, and zero defense industry representation on its board. Compliance costs pass through to government procurement prices: a feature, not a bug. The pass-through makes the true cost of the war economy legible in public budgets for the first time.

The Theoretical Contribution

Three extensions of the Greenwald–Stiglitz framework are offered as hypotheses inviting formal verification.

The nested information failure. The war economy contains two compounding information asymmetries, contractors over governments in procurement and governments over citizens in war costs, that interact such that single-layer corrections leave the unaddressed asymmetry fully operational. This formalizes as a structural category the relationship Stiglitz and Bilmes documented empirically in *The Three Trillion Dollar War*. The PDM is designed as a dual-layer correction.

The amplified externality. A formally distinct class of market failure in which the producer’s marginal return to harm is positive and itself rising in harm ($m'(H) > 0$, $m''(H) > 0$). A linear Pigouvian charge fails in this environment: the firm’s objective stays convex and it selects a corner. What is structurally required is a correction whose marginal burden rises with harm—a convex burden, $B''(H) > 0$ —which is what a conflict-indexed dynamic ratio supplies. The category appears informally across tobacco, pharmaceutical, and financial-sector contexts but has not been formally distinguished from standard externality cases in the existing literature.

The Lobby Inversion Principle. The condition under which an externality-correction mechanism inverts the burdened industry’s political incentives. When the marginal burden reduction from decreasing the externality exceeds the marginal margin lost— $(1 - \phi)B'(H) > m'(H)$, with ϕ the share of the burden passed through to procurement prices—the industry’s lobbying apparatus is financially better deployed in pursuit of reducing the

externality than in maintaining it. The PDM's dynamic ratio is designed to satisfy this condition across the escalation range; where pass-through is high, the correction transfers to the procuring government and, through the public budget, to the electorate. To the author's knowledge, this condition has not been previously formalized in the political economy literature, including in the extensive scholarship of Stiglitz, Olson, or Grossman and Helpman. If correct, it identifies a class of externality-correction mechanisms that are politically self-reinforcing rather than self-undermining.

Scale

At full implementation, the PDM generates approximately \$1.4 trillion annually in mandatory peace infrastructure investment at the 2:1 baseline, rising to approximately \$3.5 trillion during active major conflict periods under the 5:1 ratio. Current global peace investment runs approximately \$10–15 billion annually across all forms of conflict prevention, peacebuilding, and reconciliation combined; the 2026 Global Peace Index independently corroborates this figure, finding that peacebuilding receives roughly 0.5 percent of global military spending. The PDM increases this by a factor of approximately 100–300, funded entirely through the mandatory obligations of the industry whose products are the mechanism's primary subject.

Implementation

A three-phase pathway. **Phase 1** establishes institutional foundation through voluntary contractor adoption, PDCA design, and pilot validation. **Phase 2** secures legislative anchoring through arms export licensing in willing jurisdictions—beginning with the European Union and expanding to Canada, Australia, Japan, South Korea, and other like-minded states, leveraging market-access conditionality of the kind that made GDPR a global standard. **Phase 3** extends to global normalization as the peace industry reaches sufficient scale to function as a self-sustaining economic sector. The mechanism does not require Security Council adoption, which is structurally blocked by the veto power of the world's largest arms exporters.

What This Paper Argues

The PDM does not require human nature to change, corporate culture to improve, or political will to materialize in advance of structural incentives. It requires that the war economy be made to pay for what it costs.

The full paper engages the strongest objections from six disciplines (economics, international relations, legal scholarship, peace studies, philosophy, and military strategy) and tests the framework against three case studies (Israeli–Palestinian, Russia–Ukraine, Rwanda) chosen specifically to test the mechanism's limits in ideologically-driven conflict.

The Lobby Inversion Principle in particular is the section the author believes most likely to interest economists working on regulatory capture and externality theory; it builds directly on the Greenwald–Stiglitz framework but proposes a class of correction mechanisms that, the paper argues, has not been previously identified.