

The Peace Dividend Mandate

A Structural Framework for Incentivizing World Peace Through Market Mechanisms and Conflict Externality Pricing

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With Appendix A: A Formal Model of Externality Correction under Producer Lobbying

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Abstract

This paper proposes the Peace Dividend Mandate (PDM): a structural policy requiring defense contractors and weapons manufacturers to allocate two dollars to certified peacemaking activities for each dollar spent on weapons production, scaling to five dollars during active major conflicts. The mechanism applies the logic of externality pricing, established by Greenwald and Stiglitz (1986), to one of the largest unpriced externalities in market history: the downstream costs of armed conflict—estimated at four to six times the value of the weapons systems that prosecute individual conflicts, and, at the global level, at approximately five to seven times annual military expenditure. The paper’s central theoretical contribution is the Lobby Inversion Principle, which identifies a class of externality-correction mechanisms under which the burdened industry’s political machinery is financially motivated to work for rather than against reduction of the externality. To the author’s knowledge, this class of mechanism has not been previously identified in the political economy literature. The PDM is designed to satisfy the Lobby Inversion Condition by construction under the stylized assumptions of the mechanism’s

incentive architecture: at a 5:1 active conflict ratio, the defense industry's financial interest in reducing global conflict exceeds its financial interest in sustaining it, transforming one of the world's most powerful corporate lobbies into a structurally aligned advocate for conflict reduction. Two additional theoretical extensions of the Greenwald–Stiglitz framework are proposed: the nested information failure, in which two compounding asymmetries render single-layer corrections structurally insufficient, and the amplified externality, a formally distinct category in which producer profitability is positively reinforced by harm magnitude through demand feedback channels beyond the output mechanism, rendering static Pigouvian rates insufficient. At full implementation, the PDM would generate approximately \$1.4 to \$3.5 trillion in annual peace infrastructure investment (roughly one hundred to three hundred times current global conflict prevention spending), funded through the mandatory obligations of the industry whose products are the mechanism's primary subject. 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 only that the war economy be made to pay for what it costs.

Keywords: conflict externalities; Pigouvian pricing; defense industry; military expenditure; lobbying and regulatory capture; peace economics; mechanism design

JEL Classification: D62, D72, D82, H23, H56

Preface

Sometime in the twenty-first century, the historical record will show that humanity possessed every tool necessary to build a durable architecture of peace, and chose, decade after decade, not to deploy it. The tools were available. The intellectual framework existed. The problem was that the financial incentives of the most powerful institutions on earth pointed in the opposite direction. What was missing was a mechanism to change them.

This paper proposes one. It arrives now because the cost of our current system is finally clear in ways earlier generations could partly ignore. Global military expenditure reached nearly \$2.9 trillion in 2025 and continues to climb, the highest in recorded history outside of a world war. The conflicts driving that expenditure have killed millions and displaced over 120 million. Resources have been consumed, and their lost opportunities (the schools unbuilt, the diseases untreated, the infrastructure unrealized, the hunger unaddressed) rank among the largest preventable human tragedies of the modern era. The institutions meant to prevent this (the United Nations, the international legal order, the arms control treaty system) have been defunded, politicized, and undermined by the same financial interests that profit from their failure.

This is not a paper about why war is bad. Everyone knows why war is bad. Instead, this is a paper about why the global economy's financial structure keeps making war more profitable than peace, and what is needed to change that. The argument is economic before moral, though its

moral implications are profound. The framework is institutional rather than idealistic, though it ultimately serves the vision of genuine human flourishing.

The Peace Dividend Mandate proposed here will not end war. No single mechanism can end war. What it can do, and what the following analysis argues, is change the financial landscape in which decisions between war and peace are made. Changed financial landscapes change behavior. This is true in every area where catastrophic harm has been successfully reduced. There is no principled reason it cannot be true here.

This paper is released as a working document, open to critique and collaboration. The Peace Economy Institute, which published this work, exists to expand this conversation. The ideas here are the start of an argument, not its conclusion. They are based on the belief that the world can build a peace economy. What is missing is the institutional design to make it irresistible.

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I. Introduction: The Problem with How We Think About Peace

The persistence of armed conflict despite centuries of moral, religious, and philosophical opposition presents a problem that is institutional rather than ethical. Moral arguments against war are nearly as old as war itself, and they have produced extensive intellectual and cultural achievements without producing a corresponding reduction in armed violence. The empirical record is unambiguous: in 2025, global military expenditure reached \$2.887 trillion (the highest in recorded history outside of a world war, and the eleventh consecutive year of increase) while the institutions designed to prevent and resolve conflict have been systematically underfunded and politically constrained throughout the post–Cold War period. Any framework that proposes to alter this trajectory must begin from the diagnosis that the current outcome is structurally produced rather than morally chosen.

This paper proceeds from that diagnosis. It treats armed conflict as an unpriced externality of the weapons manufacturing industry, applies the framework Greenwald and Stiglitz (1986) developed for correcting externalities under conditions of imperfect information, and adds to that framework a specific institutional architecture designed to address what the political economy literature has identified as the principal obstacle to any externality correction: regulatory capture by the burdened industry. The proposal that follows, the Peace Dividend Mandate, is structural rather than moral. Its claim is not that weapons manufacturers should be motivated by conscience, but that the financial incentives currently aligned with sustained conflict can be redesigned to align with its reduction.

The argument proceeds in three movements. The first establishes the war economy as a market failure of a particular kind, drawing on and extending the Greenwald–Stiglitz framework to identify two structural features (a nested information failure and an amplified externality) that distinguish this case from standard externality problems and render conventional Pigouvian corrections insufficient. The second proposes the Peace Dividend Mandate as a mechanism designed to address these features through mandatory peace-spending obligations scaled to verified global conflict levels. The third develops the principal theoretical contribution of the paper: a formal condition under which the burdened industry’s political incentives invert, such that the defense industry’s lobbying apparatus becomes structurally motivated to advocate for conflict reduction rather than against it.

One feature of the mechanism’s design warrants early notice, because it distinguishes the Peace Dividend Mandate from every previous externality-correction proposal in the political economy literature. Standard analysis predicts that an industry subject to mandatory externality pricing will deploy its political power to weaken, delay, or eliminate the correction mechanism. The history of environmental regulation, financial sector oversight, and pharmaceutical pricing confirms this prediction without exception. The PDM is designed to violate it. By tying the mandatory peace-spending burden to verified global conflict levels (rising when conflict rises, falling when conflict falls) the mechanism creates a condition under which the defense industry’s financial interest in reducing global conflict exceeds its financial interest in maintaining it. When this condition holds, the industry’s lobbyists, PAC contributions, think tank funding, and revolving-door relationships become structurally motivated to work for peace rather than against it. Section IV develops this as the Lobby Inversion Principle. It is the mechanism’s most consequential theoretical feature, and to the best of this author’s knowledge it has not been formally stated in this form before.

This paper builds directly on Stiglitz’s identification of the war economy as a market failure in need of structural correction, a diagnosis he has advanced from “The Myth of the War Economy” (2003) through *The Three Trillion Dollar War* (2008), *The Price of Inequality* (2012), and *The Road to Freedom: Economics and the Good Society* (2024). What those works do not provide, what no existing work provides, is a structural mechanism designed to solve the political economy problem Stiglitz himself identified as the deepest obstacle to any externality correction: the tendency of the burdened industry to capture the correction mechanism and neutralize it. This paper proposes that mechanism, and names the condition under which the capture problem is structurally resolved. The institutional design logic developed here is also indebted to the broader framework Greenwald and Stiglitz advanced in *Creating a Learning Society* (2014): that properly structured institutions can shift economic incentives system-wide toward socially productive outcomes that unstructured markets will not deliver on their own.

II. The Structural Problem: War as an Unpriced Externality

In economics, an externality is a cost or benefit that a transaction imposes on parties not directly involved. A factory that pollutes a river generates profit for its owners but imposes costs (degraded water quality, health impacts, ecological harm) on downstream communities. Greenwald and Stiglitz (1986), in “Externalities in Economies with Imperfect Information and Incomplete Markets,” established the theoretical foundation for why externalities require correction.¹ Their result was that whenever markets exhibit imperfect information or incomplete risk markets, which is the universal condition, externalities are pervasive and standard market outcomes are not constrained Pareto efficient. The corresponding method of intervention is to require producers to internalize the costs they currently externalize, restoring efficient incentives by changing the price signals firms face. The Peace Dividend Mandate applies this framework to one of the largest unpriced externalities in market history.

The downstream costs of weapons manufacture (casualties, destroyed infrastructure, refugee crises, lasting psychological trauma, and regional instability that breeds subsequent conflicts) are not borne by the producers whose products produce them. When a major defense contractor delivers a weapons system, the transaction concludes: the procuring government pays, the contractor profits, shareholders receive returns. None of the downstream costs appear on any balance sheet the contractor is required to maintain.

This outcome is not a moral failing unique to weapons manufacturers; it is the predictable result of a system that has never required them to internalize downstream effects. In every other industry where externalities have been identified and priced (carbon emissions, toxic waste, financial systemic risk) the corrective principle has been consistent: producers are required to bear the costs they impose on third parties. Stiglitz has argued that this principle applies across all production sectors generating negative externalities.² The PDM applies it to the one major sector long exempt.

Weapons manufacture is the only major industrial sector in which the producer bears no financial responsibility for the downstream consequences of the product’s use. This is the structural gap in the architecture of global economic governance that the Peace Dividend Mandate is designed to close.

The defense industry’s exemption from externality pricing is not accidental. It is the product of the dynamic Stiglitz documented in *The Price of Inequality* (2012): industries with concentrated economic power use that power to shape the political and regulatory rules that govern them, avoiding the obligations that would reduce their profitability. The defense industry is among the most powerful corporate lobbies in the world. Its exemption from conflict externality pricing is not a market outcome. It is a political outcome, achieved through the same rent-seeking mechanisms Stiglitz identified as the primary driver of structural inequality in the American economy. The PDM is, at its core, a mechanism for ending the defense industry’s most

consequential act of rent extraction: the privatization of war's profits and the socialization of war's costs.³

The framework of extractive institutions developed by Acemoglu and Robinson (*Why Nations Fail*, 2012) and extended by Acemoglu and Johnson (*Power and Progress*, 2023) provides a complementary lens. Their core finding, that the principal determinant of long-run economic and human development is whether a society's institutions distribute opportunity broadly or concentrate it among a narrow elite, applies with unusual force to the global weapons industry. Defense procurement, as it currently operates, exhibits the defining features Acemoglu, Robinson, and Johnson identify in extractive institutions: rents accrue to a concentrated set of producers; political influence is mobilized to preserve those rents against reform; and the broader population bears the costs without sharing in the benefits. The PDM is, in this framework, an institutional reform of an extractive sector: a redirection of its rents from extraction toward investment in the conditions of broadly shared flourishing.

III. The Mechanism: How the Mandate Works

3.1 The Core Requirement

Under the Peace Dividend Mandate, every dollar spent by a defense contractor on weapons research, development, production, or marketing must be matched by at least two dollars allocated to certified peace infrastructure investment. This investment is active spending rather than a tax: it is deployed through a competitive market of certified peacemaking organizations, programs, and projects, governed by an independent multilateral certification body.

The 2:1 baseline ratio is not arbitrary, but it is deliberately conservative. It is the floor of obligation, calibrated to be economically survivable for the defense industry while generating world-historic levels of peace investment. The survivability of the 2:1 baseline follows from the mechanism's pass-through architecture: under the PDM, peace-spending obligations are compliance costs embedded in the contractor's cost structure and recovered through procurement pricing—the same mechanism by which contractors currently pass through overhead, general and administrative costs, and regulatory compliance expenses. Under conditions of substantial procurement pass-through (the typical outcome in defense contracting, where compliance costs are recovered through both cost-plus and fixed-price contractual arrangements via established indirect-cost rate structures), the 2:1 obligation passes substantially to the visible price of weapons procurement, making the true cost of the war economy legible in public budgets for the first time. The procurement price increase this creates is substantial and intentional. It places the decision about whether to continue procuring at the higher cost precisely where democratic accountability requires it to be: with elected governments, scrutinized by legislatures, and answerable to the citizens who pay for both the weapons and the wars they enable. The mechanism's more rigorous ratio (the one that reflects what defense manufacturers actually cost the world) is 5:1, applied during active major conflicts.

Independent economic research consistently estimates that the total societal cost of armed conflict runs approximately four to six times the value of the weapons systems used to prosecute it. This accounting includes direct casualties, infrastructure destruction, displacement and refugee flows, long-term developmental setbacks in affected regions, and the compounding instability that breeds subsequent conflicts. A 5:1 ratio during active conflict is therefore not punitive. It is accurate. It is the ratio at which the defense industry begins to pay, for the first time in history, something approaching what it actually costs the world.⁴

3.2 The Certification Architecture

The mechanism's integrity depends entirely on a rigorous, independent certification system. The Peace Dividend Certification Authority (PDCA) (modeled on existing multilateral bodies such as the UN Peacebuilding Commission but with an expanded mandate, independent funding, and enforceable standards) would be responsible for certifying qualifying peace infrastructure across six domains: conflict mediation and diplomacy support; post-conflict reconstruction and transitional justice; democratic institution-building and rule-of-law strengthening; economic development in conflict-prone and post-conflict regions; education, intercultural dialogue, and de-radicalization; and community-led reconciliation and structural violence reduction programs. The final category is deliberate: following Johan Galtung's foundational distinction between direct violence and structural violence (the poverty, inequality, and institutional exclusion that both cause and perpetuate armed conflict) the PDCA explicitly requires that at least 20 percent of certified spending address structural violence conditions, not merely direct conflict symptoms.

PDCA governance would be structured to resist capture at every level. Stiglitz has documented extensively—most systematically in his analysis of financial sector deregulation in *Freefall* (2010), *The Price of Inequality* (2012), and most recently in *The Origins of Inequality and Policies to Contain It* (2025)—how industries with concentrated economic power systematically capture the regulatory bodies meant to oversee them, converting oversight mechanisms into instruments of competitive protection. The PDCA's architecture incorporates every structural defense against regulatory capture identified in this literature: its board would consist of a supermajority of civil society representatives, independent academics, and community practitioners, with no more than 25 percent representation by state actors and zero representation by the defense industry or affiliated entities. Funding would be drawn from a mandatory 1 percent levy on all PDM peace spending, creating an independent, self-sustaining revenue base insulated from both state defunding and corporate influence. The explicit goal is an institution that is more structurally independent than the SEC, the FDA, or any other regulatory body that the defense industry might hope to replicate its relationship with.

3.2a The Additionality Standard

The most consequential design requirement (and the one most frequently omitted from similar offset frameworks) is strict additionality. Additionality means that certified peace spending must

represent genuine new investment in conflict reduction, not the rebranding of activities that would have occurred without the mandate. The lesson from carbon offset markets is instructive: early iterations of the EU Emissions Trading System allowed companies to claim credits for emissions reductions that were already planned, generating paper compliance without real-world impact. The PDM explicitly prohibits this.

PDCA additionality standards would require that: (1) certified programs demonstrate a credible counterfactual: what would have happened in their absence; (2) no certified program may duplicate or displace existing funding streams from governments, UN agencies, or established humanitarian organizations without demonstrating that it generates net additional resources to the field; and (3) all certified programs must be independently verified by third-party evaluators drawn from an approved registry of peace and development research institutions, using pre-registered outcome hypotheses to prevent post-hoc rationalization of results.

3.2b Local Ownership Requirements

Informed by four decades of peace practitioner research (most rigorously articulated in John Paul Lederach's *The Moral Imagination* and his theory of conflict transformation) the PDCA would embed local ownership as a non-negotiable certification standard rather than a preference. Lederach's empirical finding, supported by the broader peacebuilding literature, is that externally designed and funded peace programs consistently underperform community-led initiatives because they lack the relational infrastructure (the trust networks, shared narratives, and local legitimacy) that durable peace actually requires.

Accordingly, no PDM-funded program may be certified if its primary design authority rests with the funding contractor or any external entity. All certified programs must demonstrate: community co-design with affected populations; governance structures that place decision-making authority in local hands; explicit plans for transition to local ownership within a defined timeframe; and cultural competency reviews conducted by practitioners from the affected communities themselves. This requirement does not preclude contractors from funding or supporting programs. It precludes them from controlling them.

3.2c The Outcome Measurement Framework

Markets require measurable, contractable outcomes. Peace, critics correctly observe, is notoriously resistant to measurement. The PDM addresses this through a composite outcome framework drawing on the most rigorous existing metrics in conflict research, rather than inventing new measures:

- Uppsala Conflict Data Program (UCDP) data for conflict incidence, intensity, and duration trends in program areas.

- Institute for Economics and Peace Global Peace Index (GPI) (the most comprehensive existing composite measure of societal safety and security) for macro-level trend assessment.
- World Bank Worldwide Governance Indicators (WGI) for institutional quality, rule of law, and political stability in target regions.
- UNDP Human Development Index trajectories for program areas, capturing the structural violence dimensions that the GPI underweights.
- Disability-Adjusted Life Years (DALYs) attributed to conflict, the standard epidemiological measure, for direct harm reduction assessment.

Certified programs would be required to preregister their outcome hypotheses with the PDCA before implementation, specifying which indicators they expect to move, in what direction, over what timeframe, and by what mechanism. This preregistration standard, now routine in clinical medicine and increasingly adopted in development economics following the replication crisis, prevents the retrofitting of success narratives onto ambiguous results. Programs failing to demonstrate measurable progress against preregistered outcomes within defined timeframes would lose certification and become ineligible for PDM funding.

3.3 The Dynamic Ratio

The mechanism's most powerful feature is a dynamic ratio that adjusts based on verified global conflict levels. This transforms the incentive structure in a fundamental way: defense contractors become the most powerful lobby on earth for peace, because every measurable reduction in global conflict directly reduces their mandatory peace-spending burden and, to the extent that burden is retained rather than passed through, increases their net profit margin; where it is passed through, the same reduction lowers the price the procuring government pays (Appendix A.5).

Table 1: Dynamic ratio schedule under the Peace Dividend Mandate. The 5:1 active conflict ratio reflects independently documented externality cost estimates of 4–6 times the weapons’ value. The 2:1 baseline is the floor of obligation. Conflict levels assessed by independent PDCA using verified global data, including Uppsala Conflict Data Program metrics.

Global Conflict Level	Required Ratio	Mechanism Effect
Active Major Conflicts	5:1	Reflects true externality cost ratio (4–6× documented)
Elevated Regional Tensions	3:1	Sustained investment incentive
Relative Stability	2:1	Baseline mandate, the floor of obligation
Sustained Peace Benchmarks	1:1	Reduced burden rewards peace achievement
Verified Long-Term Peace	0.5:1	Peace becomes the most profitable posture

The dynamic ratio creates a self-reinforcing loop. At 5:1 during active conflict, the financial pressure to invest in peace is at its maximum precisely when conflict is most destructive. As conflict decreases, the ratio decreases, rewarding the outcomes their peace investments have helped produce. At sustained peace benchmarks, the burden approaches parity. Under these conditions, the system’s financial pressure compounds in the direction of peace.

Critically, the 5:1 peak ratio also marks the threshold at which the peace industry becomes larger than the defense industry itself. That crossing is deliberate: it marks the point at which the structural balance of the global economy begins to shift, away from incentives that scale with instability and toward incentives that scale with flourishing.

3.3a The Ratio Trigger Algorithm: Removing Discretion from the Decision

The most dangerous design risk in any dynamic mechanism is discretionary authority: the possibility that a governing body could manipulate ratio classifications for political or financial reasons. The PDM addresses this by specifying a transparent, pre-defined, algorithmic trigger process that removes subjective judgment from ratio classification decisions.

The PDCA Conflict Level Index (PCLI) is a composite score calculated quarterly from five independent, publicly available data streams, weighted as follows:

- Uppsala UCDP Battle-Related Deaths (BRD), 30 percent weight. Threshold: BRD above 10,000 annually in any single conflict or 25,000 globally triggers active conflict classification. UCDP data show that the global threshold has been continuously exceeded

since 2014, reflecting the post-2014 reality of sustained large-scale armed conflict; under the PDM, this means the 5:1 active conflict ratio would be the operative ratio in the current strategic environment if the PDM were implemented at present conditions; the lower baseline ratios represent the reduced-burden destination toward which the mechanism's incentives drive the system as conflict measurably declines.

- UCDP Conflict Incidence, 20 percent weight. Number of active state-based, non-state, and one-sided violence episodes meeting UCDP's 25-death threshold in the current quarter.
- IEP Global Peace Index Annual Deterioration Rate, 20 percent weight. GPI deterioration exceeding 2 percent year-over-year triggers elevated tension classification.
- UNHCR Forced Displacement Data, 15 percent weight. New displacement exceeding 1 million persons per quarter as a proxy for conflict intensity.
- UN Security Council Emergency Sessions, 15 percent weight. Number of emergency sessions convened in the quarter as a political severity indicator. The convening of emergency sessions is a procedural matter under UN Charter Article 27(2), which is not subject to permanent-member veto, making the indicator structurally insulated from manipulation by the parties most likely to be implicated in the conflicts under review.

Ratio transitions require two consecutive quarterly PCLI assessments at the new threshold level before taking effect, preventing single-event spikes from triggering ratio changes, and are published 90 days in advance to allow contractor compliance planning. All underlying data are published simultaneously with PCLI scores, making any manipulation of the composite immediately visible to independent verification. The algorithm is embedded in the PDCA's founding treaty text and cannot be modified without a supermajority vote of the full PDCA board, including its civil society members.

3.4 Anti-Gaming Provisions

Every serious economic review of offset mechanisms must confront what game theorists call the perverse incentive problem. In the PDM's case, the risk is specific: if a contractor earns mandatory peace spending authority proportional to weapons production, a sufficiently sophisticated firm might rationally increase production to capture a larger share of the peace investment market, particularly if it has vertically integrated into the delivery of certified peace programs. The mechanism intended to fund peace becomes a justification for more weapons.

The PDM addresses this through four interlocking anti-gaming provisions:

- Revenue Cap on Contractor-Delivered Peace Programs: No defense contractor or affiliated entity may receive more than 15 percent of its own mandatory peace spending allocation through programs it directly delivers or controls. The remaining 85 percent must flow to independent, PDCA-certified third-party organizations. This severs the direct financial link between weapons production volume and peace contract capture.

- **Absolute Production Ceiling:** The PDCA, in conjunction with existing arms control treaty bodies, establishes category-level production ceilings for major weapons systems based on the Defensive Necessity Assessment (DNA) process described in Section 3.4a below. Peace spending ratios apply only to production within certified ceilings; production above those ceilings triggers a 10:1 escalation, making uncapped expansion financially catastrophic rather than merely expensive.
- **Competitor Certification Access:** All PDCA-certified peace programs must accept funding from any compliant PDM participant, not exclusively from their founding contractor. This prevents proprietary peace portfolio capture and ensures the peace investment market remains genuinely competitive.
- **Beneficial Ownership Transparency:** Full beneficial ownership disclosure is required for all entities receiving PDM certification, preventing contractors from establishing nominally independent subsidiaries to capture their own peace spending.

3.4a The Defensive Necessity Assessment: Answering the Hardest Question in Arms Control

The production ceiling mechanism requires the PDM to answer the hardest question in all of arms control: what constitutes legitimate defensive necessity? Every state claims its weapons are purely defensive. Every contractor claims its products serve security rather than aggression. Without a rigorous, politically insulated methodology for answering this question, the ceiling mechanism collapses into a political negotiation that powerful states will dominate.

The Defensive Necessity Assessment (DNA) is the PDM's answer. It draws on three independent methodological streams, none of which can be controlled by any single state actor:

- **Capability-Based Assessment:** Drawing on the methodology of the NATO Defense Planning Process and the analogous frameworks of other major alliance structures, the DNA evaluates weapons production against documented capability gaps relative to credible threat scenarios. Production that closes documented capability gaps within established force structure parameters is certified as defensive. Production that expands capability beyond gap-closure (that builds toward power projection, offensive strike capacity, or weapons categories explicitly prohibited by existing arms control treaties) is classified as exceeding defensive necessity and subject to ceiling designation.
- **Treaty Compliance Review:** Production within the scope of existing arms control treaty obligations (including the NPT, CWC, BWC, ATT, and relevant bilateral agreements) is presumptively certified as consistent with the principle of defensive necessity. Production that approaches or tests treaty limits triggers automatic ceiling review.
- **Independent Military Expert Panel:** A standing panel of retired senior military officers, arms control scholars, and defense economists (drawn from a rotating roster of nationals from non-aligned states to prevent major-power capture) reviews capability assessments

and provides binding recommendations. Panel members serve fixed, non-renewable terms and are prohibited from employment by defense contractors for ten years following service.

The DNA process is explicitly not a disarmament mechanism. It does not seek to reduce weapons production to zero or to impose a particular vision of minimum necessary defense. It seeks only to distinguish production that serves documented security needs from production that serves the commercial interests of the defense industry and the political interests of defense establishments: a distinction that independent analysis consistently suggests accounts for a significant fraction of global military expenditure.

3.4b Jurisdiction Flight: The Reincorporation Risk

A sophisticated critic will immediately identify what may appear to be the PDM's most exploitable vulnerability: if the mechanism imposes compliance costs on defense manufacturers operating in adopting jurisdictions, those manufacturers could threaten, or execute, reincorporation or production relocation to non-participating states, thereby escaping the mandate while continuing to sell into adopting markets through intermediaries or subsidiaries.

This is a real risk. It is also a solved problem in international regulatory architecture, and the PDM's response draws on three proven enforcement tools:

- **Manufacturing Location Rule:** PDM compliance is triggered by the location of weapons manufacturing, not the jurisdiction of corporate incorporation. A manufacturer incorporated in a tax haven but producing weapons in Germany operates under German PDM rules. This mirrors the approach of the EU's Carbon Border Adjustment Mechanism and eliminates the principal incentive for incorporation flight.
- **Market Access Conditionality with End-Use Tracing:** Any weapons system (regardless of its country of manufacture or the incorporation jurisdiction of its producer) that is sold to, transferred to, or ultimately deployed by a PDM-participating state must demonstrate PDM compliance through its entire supply chain. This is implemented through end-use certificates already required by arms export licensing regimes in all major adopting jurisdictions. A manufacturer that relocates production to avoid PDM obligations but wishes to continue selling to European, North American, or Pacific allied governments must comply with PDM requirements or lose market access. Given that adopting jurisdictions account for the majority of global arms import demand, this is not a marginal pressure.
- **Secondary Sanctions Authority:** In cases where a non-participating state systematically shelters PDM-non-compliant manufacturers specifically to enable market-access arbitrage (i.e., where a state acts as a deliberate compliance haven) adopting jurisdictions may invoke secondary sanctions authority analogous to that used in financial sanctions

regimes. This is a blunt instrument, designated as a last resort; its primary function is deterrent rather than operational.

The analysis above applies most directly to manufacturers whose primary markets are in Western-aligned democracies. Chinese defense manufacturers present a structurally distinct challenge that the PDM addresses directly rather than elides. China's arms exports flow predominantly to states outside Western procurement frameworks, meaning market-access conditionality creates limited short-term pressure on Chinese producers. The PDM does not claim otherwise. What it does create is a growing coalition of adopting states whose combined purchasing power and diplomatic weight increase over time; an accumulating body of evidence that the peace investment the mechanism generates serves Chinese security interests by reducing regional instability in areas where China has substantial economic exposure; and an eventual cost-benefit calculation for Chinese participation that improves as the PDM coalition expands. The mechanism's architects do not expect Chinese adoption in Phase 1 or Phase 2. They expect it in Phase 3, when exclusion from the largest arms markets represents a genuine competitive disadvantage, and when the peace industry the PDM has built by then represents an economic opportunity that Chinese industrial policy cannot rationally decline. This is the same logic by which China eventually joined the WTO: not because it was compelled to, but because the cost of remaining outside exceeded the cost of compliance.

On the pass-through question—the legitimate observation that defense contractors pass compliance costs to their government customers, making the PDM effectively a public levy on defense procurement—the mechanism's architects offer the following: yes, a portion of the PDM's cost will be borne by taxpayers through increased weapons procurement prices. That is the mechanism operating as intended. The PDM makes the true cost of the war economy visible in public budgets and redirects a portion of it toward the infrastructure of peace. Democratic accountability for that cost is then located where it belongs: in the procurement decisions of elected governments, scrutinized by legislatures, and ultimately answerable to the citizens who pay for both the weapons and the wars.

IV. A Theoretical Contribution: Three Proposed Extensions of Externality Economics

The theoretical material developed in this section was not the original purpose of the paper. The intended scope was policy design, mechanism, institutional architecture, implementation pathway. The extensions presented below emerged from the work of addressing potential objections, and they raise questions about externality theory that the policy framework cannot resolve alone.

A note on these extensions' relationship to existing scholarship is required before stating them. Each builds on the Greenwald–Stiglitz framework, and each departs from it at a specific point. The nested information failure formalizes an interaction that Stiglitz and Bilmes documented

empirically in *The Three Trillion Dollar War* (the systematic gap between government cost projections and actual conflict costs) but does not name as a structural category or identify as the consequence of two compounding asymmetries that reinforce each other. The amplified externality (where a producer's profitability rises with the harm its products cause) has been observed informally in tobacco, pharmaceutical, and financial sector contexts, but has not been formally distinguished from standard externality cases as a separate class with different implications for correction mechanism design. The Lobby Inversion Principle is, to the best of this author's knowledge, the most fully novel of the three: the specific formal condition under which an externality-correction mechanism inverts the burdened industry's political incentives does not appear in the political economy literature, including in the extensive scholarship on regulatory capture by Stiglitz, Olson, or Grossman and Helpman. These novelty claims are made with appropriate humility. The relevant literature is vast. If any of these results duplicates prior work, the duplication is inadvertent and the field should say so.

Working through the conditions under which the PDM's incentive structure holds, deriving rather than merely asserting it, reveals features of the war economy that existing externality theory does not fully capture. The Greenwald–Stiglitz framework remains the appropriate starting point and accounts for most of the structure. There are, however, three points at which the war economy differs structurally from the cases on which that framework was developed, and these differences carry implications not only for the present mechanism but for the broader project of externality correction in industries whose product is intrinsically destructive.

These extensions are presented as hypotheses for theoretical verification rather than as established results. The author's training is in policy and applied economics, not formal economic theory; the appropriate intellectual posture is to state these ideas as precisely as possible and invite scholars with the formal tools to assess whether they hold. What appears clear is that the specific formulations developed below have not been stated in this form before. Whether that absence reflects genuine novelty or a gap in the author's reading of an extensive literature is a question this paper cannot resolve alone. The formal core of the three extensions is set out in Appendix A: a single model of a defense contractor, a procuring government, and an accountable electorate, from which each result below follows as a proposition rather than an assertion. Appendix A also examines the amplification assumption on which the dynamic-ratio results rest, weakens it to the condition the evidence supports, and states the scope conditions under which each result holds.

Theoretical Extension 1: The Nested Information Failure. Why Standard Corrections Are Insufficient for War Externalities

Start with what Greenwald and Stiglitz (1986) established: wherever information is imperfect, or markets are incomplete, externalities are pervasive and standard market outcomes are not constrained Pareto efficient. The framework identifies information asymmetry as the structural

source of market failure, and corrective intervention as the appropriate response. This much is settled.

The war economy appears, at first glance, to be a straightforward application of this framework. Defense contractors know more about their weapons than the governments buying them: a classic asymmetry. On this reading, the corrective follows directly: price the externality. The conclusion appears straightforward, and it is where the analysis initially settled. Closer examination revealed a structural feature of the war economy that the single-asymmetry framing does not capture.

The problem is that the war economy does not have a single information asymmetry. It has two, running in opposite directions simultaneously, and the interaction between them produces a structural feature that standard externality theory has no name for: a compounding failure where each asymmetry makes the other worse, and where correcting only one layer leaves the other intact and still operating to undermine the correction.

The first asymmetry (I_1) runs between defense contractors and governments: contractors possess substantially superior information about weapons systems' true capabilities, realistic deployment costs, probable operational effectiveness, and the marginal contribution of additional procurement to genuine security outcomes. This asymmetry creates the standard incentive Stiglitz identified in insurance and credit markets: the better-informed party structures transactions to extract rents from their informational advantage. In the defense procurement context, this manifests as systematic threat inflation: the calibration of threat assessments to justify procurement levels that serve contractor interests rather than accurately represent strategic reality. That is the predicted equilibrium behavior of a profit-maximizing firm with information advantages over its primary customer, not a moral claim about individuals.

The second asymmetry (I_2) runs between governments and citizens: governments possess substantially superior information about the true costs of conflicts they initiate, casualty projections, long-term veteran care obligations, macroeconomic distortions, regional destabilization risks, and opportunity costs of foregone alternative investments. As Stiglitz and Bilmes documented in *The Three Trillion Dollar War*, the Bush administration projected the Iraq War would cost \$50 to \$60 billion. Stiglitz and Bilmes's own analysis produced a range from \$2.2 trillion (best case) to \$5 trillion (realistic-moderate scenario), with \$3 trillion offered as a published consensus figure; in their 2010 follow-up, they concluded the \$3 trillion estimate had itself understated the true cost, particularly the opportunity costs foregone. The order-of-magnitude gap between the government's pre-war projections and the post-war reality is not unique to the Iraq case. It is a structural consequence of governments facing political incentives to minimize the apparent cost of military action before it is undertaken.

What standard externality theory misses is how these two asymmetries interact mechanically. I_1 enables contractors to generate inflated demand signals through the threat-assessment channel. I_2 enables governments to conceal the true downstream costs of acting on those signals from the

democratic publics who bear them. The interaction is not merely additive: I_2 functionally complements I_1 by removing the disciplining feedback that would otherwise constrain it. In the absence of I_2 , governments would face public scrutiny over inflated cost projections at the moment of decision, generating demand-side pressure that would challenge contractor threat inflation directly. With I_2 operative, governments instead conceal cost projections, removing the democratic feedback that would otherwise discipline I_1 . The contractor's informational advantage is amplified by the government's incentive to conceal costs; the government's concealment is enabled and legitimated by the contractor-supplied threat narratives that justify it. Together they create what this paper terms a nested information failure: a compounding market distortion in which each asymmetry is structurally worse than it would be in the absence of the other.

This nested structure has a critical implication for policy design: it cannot be corrected by mechanisms that address only one layer. A transparency requirement that forces contractors to disclose true weapons capabilities addresses I_1 but leaves I_2 intact; governments can still conceal the true costs of acting on accurate threat assessments. A freedom-of-information regime that exposes government cost projections addresses I_2 but leaves I_1 intact—contractors can still structure their informational advantage to generate inflated procurement demand. Single-layer corrections are necessary but insufficient. This is, incidentally, why decades of arms control transparency initiatives and government accountability reforms have each produced modest results: each addressed one asymmetry while leaving the other fully operational.

The Peace Dividend Mandate is designed, though not originally named this way, as a dual-layer correction. It addresses I_1 by making contractors pay for externalities they currently externalize, eliminating the financial incentive to generate inflated threat assessments. It addresses I_2 through the pass-through mechanism that policy critics often cite as a weakness: by embedding war's true costs in the visible procurement prices that governments pay, it writes conflict costs into the budgets that democratic publics can see. The feature that appears to be a bug is the mechanism used to correct the second asymmetry. Democratic accountability operates on accurate information—not because governments became more honest, but because the price signal forced honesty into the system.

Theoretical Extension 2: The Amplified Externality. A New Category of Market Failure

Standard externality theory, from Pigou through Greenwald–Stiglitz, analyzes externalities arising as byproducts of production: the polluting factory's emissions scale with output; the firm's profit scales with output; the externality and the profit are correlated through the shared variable of production volume. The Pigouvian correction is calibrated to this structure: a tax rate set at marginal social cost forces the firm to internalize the per-unit damage of its output, restoring efficient production levels. The mechanism works because the firm has no strategic incentive to expand the externality independently of the output channel; the polluting factory

does not seek to increase its emissions per unit; it seeks only to maximize profit subject to the now-priced externality.

The defense industry departs from this structure. A contractor's revenue is not connected to harm only through the output channel; it is also connected through a demand feedback channel that operates beyond production decisions. More conflict expands the market for weapons; expanded markets increase contractor revenue; increased revenue funds political capacity; political capacity is deployed to generate the threat assessments and procurement justifications that sustain or expand conflict. The producer's profit function and the social harm function are not merely correlated through the shared variable of output; they are connected through a feedback loop in which the harm itself drives demand for the product.

Formally: where standard externality analysis assumes $\partial R/\partial H$ operates only through $\partial R/\partial Q \times \partial Q/\partial H$ (revenue depends on harm only through output), the amplified externality features an additional channel $\partial R/\partial H|_{\text{demand}} > 0$ in which harm directly increases demand independent of (or in addition to) the output channel. The implication for policy design follows directly: a Pigouvian tax with constant rate t produces $\partial B/\partial H = \text{constant}$ (the firm's marginal burden per unit of harm does not rise with the level of harm) while the amplified-externality producer faces increasing returns to investments that expand H . A correction that holds $\partial B/\partial H$ constant cannot offset a producer whose $\partial R/\partial H$ is itself increasing through the demand channel. What is required is a mechanism in which $\partial^2 B/\partial H^2 > 0$: the marginal burden rises as harm rises. That is the structural property the PDM's dynamic ratio is designed to satisfy, and it is why no static externality tax of any magnitude produces the same result.

The amplified externality is not unique to the war economy, which is what makes it theoretically important beyond this paper. Analogous structures appear in other industries where demand-feedback channels operate beyond standard production externalities. In tobacco, addiction itself drives demand for the product: a pattern documented extensively in the industry-document scholarship and in Brandt's *The Cigarette Century*. In segments of the pharmaceutical industry, business models built on sustained chronic illness exhibit similar dynamics, documented in the public health literature on disease awareness campaigns and pharmaceutical marketing. In financial sector structures, complexity and opacity generate fee income while simultaneously expanding systemic risk—a structural pattern central to Stiglitz's own analysis in *Freefall* (2010). And in fossil fuels, the political-economic dynamics analyzed by Oreskes and Conway in *Merchants of Doubt* (2010) describe the same demand-feedback structure. These literatures have documented the individual cases without distinguishing the underlying market structure as a separate theoretical category requiring different correction mechanisms. In each case, the standard Pigouvian analysis is insufficient for the same reason: the harm function and the profit function are connected through demand feedback in addition to the output channel, and a correction mechanism that does not account for that additional channel will be systematically undermined by the industry's financial interest in maintaining it.

Theoretical Extension 3: The Lobby Inversion Principle. Resolving the Political Economy Problem of Externality Correction

This is the most consequential of the three extensions, and the one with the broadest implications beyond the PDM itself. It proposes a solution to a problem that Stiglitz and others have diagnosed with precision for decades, a problem for which, to the author's knowledge, no structural answer has previously been proposed.

The problem: industries that generate externalities are typically the most powerful lobbies against correcting them, and their political power tends to grow proportionally to the profitability of the activity that generates the externalities. Stiglitz has documented this pattern across financial deregulation, environmental policy, and pharmaceutical pricing. The diagnosis is consistent and well-supported. The standard prescription (better regulation, stronger institutions, campaign finance reform) addresses the symptom (captured regulators) rather than the cause (aligned financial incentives between the industry and the uncorrected externality). After several decades of attempts, the empirical record indicates this approach has not produced durable correction.

What the PDM's dynamic ratio mechanism does (and what does not appear to have been formally identified in the economics literature before) is create the conditions under which the lobby itself inverts. Not through reform. Not by weakening the industry's political power. By making the industry's financial interest in reducing the externality larger than its financial interest in maintaining it.

The Lobby Inversion Condition can be defined precisely: a Lobby Inversion occurs when an externality pricing mechanism is designed such that the marginal reduction in the producer's mandatory burden from achieving a unit reduction in the externality exceeds the marginal revenue gain from maintaining the externality at its current level. Under this condition, the producer's optimal political strategy shifts from lobbying against the correction mechanism to lobbying for the conditions that reduce the externality, because the latter generates a greater net financial benefit than the former.

The formal condition: let $R(H)$ be the producer's revenue as a function of harm H , and $B(H)$ be the producer's mandatory burden as a function of H . Under a standard Pigouvian tax with constant rate t , $B(H) = t \times H$, so $\partial B/\partial H = t$ (constant) and the producer's optimal political strategy is to minimize t while maximizing H through the demand channel. Under the PDM's dynamic ratio, $B(H)$ is convex in H : $\partial B/\partial H$ is itself an increasing function of H , because the ratio multiplier rises with verified conflict levels. The Lobby Inversion Condition holds when the marginal burden reduction from achieving a unit decrease in H exceeds the marginal revenue loss from that decrease: $|\partial B/\partial H| > |\partial R/\partial H|$ at the relevant operating point. Appendix A generalizes this condition to allow for procurement pass-through. Where a share ϕ of the burden is recovered in procurement prices, the firm's lobbying inverts when $(1 - \phi)B'(H) > m'(H)$, with m the operating margin (Proposition A.3); as ϕ rises, the bite of the correction transfers from the

firm to the procuring government and, through the public budget, to the electorate (Corollary A.5). The pass-through that appears to weaken firm-level inversion is thus the instrument of the second-layer correction described under Extension 1. When this condition holds, the producer's political machinery (lobbyists, PAC contributions, think tanks, revolving-door relationships) is financially better deployed in pursuit of conflict reduction than in pursuit of conflict expansion.

The PDM is designed to satisfy this condition at every ratio level. Under a 5:1 active conflict ratio, every dollar of weapons revenue generates five dollars of mandatory burden. The marginal revenue from a new weapons contract is one dollar. The marginal burden reduction from a verified reduction in conflict intensity is calculated on the full manufacturing cost base. Under the stylized assumptions of the mechanism's design, the Lobby Inversion Condition is satisfied; whether it holds robustly under real-world contractor heterogeneity is the empirical question taken up below.

This result is asserted as a formal property of the mechanism's design and is offered as a hypothesis for empirical verification. Rigorous confirmation requires measurement of $\partial B/\partial H$ and $\partial R/\partial H$ for actual contractor cost structures, mapping the marginal burden reduction from a verified unit decrease in the PCLI conflict index against the marginal revenue change associated with the corresponding reduction in weapons demand. This is tractable empirical work that the present paper invites but cannot complete alone. What can be established at this stage is that the Lobby Inversion Condition is designed into the mechanism and holds under the stylized assumptions described. Whether it holds in the face of real-world contractor heterogeneity, product-mix variation, and market power asymmetries is the central empirical question the PDM's Phase 1 pilot program is specifically designed to test.

The theoretical significance of the Lobby Inversion Principle extends well beyond the PDM, which is either a reason to take it seriously or evidence that the author has overstated it, and economists should determine which. If the principle is correct, it identifies a class of externality-correction mechanisms that are politically self-reinforcing rather than self-undermining: mechanisms in which the burdened party's political power works for rather than against the correction. This is a class that appears not to have been previously studied. Designing mechanisms that satisfy the Lobby Inversion Condition may be the most underexplored area in the political economy of externality correction.

The three extensions proposed in this section (the nested information failure, the amplified externality, and the Lobby Inversion Principle) are the most important theoretical contributions this paper offers, and also the most uncertain. They emerged from working through the policy design problem rather than from the literature. Whether that origin makes them naive or original is a question this paper cannot resolve alone. It is a question for the economists who, the author hopes, will find it interesting enough to engage.

V. The Economic Logic: Why Compliance Becomes the Path of Least Resistance

A predictable objection holds that corporations do not voluntarily accept new obligations. The objection misunderstands the mechanism. The Peace Dividend Mandate does not request voluntary compliance; it constructs a regulatory environment in which the internalization of conflict externalities becomes the path of least financial resistance for the firms subject to it.

The PDM is, in the sense Stiglitz develops across *People, Power, and Profits* (2019) and *The Road to Freedom: Economics and the Good Society* (2024), an exercise in progressive capitalism: the use of market mechanisms, properly structured and regulated, to redirect private profit-seeking toward social goods rather than allow it to concentrate rents at public expense. Stiglitz argues that the fundamental problem with contemporary capitalism is not markets per se, but markets whose rules have been written by those who benefit from them; rules that privatize gains and socialize costs. The PDM rewrites one set of those rules in the domain where the socialization of costs has been most catastrophic and most completely normalized. It does not abolish the defense industry's profit motive. It changes what that motive is pointed at.

The corporate logic under the PDM proceeds through six stages, each generating financial pressure toward the next:

Table 2: The six-stage corporate logic pathway under the Peace Dividend Mandate.

Stage	Corporate Logic Under the PDM
1. Compliance	Company must allocate 2× weapons revenue to peace projects. This is a cost.
2. Realization	The peace project market is enormous, and the company is already funding it. Why not compete to win those contracts too?
3. Pivot	R&D, lobbying capacity, and talent now directed at peacemaking effectiveness. Peace becomes a product.
4. Competition	Firms compete to deliver peace outcomes more cheaply and effectively; the market selects for results.
5. Incentive Lock	A firm that achieves verified conflict reduction lowers its own mandatory burden and has a product governments worldwide want to buy.

Stage	Corporate Logic Under the PDM
6. Lobby Shift	The defense industry’s political machinery (one of the most powerful corporate lobbies on earth) is now structurally incentivized to advocate for stability.

The implication of Stage 6 warrants particular attention. The defense industry’s lobbying apparatus currently functions to sustain and expand conflict-related government spending. Under the PDM, the same apparatus (the same Washington firms, the same congressional relationships, the same revolving-door expertise) becomes structurally motivated to lobby for diplomatic resolution, conflict de-escalation, and international stability. The military-industrial complex is not reformed; it is redirected. That is the operational distinction between asking and restructuring.

5.1 The Lobbying Reversal Mechanism

Decades of war (including wars that independent analysis has concluded were strategically unnecessary, legally dubious, and economically catastrophic) have been enabled not primarily by popular demand but by a concentrated, well-funded lobbying apparatus that has tilted political incentives toward military escalation. Understanding exactly how this apparatus functions is necessary to understanding exactly how the PDM dismantles and reverses it.

The contemporary war lobby operates through five interlocking channels, each of which the PDM structurally inverts:

Channel 1: Campaign Finance

The top five U.S. defense contractors (Lockheed Martin, Raytheon, Boeing, Northrop Grumman, and General Dynamics) collectively contributed tens of millions of dollars in federal campaign expenditures during the 2024 election cycle, with the broader defense industry contributing \$53.6 million in the 2020 cycle, \$34.8 million in 2022, and comparable levels in 2024 according to Federal Election Commission data compiled by the Center for Responsive Politics (OpenSecrets) and Taxpayers for Common Sense.⁵ These contributions flow overwhelmingly to members of the Armed Services Committees, defense appropriations subcommittees, and Intelligence Committees, the precise legislators with jurisdiction over weapons procurement decisions. The association is documented in the empirical literature: lobbying by federal contractors measurably increases government contract spending, and the political activity of defense contractors tracks the size of the defense budget.⁶

Under the PDM, defense contractors operating under a 2:1 peace mandate have an equally powerful financial interest in funding legislators who support diplomatic resolution of conflicts, reduce the conflict levels that trigger higher ratio requirements, and invest in the international

institutions on which the PDM's peace infrastructure depends. The campaign finance machinery does not disappear. It reverses direction. The same PACs that currently fund hawks fund doves, because doves reduce the contractor's mandatory peace-spending burden and improve its profit margin.

Channel 2: The Revolving Door

The U.S. Government Accountability Office reported in 2021 that fourteen of the largest defense contractors employed roughly 1,700 former Department of Defense senior and acquisition officials who had left the Department between 2014 and 2019. This revolving door creates a continuous flow of personnel (and relationships, access, and institutional knowledge) between the defense bureaucracy and the defense industry, systematically biasing procurement decisions, threat assessments, and strategic planning toward outcomes that sustain defense spending. Former Secretaries of Defense, service chiefs, and senior acquisition officials routinely join defense contractor boards within months of leaving government service.⁷

Under the PDM, the revolving door does not close, but it connects to a different destination. Former State Department diplomats, USAID administrators, conflict resolution specialists, and international development professionals become the most valuable talent the defense industry can recruit, because these individuals have the expertise to identify, design, and manage the certified peace programs that now constitute a mandatory and substantial portion of the industry's cost structure. The human capital pipeline of the war lobby becomes the human capital pipeline of the peace industry.

Channel 3: Think Tank Infrastructure

The defense industry funds, directly and indirectly, a network of think tanks (including the Center for Strategic and International Studies, the Hudson Institute, and dozens of smaller organizations) whose research consistently identifies threats, recommends military solutions, and provides the intellectual infrastructure that legitimizes weapons procurement decisions. A 2016 investigation by the *New York Times* documented systematic non-disclosure of defense industry funding by think tanks whose researchers testified before Congress, briefed the National Security Council, and appeared on news programs as independent analysts.⁸

Under the PDM, the think tank funding stream does not disappear. It bifurcates. Contractors now have an equally powerful financial incentive to fund research institutions whose expertise is conflict prevention, early warning systems, diplomatic mediation methodologies, and post-conflict reconstruction, because this research directly informs the certified peace programs the contractor must fund and the peace outcomes that reduce its ratio burden. The RAND Corporation and the Brookings Institution already do this work. Under the PDM, they compete for defense industry funding against the Center for Strategic and International Studies. The intellectual marketplace shifts.

Channel 4: Threat Inflation

Perhaps the most insidious function of the war lobby is the systematic inflation of threat assessments to justify weapons procurement. This is documented not by critics of the defense industry but by its own participants: multiple former senior intelligence officials, including those who served on the Iraq WMD assessments, have described a process in which procurement-driven threat assessment (working backward from desired weapons systems to the threat levels needed to justify them) is endemic to the defense procurement culture.⁹

The information economics framework that Stiglitz developed in his Nobel Prize-winning work provides the precise theoretical explanation for why this occurs. The defense contractor-government relationship is characterized by severe information asymmetry: contractors possess substantially better information about the capabilities of their weapons systems, deployment costs, and the likely effectiveness of military operations than the governments that purchase from them. This asymmetry creates, in Stiglitz's framework, systematic incentives for contractors to exploit their informational advantage, providing governments with threat assessments calibrated to justify procurement rather than to accurately represent strategic reality. The result is the defense industry equivalent of Akerlof's (1970) "lemons problem," the adverse-selection dynamic that Rothschild and Stiglitz (1976) formalized for insurance markets: the party with superior information systematically shapes the transaction to its advantage.

Under the PDM, threat inflation becomes financially self-destructive. A contractor that lobbies for an inflated threat assessment (successfully convincing the government that a higher conflict level exists than the PDCA's algorithmic index registers) triggers a higher mandatory ratio requirement on its own operations. The information asymmetry that currently enables threat inflation is countered by a financial incentive that points in the opposite direction. The contractor now has a direct financial stake in accurate threat assessment. The market incentive to exploit an informational advantage is eliminated because doing so raises the exploiter's own costs.

Channel 5: The Alliance Between Contractors and Armed Forces

The final channel of the war lobby is the structural alliance between defense contractors and the uniformed military services, whose institutional culture, promotion pathways, and self-conception are all organized around warfighting capability and the weapons systems that enable it. Service chiefs advocate for weapons programs before Congress, not because they are corrupt but because the institutional logic of military organizations rewards capability acquisition. Contractors support this advocacy because it drives procurement.

Under the PDM, this alliance is disrupted by a new and equally powerful institutional actor: the peace industry, which now has the financial resources to build its own relationships with military leadership, fund its own research on conflict prevention's strategic value, and make the case before the same congressional committees that peace investment is as important to national security as weapons procurement. The PDM does not ask the military to change its institutional

culture. It creates a well-funded institutional counterweight with the resources to compete in the same political arena.

The conclusion of this analysis is worth stating plainly: the PDM does not ask the war lobby to become the peace lobby. It restructures the war lobby's incentives such that, under the conditions specified, peace becomes the most profitable outcome the defense industry can produce. That is the difference between moral exhortation and structural design.

VI. Scale and Resource Implications

Global military expenditure reached approximately \$2.887 trillion in 2025, with the United States alone accounting for \$954 billion. Defense industry weapons-related revenue (the proper base for a mandate applied to defense contractor production) is conservatively estimated at approximately \$700 billion globally, based on the SIPRI Top 100 Arms Industry Database, which recorded \$679 billion in combined arms revenues among the world's largest arms-producing companies in 2024, with additional but smaller revenue contributions from arms producers outside the Top 100. Arms revenue serves throughout as the observable proxy for the weapons spending on which the mandate is levied: audited revenue is reported and cost structures are not, and at the industry level the two differ only by the operating margin, so a revenue base slightly overstates the obligation. Under the baseline 2:1 mandate applied to that revenue base, the Peace Dividend Mandate would generate approximately \$1.4 trillion in annual peace infrastructure investment at the baseline rate. During active major conflict periods, when the 5:1 ratio applies, that figure rises to approximately \$3.5 trillion: a sum exceeded by the annual budgets of only the United States and China and comparable in scale to the consolidated budgets of the next several major industrialized economies combined.¹⁰

To understand what this means, consider the current state of peace investment:

- Total global foreign development aid: approximately \$200 billion annually¹¹
- UN peacekeeping operations budget: approximately \$5.4 billion annually¹²
- UN Peacebuilding Fund: approximately \$150 million annually in voluntary contributions¹³
- All global conflict prevention programming combined: estimated \$10–15 billion annually

The Peace Dividend Mandate would increase global peace infrastructure investment by a factor of approximately 90 to 140 at baseline and approximately 230 to 350 during active conflict periods. This is not a marginal adjustment. It is a civilizational reallocation. And it raises a problem that the paper is obligated to address directly rather than elide: the absorptive capacity crisis.

6.1 The Absorptive Capacity Problem

A sudden influx of \$1.4 to \$3.5 trillion into the global peacebuilding sector would not immediately produce a proportional increase in peace outcomes. It would, in the first instance, produce a crisis. The existing global peacebuilding ecosystem—the NGOs, civil society organizations, community-based reconciliation programs, and conflict mediation institutions that currently operate on roughly \$10–15 billion annually—cannot absorb an order-of-magnitude increase in capital without severe distortion. The evidence from development economics is unambiguous on this point: large, rapid capital inflows into undercapitalized sectors cause cost inflation, talent poaching from existing organizations, mission drift as small organizations scale beyond their competence, and the displacement of community-led work by externally imposed programs optimized for funder accountability rather than local effectiveness.

The risk is not theoretical; the post-9/11 record documents it. The post-9/11 reconstruction surge in Afghanistan and Iraq channeled billions into a peacebuilding and development sector structurally incapable of deploying it effectively, with results that were catastrophic, not because the investment was insufficient but because the institutional infrastructure to deploy it wisely did not exist at that scale.

The PDM addresses the absorptive capacity problem through a phased capital deployment architecture with four specific provisions:

- **Graduated Ramp-Up:** The PDM's mandatory ratio phases in over four years from adoption, beginning at 0.5:1 in Year 1 and increasing by 0.5 annually to reach the 2:1 baseline by Year 4. This gives the peacebuilding sector time to build the institutional infrastructure (training pipelines, governance systems, evaluation capacity, and community partnership networks) necessary to absorb capital effectively before the full mandate applies. The 5:1 active conflict ratio does not apply until Year 6 of adoption in any jurisdiction.
- **Sector Capacity Investment Carve-Out:** 10 percent of all PDM-mandated peace spending in the first decade is designated specifically for capacity building within the peacebuilding sector itself, funding training programs for conflict practitioners, evaluation infrastructure, community partnership development, and the administrative systems that allow civil society organizations to receive and deploy large grants without mission distortion.
- **Salary and Cost Benchmarking:** PDCA certification standards include cost norms for program delivery, preventing the inflation of NGO salaries and operational costs that typically accompany capital surges. Programs operating above benchmarked cost norms are subject to certification review. This is modeled on the overhead ratio standards of the major charity evaluators, adapted for the peacebuilding context.
- **Decentralized Capital Channels:** Rather than routing all PDM capital through a small number of large international NGOs (replicating the hub-and-spoke model that

concentrated the absorptive capacity crisis in Afghanistan and Iraq) the PDCA establishes a distributed network of regional peace investment intermediaries, each responsible for a defined geographic area, with authority to make sub-grants to community-based organizations below the scale threshold for direct PDCA certification. This flattens the capital distribution curve and routes investment closer to the local ownership standards the mechanism requires.

The absorptive capacity problem is real. The PDM's architects make no claim that the new annual peace investment generated by the mechanism will be deployed flawlessly from Year 1. What the mechanism provides is the institutional architecture (the phased ramp-up, the capacity carve-out, the cost benchmarking, the decentralized channels) to ensure that the capital flood builds rather than destroys the ecosystem it is meant to nourish.

VII. Historical Proof of Concept

The Peace Dividend Mandate is not a theoretical exercise. Each of its core mechanisms has a historical precedent. The task is synthesis, not invention.

7.1 The European Union: Economic Interdependence as Peace Architecture

The European Union is arguably the most successful supranational peace architecture in modern history. Between 1870 and 1945 alone, a span of seventy-five years, France and Germany fought three catastrophic wars: the Franco-Prussian War of 1870–71, the First World War of 1914–18, and the Second World War of 1939–45. In the eight decades since 1945, they have not fought one. The change is attributable less to any transformation of French or German character, or to the deterrent presence of NATO and American power alone, than to the Schuman Declaration of 1950 and the European Coal and Steel Community it created, which deliberately pooled the very industrial resources (coal and steel) that had made industrialized warfare between them physically possible. By structurally linking French and German economic interests, the architects of European integration made war between them economically irrational before it could become politically feasible. The EU demonstrates that when you redesign the incentive structure at the level of industrial production and economic interdependence, you change behavior: at scale, durably, across generations. This is the mechanism the PDM replicates in the domain of weapons manufacturing.

7.2 The Marshall Plan: The Return on Peace Investment

The Marshall Plan allocated approximately \$13 billion (roughly \$160 billion in 2024 dollars) to the reconstruction of war-devastated Europe between 1948 and 1952. The returns (measured in avoided conflict, sustained economic growth, democratic stability, and the development of the transatlantic alliance) are incalculable by any conventional accounting. The investment paid for itself many times over within a single decade, and its compounding benefits extended across

generations. The Marshall Plan remains the strongest empirical demonstration that peace investment generates positive returns.

Mariana Mazzucato's research on mission-oriented public investment (*The Entrepreneurial State*, 2013; *Mission Economy*, 2021) extends the Marshall Plan's core institutional lesson into contemporary policy design. Mazzucato's documentation of the public sector's historical role in catalyzing transformative investment (from the foundational research underlying the smartphone to the institutional capacity that produced the COVID-19 vaccines) establishes that deliberately constructed public-investment frameworks can produce outcomes the unstructured market will not deliver on its own. The peace investment market the PDM constructs operates on this same logic: a structurally guaranteed, mission-oriented investment flow large enough to make peace infrastructure a genuine sector of the economy rather than a residual of philanthropic discretion.

7.3 Environmental Cap-and-Trade: Pricing Externalities Works

The application of cap-and-trade mechanisms to carbon emissions has demonstrated, despite the system's well-documented imperfections, that pricing externalities changes corporate behavior at scale. The European Union Emissions Trading System, launched in 2005, has contributed to measurable reductions in emissions among covered industries. The mechanism is not perfect (it is subject to political pressure, offset fraud, and price volatility) but it demonstrates that the fundamental logic holds: when you force producers to bear the costs of their externalities, they find ways to reduce those costs. The Peace Dividend Mandate applies identical logic to a more consequential externality.

7.4 Muhammad Yunus and Grameen Bank: Profit-Seeking Tools for Social Goods

Muhammad Yunus received the Nobel Peace Prize in 2006 for demonstrating that profit-seeking financial mechanisms, microfinance, could be redesigned to serve the social good of poverty reduction at scale. The insight was not that poverty is bad (everyone agreed) but that market mechanisms could be restructured to make poverty reduction financially self-sustaining. The Peace Dividend Mandate is built on the same insight: peace is achievable not by transcending the profit motive but by aligning it.

VIII. The PDM's Hardest Cases: Conflicts Driven by Ideology, Not Profit

The Peace Dividend Mandate's core mechanism targets the financial infrastructure of war. It is most directly effective when armed conflict is sustained primarily by profit: when weapons manufacturers, arms traders, and resource-extracting corporations have financial interests in instability. But the most intractable conflicts in the contemporary world are not primarily profit-driven. They are driven by ethnic nationalism, territorial expansionism, religious mandate, and historical grievance—ideological frameworks in which leaders and populations pursue objectives that are not reducible to economic incentive.

A framework with global claims must engage the two most consequential contemporary examples of this type directly: the Israeli–Palestinian conflict and the Russian invasion of Ukraine. Both are presented here not as political opinions but as documented historical and legal records, assembled from primary sources, United Nations documentation, decisions of international courts, and the scholarship of historians who have undergone rigorous peer review. Where scholars disagree, the disagreement is named. Where the record is clear, it is stated clearly. The PDM cannot claim to be a framework for world peace while avoiding the world’s most consequential ongoing conflicts. It engages them with the precision they demand.

8.1 A Taxonomy of Conflict Drivers

Before engaging specific cases, it is analytically necessary to distinguish three categories of conflict drivers, because the PDM operates differently in each:

- **Profit-Driven Conflict:** Armed conflict is sustained primarily because it generates financial returns for weapons manufacturers, arms traders, resource extractors, or mercenary forces. The PDM operates most directly here, repricing externalities and creating financial incentives for peace.
- **Hybrid Conflicts:** Armed conflict in which ideological, territorial, or ethnic motivations are genuine but are enabled, amplified, and sustained by the financial infrastructure of the war economy. Most real-world conflicts are hybrid: ideology provides the motivation, but weapons supply chains, financial systems, and lobbying networks provide the operational capacity. The PDM operates powerfully here, constraining the infrastructure that translates ideology into sustained violence.
- **Primarily Ideological Conflicts:** Armed conflict in which the motivation is sufficiently intense and the state’s capacity sufficiently self-contained that financial pressure on external suppliers has a limited short-term effect. The PDM operates here through indirect channels (funding civil society, international legal institutions, and conflict mediation capacity) whose effects are real but slower and less linear.

No major contemporary conflict is purely one type. The following case studies examine the Israeli–Palestinian and Russian–Ukrainian conflicts as paradigmatic hybrid-ideological conflicts and assess the PDM’s operational realism and limitations in each, with full historical rigor.

8.2 Case Study I: The Israeli–Palestinian Conflict

The Israeli–Palestinian conflict is included here not because it is politically convenient to analyze but because it is analytically unavoidable. It is the most extensively documented case in the world of an ideologically driven conflict receiving sustained external weapons supply from democratic states whose domestic political environments are significantly shaped by organized religious lobbying. Any framework claiming to address conflict externalities that omits it is

intellectually dishonest, and any framework that engages it must do so with the precision the subject demands.

The Israeli–Palestinian conflict is the most thoroughly documented territorial dispute of the twentieth and twenty-first centuries—and, simultaneously, one of the most persistently misrepresented in Western political discourse. This paper does not take a side. It presents the historical record as established by primary sources, United Nations documentation, Israeli government data, decisions of international courts, and the scholarship of historians, including Israeli historians, whose work meets the standards of peer-reviewed academic publication.

8.2a The Historical Record: 1880–1948

Modern Zionist immigration to Ottoman Palestine began in the early 1880s with the First Aliyah. At the time, Palestine’s population was approximately 400,000 to 500,000 people, predominantly Arab Muslims and Christians, with a Jewish community of roughly 25,000 constituting approximately 5 percent of the total population. The incoming Zionist settlers brought a nationalist project (articulated most systematically by Theodor Herzl at the First Zionist Congress in Basel in 1897) whose explicit goal was the establishment of a Jewish state in Palestine.¹⁴

The project’s trajectory was decisively shaped by British imperial policy. On November 2, 1917, British Foreign Secretary Arthur James Balfour wrote to Lord Walter Rothschild a letter, the Balfour Declaration, expressing that “His Majesty’s Government view with favour the establishment in Palestine of a national home for the Jewish people, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine.” The internal contradiction of this document (promising a national home to a minority immigrant population while protecting the rights of the existing majority) has structured the conflict ever since. The British received the League of Nations Mandate for Palestine in 1922 and were thereafter responsible for administering this contradiction.¹⁵

By 1947, the Jewish population of Palestine had grown to approximately 600,000 through successive waves of immigration, while the Arab Palestinian population stood at approximately 1.2 million. On November 29, 1947, the United Nations General Assembly passed Resolution 181, the Partition Plan, proposing to divide Palestine into a Jewish state (56 percent of the territory) and an Arab state (43 percent), with Jerusalem under international administration. The plan was accepted by Zionist leadership and rejected by Arab states, who argued that a majority population could not be partitioned out of more than half its land to accommodate a settler population. The civil war that followed the resolution’s passage, and the Arab states’ invasion following Israel’s declaration of independence on May 14, 1948, produced what Israelis call the War of Independence and Palestinians call the Nakba, the Catastrophe.¹⁶

The demographic consequences of 1948 are among the most thoroughly documented facts in the conflict's history, and their documentation comes substantially from Israeli historians rather than partisan Palestinian sources. Benny Morris (whose political views are hawkish and who has explicitly declined to characterize what he documents as ethnic cleansing in most cases) established through his examination of Israeli military archives that approximately 700,000 Palestinian Arabs fled or were expelled from their homes during the 1948 war; that over 400 Palestinian villages were destroyed, and that Israeli military operations included massacres of civilians at Deir Yassin, Dawayima, and other locations. Morris's figures are consistent with United Nations estimates from the period and with subsequent scholarship by historians including Ilan Pappé, Walid Khalidi, and Rashid Khalidi. The historical debate is not about whether this displacement occurred (it did) but about the relative weight of military expulsion, wartime flight, and Arab leadership instruction in causing it. The 700,000 Palestinians displaced in 1948 and their approximately 5 to 7 million descendants constitute today's Palestinian refugee population, registered with the United Nations Relief and Works Agency for Palestine Refugees (UNRWA).¹⁷

8.2b The Occupation: 1967 to the Present

In the Six-Day War of June 5–10, 1967, Israel defeated the combined forces of Egypt, Jordan, and Syria and occupied the West Bank (including East Jerusalem), the Gaza Strip, the Sinai Peninsula, and the Golan Heights. The legal framework governing what Israel should then do with these territories was established by the United Nations Security Council five months later in Resolution 242, passed unanimously on November 22, 1967. Resolution 242 called for the “withdrawal of Israeli armed forces from territories occupied in the recent conflict” and affirmed “the inadmissibility of the acquisition of territory by war,” establishing that the occupation of the West Bank and Gaza was temporary in nature and that a final settlement required Israeli withdrawal to the pre-1967 Green Line.¹⁸

Israel has now maintained its military occupation of the West Bank for nearly six decades, and the blockade of Gaza since 2007, making the former the longest military occupation of territory in the post-World War II era. During this period, the international legal consensus on the illegality of the settlement enterprise has been established and repeatedly reaffirmed. Article 49, paragraph 6 of the Fourth Geneva Convention states unambiguously: “The Occupying Power shall not deport or transfer parts of its own civilian population into the territory it occupies.” The International Committee of the Red Cross, which is the authoritative interpreter of the Geneva Conventions, has consistently held that Israeli settlements violate this provision.¹⁹ This position has been affirmed by: the United Nations Security Council in Resolutions 446 (1979), 465 (1980), and 2334 (2016);²⁰ the International Court of Justice in its 2004 Advisory Opinion on the *Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory*;²¹ and the ICJ's landmark July 2024 Advisory Opinion, which found by 11 votes to 4 that Israel's continued presence in the Occupied Palestinian Territory is unlawful and must end.²²

The October 7, 2023, Hamas attacks on Israeli communities (which killed approximately 1,200 people, the deadliest single day for Jewish people since the Holocaust) and the subsequent Israeli military campaign in Gaza are the most recent chapter of a conflict whose structural causes this paper has outlined. The paper does not seek to adjudicate the military conduct of either party in the current conflict, which is subject to ongoing investigation by international bodies. It notes that the conflict's continuation (and the conditions that made October 7 possible) is directly related to the structural failure, across nearly six decades of occupation, to implement the two-state framework established by international law and endorsed by every major diplomatic initiative since 1993.

8.2c The Settlement Enterprise as Documented Policy

The growth of the Israeli settlement enterprise in the West Bank is among the most meticulously documented demographic and political transformations of the contemporary era, because it is recorded in Israeli government statistics, published in annual reports by Israeli civil society organizations including B'Tselem and Peace Now, and tracked by the United Nations Office for the Coordination of Humanitarian Affairs.

The trajectory is unambiguous. At the time of the Oslo Accords in 1993 (when Yitzhak Rabin and Yasser Arafat shook hands on the White House lawn and the world believed a two-state solution was imminent) the settler population in the West Bank (excluding East Jerusalem) stood at approximately 115,000. At the time of this writing in 2026, it exceeds 500,000, with an additional 230,000 settlers in East Jerusalem, for a total settler population of approximately 730,000. This population lives in approximately 150 settlements and over 200 outposts on land that every instrument of international law holds to be Palestinian territory under temporary Israeli military administration.²³

The settlement enterprise is, critically, not a spontaneous expression of individual religious conviction operating outside the knowledge or control of Israeli governments; it is an actively subsidized state project. Successive Israeli governments, across the political spectrum from Labor to Likud, have provided settlements with: subsidized housing mortgages at rates below the Israeli domestic market; preferential tax treatment for settlers and settler businesses; extensive road infrastructure connecting settlements to Israel proper; and military protection at substantial cost to Israeli taxpayers, with Israeli civil society organizations including Peace Now and the Adva Center documenting that combined direct subsidies, security expenditures, and infrastructure investment exceed a billion dollars annually. The settlement enterprise has been funded not only by Israeli public revenue but by tax-exempt charitable donations from abroad, a channel through which American donors have transferred billions of dollars to the settlement enterprise, a practice documented extensively by Israeli investigative journalism outlets, including *Haaretz*.

The current governing coalition of Israel, formed in late 2022, represents the most explicitly annexationist government in Israeli history. Finance Minister Bezalel Smotrich (who leads the

Religious Zionist Party and holds responsibility for civilian affairs in the West Bank) has stated publicly that there is “no such thing as a Palestinian people” and that the Jewish people have a biblical right to the entirety of the land between the Jordan River and the Mediterranean Sea. National Security Minister Itamar Ben-Gvir (convicted by Israeli courts of incitement to racism and of supporting a terrorist organization) has called for the expulsion of Arab citizens of Israel he deems “disloyal.”²⁴ These are senior ministers, not fringe figures, of the government of a state that receives approximately \$3.8 billion in annual U.S. military assistance, and whose weapons suppliers include Lockheed Martin, Boeing, Raytheon, and General Dynamics.

8.2d American Christian Zionism: The Transatlantic Ideological Alliance

Any analysis of the Israeli–Palestinian conflict that omits American Christian Zionism is analytically incomplete. Far from peripheral, it is, in terms of political organization, financial flows, and sheer membership numbers, arguably the largest and most consequential ideological movement shaping U.S. Middle East policy, and it is almost entirely absent from mainstream policy analysis because its theological foundations make secular analysts uncomfortable engaging with it directly.

Christian Zionism’s intellectual architecture was built in the nineteenth century by an Anglo-Irish theologian, John Nelson Darby (1800–1882). Darby developed a system of biblical interpretation called dispensationalism: the doctrine that history is divided by God into distinct “dispensations,” or epochs, each characterized by a specific relationship between God and humanity. The current dispensation would end, in Darby’s framework, with the Rapture (the sudden removal of true Christians from the earth) followed by a seven-year period of Tribulation centered on Israel, culminating in the Second Coming of Jesus Christ to Jerusalem, a millennial kingdom, and the Last Judgment. The Jewish people, in this schema, play an indispensable role: their return to the Land of Israel, the reconstitution of Jewish sovereignty in the biblical homeland, and ultimately the rebuilding of the Temple in Jerusalem are necessary preconditions for the end-times sequence to unfold. Supporting Jewish return to and control of the Land of Israel is therefore, in this theology, not merely a political preference but a divine obligation—an act of alignment with God’s prophetic plan.

Darby’s theology remained obscure until an American lawyer-turned-minister, Cyrus Scofield (1843–1921), embedded Darby’s dispensationalist interpretation directly into the King James Bible as study notes. *The Scofield Reference Bible*, published in 1909 and revised in 1917, the year of the Balfour Declaration, became the dominant study Bible in American evangelical Protestantism for decades. By placing dispensationalist theology literally on the same page as the biblical text, Scofield made it appear not as one interpretation among many but as the obvious, natural meaning of Scripture itself. The Scofield Bible shaped the theological formation of an entire generation of American evangelical pastors, whose congregations would become the political base of Christian Zionism in the twentieth century.

The political activation of this theological base came in stages. The founding of the State of Israel in 1948 was interpreted by millions of American evangelicals as the fulfillment of biblical prophecy, specifically the return of the Jewish people to their land as a precursor to the end times. The Israeli capture of Jerusalem in the Six-Day War of 1967 intensified this interpretation: the reunification of Jerusalem under Jewish control was read as the fulfillment of Jesus's statement in Luke 21:24 that "Jerusalem will be trampled on by the Gentiles until the times of the Gentiles are fulfilled." Hal Lindsey's *The Late Great Planet Earth*, published in 1970, synthesized this dispensationalist eschatology into accessible popular prose, eventually selling over 35 million copies; the *New York Times* designated it the best-selling nonfiction book of the 1970s.

The movement's political institutionalization accelerated through the 1970s and 1980s. Jerry Falwell Sr.'s Moral Majority (1979) organized evangelical political power around a platform that included unequivocal support for Israel as a biblical obligation. Pat Robertson's Christian Broadcasting Network and *The 700 Club* reached millions of households weekly with programming that consistently framed support for Israel in prophetic terms. Tim LaHaye and Jerry Jenkins's *Left Behind* series (1995–2007), dramatizing the Rapture, the Tribulation, and the Second Coming across sixteen novels, sold over 80 million copies and reached audiences far beyond formal church membership, normalizing dispensationalist eschatology in American popular culture.²⁵

The movement's most consequential institutional expression is Christians United for Israel (CUFI), founded in 2006 by San Antonio megachurch pastor John Hagee. CUFI claims a membership of over 10 million Americans, making it the largest pro-Israel organization in the United States—larger than AIPAC, the American Israel Public Affairs Committee, which is itself formidably powerful. CUFI lobbies Congress systematically against any U.S. pressure on Israel regarding settlements, Jerusalem, or negotiations with Palestinians; organizes an annual Washington summit that draws hundreds of members of Congress; and provides a political mobilization infrastructure that candidates in both parties have learned to court and to fear.²⁶

The financial dimensions of American Christian Zionism's support for the settlement enterprise are documented but underappreciated. American donors contribute billions of dollars annually to Israeli causes through tax-exempt charitable organizations, a legal channel, as donations to registered charities are deductible under U.S. tax law regardless of where the funds are ultimately deployed. Investigative reporting by *Haaretz*, the *New York Times*, and Israeli advocacy organization Yesh Din has documented that a significant fraction of these donations (channeled through organizations including the Central Fund of Israel, the One Israel Fund, and dozens of smaller entities) flows directly to West Bank settlements, funding construction, infrastructure, and security equipment. The U.S. Treasury, by maintaining the tax-exempt status of these donor-advised funds, effectively subsidizes the settlement enterprise that every instrument of U.S. official foreign policy declares illegal.

The theological and political alliance between American Christian Zionism and Israeli Religious Zionism creates a transatlantic ideological complex: two movements with distinct but convergent theological frameworks, united by shared political objectives around Israeli territorial expansion and linked by financial flows, political coordination, and mutual legitimization. They differ fundamentally on what the eschatological endgame looks like: dispensationalist Christians expect that Jewish people who do not convert at Christ's return will perish or be consigned to judgment, while Religious Zionists have their own messianic framework in which the nations submit to Israel. Neither movement tends to discuss this theological incompatibility publicly, because the political alliance serves both of their near-term interests. The scholarship documenting this relationship includes Stephen Spector's *Evangelicals and Israel: The Story of American Christian Zionism* (2009), Victoria Clark's *Allies for Armageddon: The Rise of Christian Zionism* (2007), and Donald Wagner and Walter Davis's *Zionism and the Quest for Justice in the Holy Land* (2014).

The PDM's relevance to American Christian Zionism is specific and significant. U.S. defense contractors operating under the mandatory peace spending requirement would acquire a direct financial interest in the diplomatic resolution of the Israeli–Palestinian conflict. Their government affairs offices would be lobbying for diplomacy, while CUFI is lobbying against it. This does not eliminate CUFI's influence. It creates a countervailing financial force, one that speaks the language of profit rather than prophecy, and that has historically been at least as effective in shaping congressional behavior. Moreover, the PDM, at unprecedented scale, funds Palestinian civil society infrastructure, international legal institutions, and conflict mediation capacity that have been chronically starved of resources, while the settlement enterprise has been chronically overfunded. The asymmetry of investment that has characterized this conflict for decades begins, under the PDM, to correct.

8.2e Where the PDM Operates in the Israeli–Palestinian Context

The PDM operates in this conflict through four distinct channels, with honest acknowledgment of the limits of each:

- **Pricing the Weapons Supply Chain:** U.S. defense contractors supplying weapons to Israel —Lockheed Martin (F-35 aircraft, worth approximately \$3 billion in recent contracts), Boeing (Joint Direct Attack Munition kits and other precision-guided munitions), Raytheon (Patriot and Iron Dome systems, air-to-ground missiles)—would under the PDM be required to spend two to five dollars on certified peace infrastructure for every dollar of those sales. At \$3.8 billion in annual U.S. military assistance to Israel plus commercial sales, the PDM obligation on U.S. defense contractors would generate \$7.6 billion in mandatory peace investment annually at the 2:1 baseline and \$19 billion at the 5:1 active-conflict ratio, in a conflict that has received a fraction of that in diplomatic and development investment across its entire history.

- **Restructuring the Washington Lobby:** U.S. defense contractors currently have no financial stake in the diplomatic resolution of the Israeli–Palestinian conflict. Under the PDM, they do, because a verified reduction in conflict intensity reduces their mandatory ratio obligation. The lobbying apparatus that currently supports continued arms transfers would develop a countervailing institutional interest in the peace process. This does not override CUFI or AIPAC. It introduces a new and powerful voice (the defense industry’s own financial interest in stability) into a conversation dominated by ideologically motivated actors.
- **Funding the Starved Infrastructure of Resolution:** The Palestinian civil society organizations, international legal institutions, and conflict mediation infrastructure necessary for any durable resolution are chronically underfunded—partly because the political environment in Washington that Christian Zionism has helped create has consistently opposed U.S. funding for Palestinian institutions. PDM-certified spending would fund this infrastructure from a source, defense contractor mandatory allocations, that CUFI cannot lobby Congress to defund, because it is not a congressional appropriation.
- **The Certification Guardrail:** The PDCA explicitly prohibits certification of any program that normalizes, legitimizes, or facilitates ethnic displacement, forced demographic change, or the consolidation of illegally occupied territory. A contractor cannot satisfy its PDM obligation by funding programs in Israeli settlements, supporting organizations that advocate annexation, or financing infrastructure that serves the settlement enterprise. This guardrail directly confronts the specific pathology of this conflict: the sustained use of humanitarian and development language to launder territorial expansion.

The limit is equally clear: the PDM cannot dissolve the theological conviction of Religious Zionist settlers that the Land of Israel belongs to the Jewish people by divine grant, nor can it alter the eschatological framework of American Christian Zionists who believe that Jewish territorial control is a necessary precondition for the Second Coming. What it can do is systematically strengthen the institutional, financial, and political counterweights to those convictions, and price the weapons supply chain that makes their sustained expression in the form of occupation and settlement materially possible. That is not everything, nor is it nothing.

8.3 Case Study II: The Russian Invasion of Ukraine

The Russian Federation’s full-scale invasion of Ukraine on February 24, 2022, is the largest interstate armed conflict in Europe since the Second World War and represents the most serious violation of the post-1945 international order since the Korean War. Like the Israeli–Palestinian conflict, its immediate causes are inseparable from its deep historical roots, and understanding those roots is necessary to assessing both the nature of the conflict and the mechanisms most likely to influence its trajectory.

8.3a Deep Historical Context: Identity, Empire, and Contested Memory

The argument that Russia and Ukraine are one people (the central claim of Vladimir Putin's ideological framework) is both historically comprehensible and historically false. It is comprehensible because Russia and Ukraine do share significant historical, linguistic, and cultural common ground. It is false because it suppresses a documented history of distinct Ukrainian identity that predates the Russian state, was systematically suppressed by Russian and Soviet power, and remains the animating force of Ukrainian national consciousness today.

Both Russia and Ukraine trace their origins to Kievan Rus: the medieval state established by Varangian (Norse) rulers over Slavic peoples along the Dnieper River valley, with its capital at Kyiv, founded in approximately AD 882. The Christianization of Kievan Rus in AD 988 under Prince Vladimir I established the Orthodox Christianity that both peoples share. What Putin's historical narrative suppresses is what happened next: in 1240, the Mongol invasion under Batu Khan sacked Kyiv and destroyed Kievan Rus. From that moment, the territories that would become Ukraine and Russia developed under entirely separate rulers, separate political institutions, and separate historical trajectories for the better part of four centuries. Ukraine's western and central regions came under the Grand Duchy of Lithuania and subsequently the Polish-Lithuanian Commonwealth; Russia consolidated under the Principality of Moscow. These were different civilizational spaces, and the populations that developed within them adopted different languages, political cultures, and self-understandings.²⁷

The Cossack Hetmanate established in 1648 under Bohdan Khmelnytsky (following a massive uprising against Polish noble domination) is the first clearly identifiable political expression of Ukrainian self-governance. The Pereyaslav Agreement of 1654, by which Khmelnytsky sought Russian military protection, is, according to Putin's historical framework, interpreted as a voluntary unification of Ukraine with Russia. Ukrainian historians, drawing on the same primary sources, interpret it as a temporary military alliance with a protector, not a merger of peoples. The subsequent history—the progressive erosion of Cossack autonomy by the Russian state, Peter the Great's brutal repression of Hetman Ivan Mazepa following the Battle of Poltava in 1709, and Catherine the Great's abolition of the Hetmanate in 1764—is the history of Russian imperial absorption, not voluntary unification.

Russian imperial and Soviet suppression of Ukrainian identity was sustained and documented. Tsar Alexander II's Ems Decree of 1876 banned the publication of books in Ukrainian, the staging of Ukrainian theatrical performances, and the importation of Ukrainian-language materials from abroad, explicitly targeting the Ukrainian language as a political threat to imperial unity. Soviet nationalities policy in the 1920s briefly permitted Ukrainian cultural expression (the "Ukrainization" policy), but Stalin reversed this sharply in the early 1930s, executing or imprisoning the core of the Ukrainian intelligentsia in what is documented by scholars as the "Executed Renaissance."

The Holodomor of 1932–1933 is the event most central to contemporary Ukrainian national memory, and the one most relevant to understanding the depth of Ukrainian resistance to Russian dominance. The Soviet collectivization campaign imposed grain quotas on Ukraine that Ukrainian agricultural production could not meet. When famine spread, the Soviet government maintained or increased grain quotas; sealed Ukraine's borders to prevent peasants from traveling to other regions in search of food; blacklisted villages that failed to meet quotas, preventing them from purchasing any goods; and denied the existence of the famine to the outside world. The result was the death of an estimated 3.5 to 7.5 million Ukrainians: the scholarly range reflects the difficulty of documenting deaths under conditions of deliberate concealment.²⁸ The Ukrainian government and the legislatures of more than thirty countries have recognized the Holodomor as genocide under the 1948 UN Convention on the Prevention and Punishment of the Crime of Genocide. Russia denies both the scale of the deaths and their deliberate character. The historical documentation, assembled by Robert Conquest and subsequently by Ukrainian and Western scholars with access to post-Soviet archives, establishes the deliberate targeting of Ukraine's food supply beyond reasonable scholarly dispute.²⁹

Ukrainian independence, declared on August 24, 1991, was confirmed by referendum on December 1, 1991, with 90.3 percent of voters (including majorities in Crimea and the Donbas regions that Russia would later claim) voting for independence. This is the foundational democratic act of the Ukrainian state. It was conducted freely, under international observation, and its results were recognized by Russia itself in the Alma-Ata Declaration of December 21, 1991.³⁰

8.3b The Budapest Memorandum: The Broken Covenant

No document in the post–Cold War international order is more consequential to understanding the Russia–Ukraine conflict (and more consequentially ignored in mainstream Western political discourse) than the Budapest Memorandum on Security Assurances, signed December 5, 1994, by Ukraine, the Russian Federation, the United States, and the United Kingdom.³¹

Ukraine, at the time of independence, possessed approximately 1,900 strategic nuclear warheads: the third-largest nuclear arsenal in the world, larger than those of France, China, and the United Kingdom combined. These weapons, while on Ukrainian soil, remained under Russian operational control and required Russian technical maintenance. Ukraine could not actually use them. But their possession gave Ukraine a significant bargaining asset.

Ukraine agreed, under the Budapest Memorandum, to transfer all nuclear weapons to Russia for dismantlement and to accede to the Nuclear Non-Proliferation Treaty as a non-nuclear-weapon state. In exchange, the United States, the United Kingdom, and Russia provided Ukraine with assurances (the precise legal weight of which has been debated) including commitments to: respect Ukraine's independence, sovereignty, and existing borders; refrain from the threat or use of force against Ukraine; refrain from economic coercion; and seek United Nations Security Council action if Ukraine were to be attacked with nuclear weapons. Ukraine fulfilled its

obligations completely. Russia's 2014 annexation of Crimea and its 2022 full-scale invasion constitute violations of the Budapest Memorandum's core commitments so fundamental that they have destroyed the credibility of similar assurances offered to other states in the future. The collapse of the Budapest Memorandum is the most consequential blow to nuclear nonproliferation since the NPT was signed.

8.3c The Road to 2022: NATO, Bucharest, and the Architecture of Miscalculation

The full-scale invasion of 2022 was the product of a decade of escalation, itself rooted in a quarter-century of Russian strategic anxiety about NATO enlargement and Ukrainian democratic development. Understanding the sequence is necessary for assessing both the conflict's causes and the PDM's potential to prevent analogous conflicts.

The 2008 Bucharest NATO Summit is the hinge event. The Bush administration proposed offering Ukraine and Georgia a Membership Action Plan, the formal pathway to NATO membership. France and Germany, concerned about the Russian reaction, blocked the proposal. The summit communiqué nonetheless stated that “these countries will become members of NATO”—an ambiguous formulation that satisfied neither side.³² Putin, who attended the summit and met with Bush, reportedly told the U.S. president, “You do understand, George, that Ukraine is not even a state”—a statement first reported in the Russian press and subsequently widely cited in Western scholarship, though disputed by the Kremlin.³³ Four months after Bucharest, Russia invaded Georgia and recognized the independence of two Georgian separatist regions. The message was clear: Russia was willing to use military force to prevent NATO enlargement in its near abroad, and the West was not willing to respond with force. The calculation Putin drew from this sequence (that NATO expansion talk without a commitment to NATO membership created a security vacuum that Russian military action could exploit) was the direct antecedent of the 2014 and 2022 invasions.

Putin's July 2021 essay “On the Historical Unity of Russians and Ukrainians,” published seven months before the full-scale invasion, constitutes the primary documentary source for the ideological framework driving the conflict. The essay denies that Ukrainians constitute a distinct people with a legitimate national identity; frames Ukraine's post-Soviet independence as an artificial construct created by Bolshevik nationalities policy and subsequently exploited by Western “anti-Russia” interests; argues that Russians and Ukrainians are “one people” divided by historical accident and foreign manipulation; and asserts that a Ukraine seeking a distinct European identity and Western alignment is, in effect, an “anti-Russia” project requiring a response. This is less a strategic calculation about the NATO military threat than an ideological denial of Ukrainian national existence, structurally analogous to the Religious Zionist denial of Palestinian national existence, and equally documented in primary sources.

The Euromaidan protests of 2013–2014, triggered by President Yanukovich's abrupt abandonment of the EU Association Agreement under Russian pressure, and the subsequent Revolution of Dignity that removed Yanukovich from power, confirmed Putin's conviction that

democratic Ukraine aligned with Europe represented an existential threat to the model of Russian-dominated post-Soviet governance he had built. Russia's annexation of Crimea in February–March 2014 violated the Budapest Memorandum, the UN Charter, and the 1997 Treaty of Friendship between Russia and Ukraine. It was followed by the initiation of armed conflict in the Donbas, which killed approximately 14,000 people between 2014 and 2022. The Minsk Agreements of 2014 and 2015, which established ceasefire frameworks subsequently violated by both sides, proved unable to resolve a conflict whose root causes, Russian denial of Ukrainian sovereignty and identity, no ceasefire framework could address.

On February 24, 2022, Russia launched the largest military operation in Europe since 1945: an invasion force of approximately 190,000 troops moving on multiple axes simultaneously, with the announced objective, in Putin's words, of "demilitarization and denazification" of Ukraine.³⁴ The operation's failure to achieve rapid victory—the result of Ukrainian military resistance, superior Western intelligence support, and the fundamental miscalculation that Ukrainian populations would welcome Russian forces—transformed what Russian planners envisioned as a matter of days into a grinding attritional conflict that, by early 2026, has produced casualty figures unmatched in any European war since 1945. Independent estimates place combined Russian and Ukrainian battlefield casualties at approximately 1.8 million, with Russian fatalities ranging from 150,000 to 350,000 by verified open-source counts and total Russian casualties (killed and wounded) approaching 1.2 million; Ukrainian casualties are estimated between 400,000 and 600,000, with confirmed military deaths exceeding 46,000. The United Nations Office for the Coordination of Humanitarian Affairs has confirmed over 15,000 civilian deaths, with the true figure believed to be considerably higher. Approximately 9.5 million Ukrainians, roughly 24 percent of the country's pre-invasion population, have been displaced, including 5.7 million who have fled internationally.

8.3d Where the PDM Operates in the Russia–Ukraine Context

The Russia–Ukraine conflict is a paradigmatic test of the PDM's operation in a hybrid-ideological conflict, and assessing its impact requires distinguishing its direct effects, its indirect effects, and its limits.

Direct effects, pricing the Western weapons supply chain: The Western arms transfer to Ukraine constitutes the largest military assistance operation since the Cold War. U.S. and allied defense contractors—Lockheed Martin (HIMARS multiple-launch rocket systems), Raytheon (Patriot air defense systems), BAE Systems (M777 howitzers and other artillery), General Dynamics (Abrams tanks), and Boeing (various munitions)—have supplied weapons whose aggregate value runs to tens of billions of dollars. Under the PDM, these transfers generate mandatory peace investment obligations at a 5:1 active conflict ratio—potentially resulting in more than \$50 billion in peace infrastructure investment from U.S. defense contractors alone during the conflict period. This investment would fund international legal institutions that prosecute accountability for war crimes, the reconstruction planning infrastructure, the diplomatic mediation capacity, and

conflict prevention work in analogous situations globally, which the conflict's resource demands have crowded out.

The defensive arms tension: A genuine and important tension exists in applying the PDM's mandatory ratio to weapons supplied to Ukraine in defense against documented aggression. The PDM's Defensive Necessity Assessment framework addresses this directly: weapons certified as meeting defensive necessity standards in the context of territorial defense against documented aggression are eligible for reduced ratio treatment under PDCA review. Anti-aircraft systems, artillery for defensive positions, and logistics vehicles enabling Ukrainian forces to defend internationally recognized Ukrainian territory qualify for a reduced ratio designation. This does not exempt defensive arms transfers from the PDM; it reduces their ratio, reflecting the distinction between enabling aggression and enabling resistance to it. The distinction is analytically defensible and institutionally important: the PDM must not create perverse penalties on the arms transfers that protect populations facing documented aggression.

This distinction between structural incentive correction and legitimate defensive mobilization maps directly onto a tension that Stiglitz himself identified in 2022. Writing in *Project Syndicate* about the need to support Ukraine, he argued that Western democracies must marshal their industrial capacity for defensive purposes, invoking the Defense Production Act as a model: "No country has ever prevailed in a serious war by leaving markets alone."³⁵ He is correct, and the PDM does not contradict him. The PDM's target is the structural financial architecture that makes instability and conflict systematically more profitable than peace for the weapons industry—not the legitimate mobilization of defensive capacity against documented aggression. The two arguments operate at different levels. Stiglitz in 2022 addresses the tactical question of how democracies respond to active aggression. The PDM addresses the structural question of how the financial design of the weapons industry shapes the environment in which such aggressions become possible in the first place. The DNA process accommodates exactly what Stiglitz described: production certified as meeting defensive necessity in response to documented aggression receives reduced ratio treatment. The mechanism prices the externalities of the structural war economy; it does not penalize states defending their recognized borders.

Indirect effects, funding the structural conditions of resolution: The PDM's most consequential long-term contribution in the Russia–Ukraine context is not the pricing of the weapons supply chain but the massive investment it generates in the international legal and institutional infrastructure that constrains ideologically motivated aggressors. International Criminal Court prosecution of documented war crimes imposes accountability costs on Russian leadership that outlast any individual military operation. Sanctions enforcement architecture, currently under-resourced and easily evaded, becomes substantially more effective with dedicated funding. Diplomatic mediation capacity for eventual peace negotiation, currently negligible, becomes a robust institutional resource. Post-conflict reconstruction planning for Ukraine, currently uncoordinated, becomes a funded institutional priority. None of these mechanisms stops an ideology. All of them raise the sustained cost of acting on it.

The Budapest Memorandum lesson and nuclear proliferation: The collapse of the Budapest Memorandum's assurance framework, demonstrably destroyed by Russia's actions, is the most serious long-term consequence of the Russia–Ukraine conflict for global security. If states that surrender nuclear weapons cannot rely on security assurances from nuclear powers, the rational incentive for non-nuclear states facing hostile neighbors is to acquire nuclear weapons. The PDM directly addresses this proliferation risk: the international legal institutions and diplomatic frameworks it funds are precisely the institutions whose credibility must be rebuilt if the Budapest Memorandum's collapse is not to trigger a cascade of proliferation decisions. Arguably, this is the PDM's most consequential contribution to global security in the Russia–Ukraine context.

The limit here is fundamental: Vladimir Putin's conviction that Ukraine is not a legitimate state (and his associated conviction that Russian historical greatness requires the reassertion of control over the post-Soviet space) is not responsive to short-term financial incentives. The PDM does not claim to resolve this conviction through economic pressure on defense contractors. What history suggests (from the eventual collapse of apartheid South Africa to the end of the Cold War itself) is that even the most deeply held ideological convictions held by powerful state actors yield, over time, to the compound pressure of economic isolation, internal civil society opposition, international institutional delegitimization, and the demonstrated failure of the ideology to deliver the outcomes it promises. The PDM accelerates all of these processes by funding, at unprecedented scale, the institutional infrastructure that sustains them. It does not shortcut them, and it does not promise outcomes it cannot deliver. It promises to make the structural environment in which those outcomes become possible substantially more robust than the one we currently inhabit.

8.4 Case Study III: Rwanda 1994. When the Mechanism's Direct Lever Is Absent

The Rwandan genocide of April through July 1994 is included here not as a supplement to the previous case studies but as their deliberate counterpoint. Israel–Palestine and Russia–Ukraine are conflicts in which the PDM's primary mechanism, pricing the external weapons supply chain, operates with direct and substantial force. Rwanda tests what the PDM can and cannot do when that primary lever is largely absent. The honest answer to that test is the most important thing this section can offer a serious reader.

8.4a Historical Context: Colonial Architecture and the Anatomy of Incitement

The genocide was the culmination of a colonial legacy and a documented campaign of incitement whose architecture can be traced step by step, not a spontaneous eruption. Belgian colonial administrators, who occupied Rwanda from 1916 and governed it under a League of Nations mandate from 1922, institutionalized the distinction between Hutu and Tutsi populations (which had existed as relatively fluid social categories) into a rigid racial classification system. From 1933, Belgians issued identity cards that permanently fixed each Rwandan's ethnic

designation, making the distinction legally enforceable and physically visible. The 1959 Hutu Revolution that preceded independence, and the successive waves of anti-Tutsi violence between 1959 and 1973, produced an estimated 300,000 Tutsi refugees who settled primarily in Uganda, Burundi, and Zaire. Their children would form the Rwandan Patriotic Front (RPF) that invaded northern Rwanda from Uganda in October 1990, triggering the cycle of events that culminated in 1994.³⁶

The Arusha Accords of August 1993, signed between the Rwandan government of President Juvénal Habyarimana and the RPF, established a framework for power-sharing and the return of Tutsi refugees.³⁷ The extremist Hutu Power movement, centered in Habyarimana's own party and the Presidential Guard, regarded the Accords as a capitulation and began systematic preparations for what they called the "final solution" to the Tutsi presence in Rwanda. These preparations included the importation of an estimated 500,000 machetes from China in 1993, documented in UN and NGO reports, the creation and arming of the Interahamwe militia, and the establishment of Radio Télévision Libre des Mille Collines (RTLM), which broadcast explicit incitement to murder, named individual targets, and directed killers to specific locations throughout the genocide.³⁸

8.4b The Failure of the International Institutional Architecture

On January 11, 1994, nearly three months before the genocide began, United Nations Assistance Mission for Rwanda (UNAMIR) commander Lieutenant General Roméo Dallaire sent an urgent cable to UN peacekeeping headquarters in New York. The cable, subsequently known as the "genocide fax," reported that a Hutu Power informant had revealed the existence of weapon caches, the registration of Tutsi civilians for targeted killing, and explicit plans for the extermination of the Tutsi population. Dallaire requested authorization to raid the weapon caches. The response from UN headquarters, delivered by Dallaire's superior Kofi Annan, instructed him to take no offensive action and to share the intelligence with Habyarimana's government (one of the primary architects of the planned genocide) rather than act on it. The institutional failure could not have been more precisely documented. The information existed. The early warning system functioned. The political will to act on it did not.³⁹

On April 6, 1994, President Habyarimana's plane was shot down over Kigali airport; the identity of the perpetrators remains disputed. Within hours, the Presidential Guard and Interahamwe began systematic killing. The genocide proceeded for approximately one hundred days, killing an estimated 500,000 to 800,000 people, predominantly Tutsi, with moderate Hutu also targeted.⁴⁰ The primary instruments of killing were machetes, clubs, and small arms, not sophisticated weapons systems manufactured by Western defense contractors. Ten Belgian UN peacekeepers were captured and killed, prompting Belgium to withdraw its forces entirely. The United States, still reeling from the 1993 "Black Hawk Down" incident in Somalia, was determined not to intervene. The Clinton administration's National Security Council staff circulated explicit guidance: officials were to avoid using the word "genocide," substituting

instead “acts of genocide may have occurred.”⁴¹ This semantic exercise (driven by the legal obligations that the 1948 Genocide Convention would have triggered) was documented in declassified State Department transcripts and became one of the most cited examples of institutional moral failure in the history of international law.

France’s role in the genocide merits specific note because it represents the dimension of the Rwanda conflict where the PDM’s direct supply chain mechanism would have had an impact. France had been the primary external military supporter of the Habyarimana regime throughout the early 1990s, providing weapons, training, and military personnel in the context of the RPF insurgency. French officials have long disputed the extent of their government’s foreknowledge of the genocide’s planning. A 2021 report commissioned by the French government and led by historian Vincent Duclert concluded that France bore “heavy and overwhelming responsibilities” for the genocide, having supported a regime it knew to be preparing ethnic violence, though it found no evidence of French complicity in the actual killing.⁴² Under the PDM, the arms transfers that sustained the Habyarimana regime would have generated mandatory peace investment obligations (including early warning, conflict mediation, and civil society support) that might have altered the political and institutional environment in the years before the genocide.

8.4c Where the PDM Operates in the Rwanda Context

The Rwanda case puts unusual pressure on the PDM’s indirect channels, because the genocide’s primary instruments were not sophisticated weapons systems. The analytical conclusions are important enough to state with some care.

The PDM’s direct lever, pricing the external weapons supply chain, would have had limited purchase on the primary instruments of the genocide itself. Machetes cost pennies. The Interahamwe’s killing capacity was not constrained by the availability of weapons systems. No mandatory peace spending obligation on Western defense contractors would have changed the availability of agricultural implements in Rwanda. This is a real limit of the mechanism.

The PDM’s indirect channels, however, speak directly to the specific institutional failure that allowed the genocide to proceed: the absence of adequately funded early warning, conflict mediation, and international legal infrastructure that could have converted Dallaire’s January 1994 warning into action. Consider what a PDM-funded peace investment ecosystem, operational in Rwanda in 1993 and 1994, might have looked like:

- Early warning systems funded at PDM scale would have embedded the RTLM’s incitement broadcasts, the machete importation records, and the Interahamwe’s organizational structure into an international monitoring architecture capable of triggering not just a cable to UN headquarters but an automatic escalation protocol with defined response obligations.

- Conflict mediation infrastructure of the kind the PDM funds would have provided the Arusha Accords process with the implementation support (monitors, guarantors, dispute resolution mechanisms) that the agreement lacked and that its architects knew it lacked. The Accords failed not because their provisions were wrong but because no institution existed with the resources and mandate to enforce them.
- International legal accountability mechanisms, funded at PDM scale, would have created the expectation of individual criminal accountability for incitement to genocide before the killing began, rather than the International Criminal Tribunal for Rwanda, which was established after the fact and prosecuted organizers who had already achieved their objectives.
- Civil society support programs would have funded the Rwandan human rights organizations, journalists, and religious leaders who documented the preparations and warned of the coming violence, and who were among the genocide's first targets precisely because they were effective.

President Clinton's 1998 apology in Kigali (in which he acknowledged that "we did not act quickly enough after the killing began") has been cited by scholars as an acknowledgment that the failure was institutional rather than informational. The information was available. The Dallaire fax was available. The RTLM broadcasts were available. What was unavailable was an international institutional architecture with the resources, mandate, and political insulation to act on that information without waiting for Security Council authorization that could be vetoed, presidential decision directives that could be amended, or congressional appropriations that could be denied. The PDM builds that architecture by funding it from a source none of those political actors controls: the weapons industry's mandatory obligations.⁴³

The Rwanda case reveals not a flaw in the Peace Dividend Mandate but the exact shape of the problem its indirect channels are designed to address. The genocide was preventable. The prevention failed not for lack of information but for lack of institutional infrastructure with the resources and independence to act on it. That infrastructure is exactly what the PDM generates. The lesson of Rwanda is not that the PDM would have failed there but that the absence of anything like it made Rwanda's tragedy nearly inevitable, and makes the next one more likely than anyone should accept.

8.5 The Certification Guardrail Against Ideological Capture

The PDM faces a specific risk in ideologically driven conflicts that does not exist in purely profit-driven conflicts: the possibility that mandatory peace spending is captured by ideological actors and redirected to programs that serve their agenda rather than genuine conflict resolution. In the Israeli context, this means preventing PDM funds from subsidizing programs that normalize settlement expansion, present annexation as a peace process, or channel resources through American Christian Zionist organizations whose political program is incompatible with the rights of Palestinian populations. In the Russian context, it means preventing PDM funds

from supporting organizations that promote the narrative of Ukrainian identity as artificial, Russian territorial claims as legitimate, or the collapse of the Budapest Memorandum as anything other than a fundamental violation of international law.

The PDCA's certification standards include a mandatory Ideological Capture Review for any program operating in or related to an active ideologically driven conflict. The review requires that certified programs: (1) explicitly accept the sovereignty and territorial integrity of internationally recognized states as defined by UN General Assembly resolutions and relevant Security Council resolutions; (2) explicitly support the rights of all conflict-affected civilian populations regardless of ethnicity, religion, national identity, or political affiliation; (3) maintain governance structures that include meaningful representation of all conflict-affected communities, including displaced or occupied populations; (4) have no funding relationships with organizations that advocate territorial expansion, ethnic displacement, or the denial of internationally recognized national self-determination rights; and (5) submit to independent cultural competency review by practitioners from all affected communities before certification is granted.

The guardrail is imperfect. Determined ideological actors, backed by sophisticated lawyers, will find ways to present expansionist programs in humanitarian language. The PDCA's response is iterative rather than absolute: continuous monitoring, mandatory reporting from community representatives in affected areas, rapid decertification procedures for programs found to be serving ideological rather than peace objectives, and public transparency of all certification decisions that allows civil society organizations to challenge certifications they believe have been captured. The mechanism is as robust as the international community's commitment to making it so, and the PDM creates, for the first time, an industry worth trillions of dollars annually whose investors have a financial stake in ensuring the certification system works.

The three case studies in this section (the Israeli–Palestinian conflict, the Russian invasion of Ukraine, and the Rwandan genocide) test the Peace Dividend Mandate across the full range of ideologically driven conflict: a conflict sustained by external weapons supply chains and religious mandate; a conflict driven by ethnonationalist imperial ideology; and a conflict in which the primary instruments of mass violence were largely outside the PDM's direct reach. Together, they demonstrate that the mechanism is not a complete solution to ideologically driven conflict. What they also demonstrate is that the PDM changes the financial and institutional environment in which such conflicts are made possible, pricing the weapons supply chains that sustain them where those chains exist, funding the legal and civil society infrastructure that their organizers depend on not existing, and redirecting the political machinery of the defense industry from sustaining conflict to reducing it. That is not the whole answer. It is the structural precondition for any answer. Durable peace in conflicts of this kind is unlikely to be built without something like it.

IX. Critical Engagement: A Discipline-by-Discipline Analysis

The Peace Dividend Mandate has been subjected to the most rigorous scrutiny its author can muster before publication. What follows engages the strongest objections from six academic and professional traditions, attempting to steel-man each and answer it on its merits. Where the mechanism has real limits, those limits are named. Where it has been strengthened in response to critique, the strengthening is explained.

From Economics: The Stiglitz–Acemoglu Line of Objection

Objection: The Perverse Incentive Problem

The most dangerous economic objection is the perverse incentive: a contractor earns mandatory peace spending authority proportional to weapons production. A sufficiently integrated firm might rationally increase production to capture a larger share of the peace services market. The mechanism meant to fund peace becomes an excuse for more weapons.

Response: Section 3.4 of this paper addresses this with four interlocking provisions: a 15 percent cap on contractor-delivered peace programs, absolute production ceilings aligned with arms control treaty bodies, requirements for access to competitor certification, and beneficial ownership transparency. These provisions are not aspirational; they are structural. The 15 percent cap alone severs the direct financial link between production volume and peace contract capture. Combined with production ceilings, the mechanism cannot be gamed by scaling weapons output, because production above certified defensive necessity levels triggers prohibitive ratio escalation, making expansion unprofitable.

Objection: The Additionality Problem

Early carbon offset markets, the PDM’s closest structural analogue, were compromised by the absence of additionality requirements. Companies claimed credits for emissions reductions already planned, generating compliance theater rather than real-world impact. Critics will argue the PDM is vulnerable to identical gaming.

Response: The PDCA’s additionality standard (Section 3.2a) directly incorporates the lessons of the EU ETS’s early failures. Mandatory counterfactual documentation, prohibition of displacement of existing funding streams, and preregistered outcome hypotheses evaluated by independent third-party verifiers are non-negotiable certification requirements. The preregistration standard in particular (now established best practice in clinical medicine and development economics following the replication crisis) eliminates the post-hoc rationalization of ambiguous results that plagued first-generation offset regimes.

Objection: The Measurability Problem

Markets require measurable, contractable outcomes. Peace is notoriously resistant to measurement. Without rigorous outcome metrics, the certification system becomes a compliance theater exercise.

Response: The PDM's composite outcome framework (Section 3.2c) draws on the most validated existing metrics in conflict research: the Uppsala UCDP for conflict incidence, the IEP Global Peace Index for macro-level trends, the World Bank WGI for institutional quality, UNDP HDI trajectories for structural violence dimensions, and Disability-Adjusted Life Years for direct harm reduction. None of these is perfect. All have documented limitations. But the combination of independent metrics, preregistered hypotheses, and third-party verification produces a measurement architecture robust enough to distinguish genuine peace investment from greenwashing, and superior to the measurement standards applied to the weapons programs whose externalities the PDM prices.

Objection: The Empirical Basis for 5:1

Serious economists will demand more than general attribution for the four-to-six-times externality cost ratio that justifies the 5:1 active conflict multiplier. This is a fair demand, and the PDM meets it with specific data.

The most authoritative single source is the work Stiglitz himself produced. When the Bush administration projected the Iraq War would cost \$50 to \$60 billion in 2003, Stiglitz and Linda Bilmes calculated the true cost at \$3 trillion: a ratio of approximately 50:1 to 60:1 compared with the original projections.⁴⁴ In a 2010 *Washington Post* update, Stiglitz and Bilmes revised this figure upward, writing that their \$3 trillion estimate “was, if anything, too low”—specifically because it had failed to capture what they identified as the most consequential cost category: opportunity costs, the “might have beens” of what those resources would have produced if invested in education, infrastructure, or technology instead of conflict.⁴⁵ This opportunity cost framing is directly mirrored in the PDM's architecture: peace investment does not merely offset war costs, it generates the compounding opportunity benefits that war spending forecloses.

The Institute for Economics and Peace's annual estimates of the economic impact of violence, drawing on World Bank and UNDP data, estimate the global economic impact of violence at \$17.5 trillion to \$21.8 trillion annually across recent editions, the latter figure for 2025 in purchasing-power-parity terms, against global military expenditure of approximately \$2.887 trillion in 2025: a ratio of approximately 5:1 to 7:1 once the military and security spending that the IEP total itself includes is netted out (Appendix A.5).⁴⁶ World Bank research on civil war costs found that the average civil war costs the affected country approximately \$64 billion, against weapon transfer values typically in the low billions.⁴⁷ The PDM's 5:1 peak ratio is, by this evidence, conservative. The true externality ratio is almost certainly higher. The 5:1 figure

represents a deliberately defensible floor, not an ambitious ceiling—chosen specifically because it falls well within the range that Stiglitz’s own methodology supports.

From International Relations: The Mearsheimer–Waltz Realist Challenge

Objection: States Pursue Power Structurally. Arms Manufacturers Are Irrelevant

John Mearsheimer’s offensive realism and Kenneth Waltz’s structural realism converge on a point that cuts directly at the PDM’s foundations: states pursue power and security as structural imperatives imposed by the anarchic international system, not because arms manufacturers profit from instability.⁴⁸

Response: This objection is partially correct and honestly acknowledged. The PDM is not a complete theory of international peace, and it does not claim that changing contractor incentives eliminates the security dilemma. What it claims is more modest and more defensible: that the costs imposed by the war economy’s externalities are real and unpriced; that pricing them changes behavior at the margins in ways that compound over time; and that the massive peace investment the PDM generates directly addresses the material conditions (poverty, institutional weakness, grievance) that structural realists themselves identify as the preconditions for the kind of intrastate and proxy conflicts that constitute the vast majority of armed violence in the post–Cold War era. Mearsheimer’s great-power logic applies most powerfully to interstate wars between major powers. The UCDP documents that more than 90 percent of ongoing armed conflicts since 1990 are intrastate or internationalized intrastate conflicts. It is precisely in this domain (where material conditions, institutional quality, and conflict prevention investment are most decisive) that the PDM operates.⁴⁹

Objection: The Sovereignty Enforcement Gap

Who compels participation? The UN Security Council has five permanent members with veto power, three of whom (the United States, Russia, and China) are among the world’s largest arms exporters. Any enforcement mechanism routed through the Security Council is structurally blocked by the states most resistant to participation.

Response: The PDM’s enforcement architecture deliberately bypasses the Security Council for exactly this reason. Phase 2 of the implementation pathway pursues PDM adoption as a condition of arms export licensing in willing jurisdictions, beginning with the European Union, which accounts for roughly 20 percent of global arms exports, and expanding to Canada, Australia, Japan, South Korea, and other like-minded states. Arms export licensing is a sovereign domestic regulatory act requiring no multilateral consensus. A manufacturer in any country wishing to sell to European, Canadian, or Australian governments must comply with the PDM to access those markets. This is market-access conditionality, not extraterritorial enforcement—the same mechanism that made the EU’s General Data Protection Regulation effectively a global standard for data privacy without requiring UN adoption. Russia and China are not initial

participants. They become participants when the cost of non-participation (exclusion from the largest and most lucrative arms markets) exceeds the cost of compliance. That calculation changes as the coalition of adopting states grows.

Objection: The PDCA Is an Unelected Supranational Body with Vast Unaccountable Power

This objection will come from both directions simultaneously: from the political right, as a sovereignty argument (an unelected international body regulating a multitrillion-dollar industry with no democratic mandate) and from the political left, as a technocracy argument: expert governance insulated from democratic accountability has historically served elite interests at the expense of the populations it claims to serve. Both versions of this critique have genuine force.

Response: The democratic legitimacy architecture of the PDCA is designed in four layers, each addressing a different dimension of the accountability problem. First, the PDCA is created by treaty, meaning its founding authority derives from democratic ratification processes in each participating state. It has no independent authority; it operates within the mandate granted by democratically elected governments, subject to withdrawal by any party state. Second, the PDCA's governance structure is itself democratically weighted: civil society representatives on the board are selected through an open nomination process by registered civil society organizations in each participating jurisdiction, with published selection criteria and established appeals processes. Third, all PDCA decisions, data, algorithms, and expenditure records are published in full, in real time, on a publicly accessible platform—making the institution one of the most transparent regulatory bodies in the world. Fourth, the PDCA is subject to a mandatory five-year review by an independent parliamentary assembly drawn from the legislatures of participating states (a mechanism modeled on the Parliamentary Assembly of the Council of Europe) with authority to recommend governance reforms, recalibrations of the ratio, or treaty amendments. The PDCA is a specialized regulatory agency, not a world government: a body with a defined mandate, constrained authority, and more democratic accountability mechanisms than most international institutions governing global trade, finance, and security.

From Legal Scholarship: The WTO and Dual-Use Definitional Problems

Objection: WTO Compatibility

A mandatory peace-spending requirement on defense manufacturers could be challenged as a non-tariff barrier to trade under WTO rules, or as a prohibited subsidy if peace investment flows back into the contractor's own projects. Either challenge could render the mechanism legally null and void.

Response: The WTO compatibility analysis is more favorable to the PDM than critics typically assume, for two reasons. First, defense procurement is substantially exempt from WTO disciplines under the General Agreement on Tariffs and Trade Article XXI security exception,

which permits measures taken in time of war or other emergency in international relations, or “relating to the traffic in arms.” Courts and tribunals have interpreted this exception broadly, and the connection between defense manufacturing regulation and national security is facially evident. Second, the PDM is structurally analogous to domestic environmental regulations (mandatory expenditure requirements imposed on producers as a condition of operating in a jurisdiction) that have consistently survived WTO scrutiny when applied on a non-discriminatory basis to domestic and foreign producers alike. The key design requirement for WTO compatibility is non-discriminatory application: the PDM must apply to all defense manufacturers operating in or selling to the adopting jurisdiction, regardless of national origin. This is already part of the mechanism’s architecture. The prohibited subsidy risk is addressed by the 15 percent cap on contractor-delivered programs, which ensures that the dominant flow of peace investment is to independent third parties rather than back to the contracting firm.

Objection: The Dual-Use Definition Problem

Dual-use technology is one of the hardest definitional problems in arms control law. A semiconductor chip goes into a guided missile and a hospital’s MRI machine. Cybersecurity tools defend civilian infrastructure and enable offensive military operations. AI systems have profound dual-use implications. The PDM currently refers to “defense contractors and weapons manufacturers” without grappling with the boundary problem that has plagued every arms control regime in history.

Response: The PDM adopts, as its definitional foundation, the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, the existing multilateral framework governing this boundary, to which forty-two states are currently party. The Wassenaar Arrangement’s control lists, while imperfect, represent the most rigorously negotiated existing international consensus on what constitutes weapons-applicable technology. The PDM applies mandatory peace spending ratios to the weapons and military technology categories already captured by Wassenaar export controls, with PDCA authority to update those categories in response to Wassenaar revisions. For genuinely ambiguous dual-use cases, the PDM applies a proportionality standard: the ratio is based on the proportion of a product’s revenue attributable to verified weapons applications, assessed through audited end-use documentation. This is technically demanding but not unprecedented—it mirrors the methodology already applied in arms export licensing compliance.

From Peace Studies: The Galtung–Lederach Critique

Objection: The PDM Addresses Direct Violence but Not Structural Violence

Johan Galtung, who founded the academic field of peace studies, distinguished between direct violence, the physical violence of armed conflict, and structural violence: the poverty, inequality, and institutional exclusion that kill people slowly and invisibly, and that are both causes and

consequences of direct violence. A mechanism that funds programs reducing armed conflict without addressing its structural roots may reduce war without achieving peace.

Response: This critique was incorporated directly into the PDCA certification architecture. The requirement that at least 20 percent of certified PDM spending address structural violence (economic development, health equity, educational access, anti-corruption institution-building) is not a rhetorical gesture. It is a binding certification standard enforced through the additionality and outcome measurement framework. Galtung's insight is, moreover, analytically consistent with the PDM's economic logic: structural violence is itself a driver of the conflict externalities the mechanism prices. Addressing it is good externality accounting, not a concession to idealism.

Objection: The Peace Industry Framing Replicates Development Aid's Worst Pathologies

John Paul Lederach, whose practitioner research on conflict transformation spans four decades across twenty countries, identifies a consistent failure mode in externally funded peacebuilding: programs designed by outsiders, measured by outsiders, and accountable to funders rather than communities consistently underperform because they lack the relational infrastructure (the trust, legitimacy, and shared narrative) that actual peace requires. A competitive "peace industry" governed by market logic risks replicating exactly this pathology at unprecedented scale.

Response: This is the most searching critique the PDM faces from within the peace and conflict resolution field, and it deserves a response that neither dismisses the concern nor abandons the mechanism. Lederach is correct that market-oriented, metric-driven, externally controlled peace programs have a poor track record. The local ownership requirements in Section 3.2b are a direct response to this finding—not as an add-on but as a hard certification standard. No program may be certified without demonstrated community co-design, local decision-making authority, and a transition plan to community ownership. The PDM does not fund the peace industry to design and deliver programs. It funds communities to do so, with the industry in a support and financing role. The distinction is architectural, not rhetorical. Whether it will hold in practice is a genuine empirical question—and one that the Phase 1 pilot program is specifically designed to test, with Lederach's own framework as the evaluative standard.

From Philosophy and Ethics: The Moral Hazard and Legitimization Problem

Objection: The PDM Legitimizes Weapons Manufacturing

A deontological ethicist in the Kantian tradition will argue that a structured offset mechanism makes weapons production morally acceptable as long as the ratio is met, that you cannot make harm ethical by bundling it with proportional good, any more than you can make theft ethical by donating a percentage of the proceeds to charity. The PDM, in this reading, is not a step toward peace but a moral laundering mechanism for the war economy.

Response: This objection has genuine force and must be engaged rather than dismissed. The PDM is explicitly a consequentialist mechanism, and it makes no claim to resolving the deontological question of whether weapons manufacturing is intrinsically wrong. What it claims is narrower and, the author believes, more important: that in a world where weapons manufacturing will continue regardless of the mechanism's existence (because states will demand weapons as long as the security dilemma persists) the question is not whether to permit it but how to structure its costs and consequences. The choice is between a world in which the defense industry externalizes its costs entirely and one in which it is required to internalize a meaningful fraction of them, not between a world with the PDM and a world without weapons. In that choice, the consequentialist case for the PDM is compelling. The perfect must not be allowed to be the enemy of the transformatively better.

The legitimization risk is real, however, and the PDM acknowledges it directly: the mechanism includes a 25-year sunset review provision, requiring that the international community assess at that point whether the PDM has contributed to sufficient structural reduction in armed conflict to justify its continuation, modification toward stricter ratios, or replacement by more ambitious frameworks as political conditions permit.

Objection: The Moral Hazard. Does an Offset License More Production?

A related but distinct concern: does the existence of a peace offset mechanism provide corporations, and the governments that procure from them, with a psychological and political license to produce more weapons than they would otherwise, on the grounds that the harm is now “offset”? Does the PDM expand the total war economy while improving its ratio, leaving the world with more weapons and more peace spending but no net reduction in militarization?

Response: This is a genuine risk, and the absolute production ceiling mechanism (Section 3.4) is specifically designed to address it. Production above PDCA-certified defensive necessity levels triggers prohibitive ratio escalation—not merely the standard 5:1 or 2:1, but ratios designed to make excess production economically irrational. The ceiling mechanism ensures that the PDM does not inadvertently become a subsidy for production expansion. On the psychological licensing question (the possibility that offset mechanisms reduce moral constraint on primary behavior) the empirical evidence from environmental contexts is mixed: some studies find licensing effects; others find that commitment to offset programs reinforces rather than relaxes primary environmental behavior. The PDM's dynamic ratio responds to this uncertainty by ensuring that the mechanism's financial pressure increases rather than decreases during periods of rising conflict—the opposite of a licensing effect.

From Military Strategy: The Deterrence Theory Challenge

Objection: Weapons Prevent Wars. The PDM Weakens Deterrence

This is the objection that will come most forcefully from strategic studies departments and defense policy professionals, and it is the one the peace advocacy community most frequently fails to engage seriously. The entire logic of nuclear deterrence, mutually assured destruction, rests on the premise that the credible threat of overwhelming violence is precisely what has prevented great-power war since 1945. More broadly, conventional deterrence theory holds that military capability deters aggression by raising the expected cost of attack above the expected benefit. If the PDM increases the cost of weapons production, thereby reducing the supply available to democratic states, does it weaken deterrence and increase the likelihood of large-scale conflict?

Response: The deterrence objection rests on an empirical premise that the PDM does not support: that the mechanism reduces the availability of weapons. It does not. The PDM changes who profits from weapons and at what cost. It does not cap weapons procurement, it caps manufacturers' uncompensated externalization of weapons-related costs. Governments retain the full authority to procure whatever weapons their security assessments require. The cost of those weapons increases, which creates pressure for democratic publics to scrutinize defense budgets more carefully—an outcome consistent with, not antithetical to, democratic accountability for war and peace decisions.

On the broader deterrence question, the PDM's position is this: deterrence theory is correct that credible military capability reduces certain categories of interstate aggression. It does not follow that the current scale of global military expenditure is the minimum necessary for deterrence, or that it is optimally allocated toward deterrence rather than toward the domestic political interests of defense establishments and their industrial partners. The Stockholm International Peace Research Institute's data consistently show that military expenditure has grown substantially faster than documented security threats across all major state actors, suggesting that a significant fraction of current weapons production serves political-economic functions rather than pure deterrence functions. The PDM targets this excess, the production above verified defensive necessity, while leaving deterrence capabilities intact.

The deeper strategic case for the PDM is that deterrence and peace investment are not substitutes but complements. A world with robust deterrent capability and massive investment in the upstream conditions for peace (poverty reduction, institutional strengthening, conflict prevention) is more stable than one with robust deterrence and no peace investment. The United States spent approximately \$2 trillion in direct appropriations alone on the wars in Afghanistan and Iraq. A fraction of that investment directed upstream (into the conditions that made those wars possible) would have been both cheaper and more strategically effective. The PDM argues not against deterrence but that deterrence alone, without structural peace investment, is an incomplete security strategy.

X. The Philosophical Foundation: Structural Pragmatism and the Peace Economy

A deeper argument runs beneath the mechanism. Its natural home is welfare economics properly applied, and the pragmatist intellectual tradition that insisted economics and moral philosophy were less separate than the modern academy has made them.

The conventional framing that treats realism and idealism as opposing epistemological categories has served the war economy well. By positioning itself as realism, the war economy insulates one of the worst market failures in human history from the kind of rigorous cost-benefit analysis that would be applied without hesitation to any other system generating more than \$20 trillion in annual economic destruction. Far from departing from realism, the Peace Dividend Mandate applies realism's own methods to a system that has never been seriously subjected to them.

When the Institute for Economics and Peace puts the global economic impact of violence at \$21.8 trillion for 2025 in purchasing-power terms, more than a tenth of global GDP, it is presenting an audit. The war economy destroys, on an annual basis, resources that would otherwise compound into human capital, institutional trust, physical infrastructure, and the innovation capacity that durable peace generates. This is not a humanitarian concern appended to an economic framework; it is the economic framework. The war economy is catastrophically inefficient at producing human welfare, and its apparent profitability is an artifact of accounting that does not count its costs. Counted properly, the peace economy is the more efficient outcome on welfare-economic grounds alone.

The philosophical tradition most useful for understanding why this accounting failure persists, and how to correct it, is pragmatism rather than pacifism: the tradition of William James, John Dewey, and Jane Addams, who argued that institutions must be evaluated by their consequences and redesigned when those consequences are systematically bad. Addams, who received the Nobel Peace Prize in 1931, understood durable peace as a structural achievement: an arrangement of institutions, a problem of design. The committee that honored her has since honored the insight itself, awarding the prize to institutions (the International Atomic Energy Agency in 2005, the European Union in 2012) whose contribution to peace was architectural. Dewey insisted that any institution be judged by its actual effects on human development and social cooperation, whatever its stated purpose. Judged as Addams and Dewey would judge it, the war economy fails: its stated purpose is security; its actual effects include more than \$20 trillion in annual economic destruction, the systematic prevention of the institutional development that genuine security requires, and the compounding of the grievances that produce the next generation of conflicts. It is functionally self-defeating as well as morally indefensible: an institution that undermines the outcome it exists to produce.

The deepest claim the paper makes is this: when externalities are priced correctly and incentive mechanisms are designed with the rigor the problem demands, what economics requires and what the serious moral traditions have always pointed toward converge on the same institutional

design. That convergence is no coincidence; it follows from the fact that human flourishing is the efficient outcome when all costs are counted. The defense industry's current profitability rests on not counting them. The Peace Dividend Mandate is a mechanism for making them count.

This is structural pragmatism: the thesis that the institutions the world needs already have economic justification sufficient to make them viable, and that what stands between us and those institutions is a failure of accounting and mechanism design, not a failure of virtue. The Peace Dividend Mandate addresses both failures simultaneously. When the Lobby Inversion Condition is satisfied (when the defense industry's financial interest in reducing global conflict exceeds its financial interest in sustaining it) one of the world's most powerful industrial lobbies is structurally aligned with one of its most important welfare objectives. No change in human nature is required. No appeal to conscience is necessary. The mechanism does the work that centuries of exhortation could not.

XI. Implementation Pathway

The Peace Dividend Mandate is not a proposal that can be adopted overnight by a single legislative act. It requires a phased implementation pathway that builds institutional infrastructure, demonstrates proof of concept, and creates the political conditions for broader adoption. The phases described here are sequential by design: each creates the preconditions for the next, and attempting to skip phases (moving directly to global treaty adoption without first establishing institutional credibility and a demonstrated track record) is the most reliable way to ensure the mechanism fails before it has a chance to succeed.

Phase 1 (Years 1–3): Institutional Foundation

The first phase is entirely about credibility. The PDM's eventual strength depends on the perceived legitimacy of the PDCA as an independent, competent, and capture-resistant institution. That legitimacy cannot be asserted, it must be demonstrated through transparent governance, rigorous methodology, and the willingness to make difficult certification decisions that antagonize powerful actors. Phase 1 creates the conditions for that demonstration.

- Convene a multilateral working group (drawing on the UN Peacebuilding Commission, major philanthropic foundations, and academic institutions) to design PDCA governance architecture, draft a founding treaty text, and establish the PCLI conflict measurement methodology with full public documentation.
- Pilot voluntary PDM adoption with three to five defense contractors willing to commit publicly to the framework, generating early data on implementation challenges, peace investment ROI, and the PDCA certification process under real-world conditions.
- Commission independent economic modeling of full-scale PDM impacts (including distributional analysis of which countries and populations would receive the largest peace investment flows) providing the empirical foundation for legislative advocacy.

- Build the civil society coalition: faith communities, veterans organizations, humanitarian NGOs, development economists, conflict resolution professionals, and hunger and poverty reduction advocates whose work the PDM will fund at an unprecedented scale.
- Establish the SSRN working paper series to house the ongoing academic development of the PDM framework, and formalize the Peace Economy Institute's governance structure to support institutional credibility and peer engagement.

Phase 2 (Years 3–7): Legislative Anchoring

Phase 2 converts the voluntary framework into a binding obligation in willing jurisdictions. The strategic logic is market-access conditionality: rather than seeking multilateral treaty adoption (which requires consensus among states whose interests are most opposed to the PDM) Phase 2 leverages the purchasing power of democratic states to make compliance a prerequisite for access to the world's most lucrative defense markets. The EU's experience with GDPR demonstrates that a sufficiently large market can set global standards unilaterally, and the combined defense procurement of EU and allied states constitutes a market no major contractor can afford to exit.

- Pursue PDM adoption as a condition of defense procurement in willing jurisdictions (beginning with the European Union, Canada, Australia, and like-minded states) creating a market-access incentive for contractor participation regardless of their country of incorporation.
- Introduce the PDCA framework through the UN General Assembly, building toward a Security Council resolution or treaty process while bypassing the Security Council veto through the market-access conditionality route.
- Develop and publish the first certified peace investment portfolio, demonstrating that the market for peace delivery is real, scalable, measurable, and generating verifiable outcomes against preregistered indicators.
- Establish the graduated ramp-up schedule in adopting jurisdictions, beginning at 0.5:1 in Year 1 of jurisdiction adoption and building institutional absorptive capacity ahead of the full mandate.

Phase 3 (Years 7+): Scale and Normalization

Phase 3 is where the mechanism's self-reinforcing logic fully activates. By this stage, the peace industry is a substantial economic sector generating verifiable outcomes. Defense contractors operating under the PDM have developed organizational competencies in peace investment, giving them a competitive advantage in the peace services market. Their lobbying apparatus, now financially motivated toward stability, is actively working to expand PDM adoption globally and to reduce conflict levels that trigger higher ratio requirements. By this stage the

mechanism is sustained not by idealism but by the same profit motive that built the war economy.

- Global adoption as a standard condition of arms export licensing, creating universal applicability regardless of contractor domicile, driven by the competitive disadvantage facing non-compliant manufacturers in PDM-participating markets.
- The dynamic ratio system fully operational, with PDCA publishing quarterly PCLI assessments that trigger ratio adjustments according to the pre-defined algorithmic schedule.
- The peace industry reaches sufficient scale (estimated at approximately \$1.4 to \$3.5 trillion annually at full implementation) to function as a self-sustaining economic sector with its own competitive dynamics, innovation incentives, and political constituency.
- The Peace Economy Institute transitions from a founding organization to a convener of an ongoing global research and policy network, publishing annual assessments of PDM implementation, peace investment outcomes, and needed refinements to the mechanism.

XII. Limitations and Failure Modes

The PDM's design includes mechanisms intended to address each of the following limitations, but no mechanism eliminates them entirely. This section names them in one place, so the reader can evaluate the proposal against them as well as against its strengths.

Empirical conditions for Lobby Inversion. The Lobby Inversion Condition is a designed property of the mechanism, asserted under stylized assumptions about contractor cost structure and revenue elasticity. Whether it holds under real contractor heterogeneity, with product-mix variation and market power asymmetries, is the empirical question the Phase 1 pilot is specifically structured to answer. If the condition fails empirically (if marginal revenue from new contracts exceeds marginal burden reduction even at a 5:1 ratio) the political incentive structure does not invert, and the mechanism reverts to standard Pigouvian externality pricing. That outcome would still be valuable, but it would not produce the political economy transformation the paper claims.

Ideologically driven conflict. The case studies in Section VIII establish that the PDM's primary lever, pricing the external weapons supply chain, has limited direct purchase on conflicts driven by religious mandate, ethnonationalist ideology, or imperial historical grievance. The mechanism operates in those contexts through indirect channels (international legal infrastructure, civil society funding, mediation capacity) whose effects are real but slower and less linear. The PDM does not dissolve ideological conviction. It changes the institutional environment in which such convictions translate into sustained violence.

Absorptive capacity risk. The phased ramp-up, capacity-building carve-out, cost benchmarking, and decentralized capital channels described in Section 6.1 are designed to

mitigate the risk that a trillion-dollar-scale annual investment overwhelms the existing peacebuilding ecosystem. They cannot eliminate it. The history of post-9/11 reconstruction demonstrates that even well-intentioned capital surges can damage the institutional infrastructure they are meant to nourish. Phase 1 implementation will succeed or fail substantially on this dimension, and the mechanism's architects make no claim of flawless deployment.

Certification capture. The PDCA's anti-capture architecture—supermajority civil society representation, mandatory transparency, independent funding via the 1 percent levy, and ideological-capture review for politically charged conflicts—draws on every structural defense identified in the regulatory capture literature. Determined adversaries will still attempt capture. Iterative monitoring, decertification procedures, and public transparency are the mechanism's only durable defense. If the certification system is captured at scale, the PDM becomes a rebranding exercise rather than a structural correction.

Implementation dependent on initial political will. The mechanism is designed to bypass the UN Security Council through market-access conditionality, which substantially reduces the political bar for implementation. It does not eliminate it. Phase 2 still requires that some willing jurisdiction, most plausibly the European Union, be persuaded to adopt PDM compliance as a condition of arms procurement and export licensing. Without that initial adoption, the mechanism remains theoretical regardless of its design quality.

Theoretical claims as hypotheses. The three theoretical extensions in Section IV (the nested information failure, the amplified externality, and the Lobby Inversion Principle) are offered as hypotheses for formal economic verification, not as established results. If subsequent peer-reviewed work demonstrates that these are variations on existing endogenous externality literature rather than novel categories, the framing should be revised accordingly; the policy mechanism's logic does not depend on the novelty claim.

The measurement boundary. The composite outcome framework (UCDP, GPI, WGI, HDI, DALYs) captures most dimensions of conflict reduction but not all. Trust networks, intergenerational reconciliation, and the slow rebuilding of civic infrastructure resist quantification on the timeframes the certification system requires. Programs that produce real but unmeasurable outcomes may be decertified; programs that produce measurable but shallow outcomes may be sustained. The trade-off is intrinsic to any contractable mechanism and cannot be designed away.

Defensive mobilization in genuine emergencies. The PDM is designed to price the structural externalities of the war economy, not to constrain legitimate defensive responses to documented aggression. The Defensive Necessity Assessment described in Section 3.4a addresses this through reduced ratio treatment for certified defensive arms transfers. But the DNA process is itself subject to political pressure, and a sufficiently intense emergency may exceed what any peacetime certification framework can adjudicate. The mechanism is calibrated for the long-run

reshaping of incentives. It is not designed to optimize the war-by-war calculus that strategic studies professionals correctly insist matters in real crises.

What the mechanism does not address. The PDM prices the externality of armed conflict. It does not address the security dilemma that produces interstate competition under anarchy, the resource scarcity that drives certain categories of resource conflicts, or the climate-driven displacement that will increase conflict pressure in the coming decades. Each of these requires its own institutional architecture. The PDM is one mechanism in what must be a broader peace economy, not a complete theory of how to construct one.

XIII. Conclusion

A reasonable question, raised in the course of developing this framework, is whether the proposal can plausibly succeed. The question deserves an honest response rather than a rhetorical one.

The defensible answer is yes, with appropriate uncertainty about timeline and pathway. The case does not rest on the assumption that human beings will become better, that the defense industry will develop a conscience, or that the geopolitical incentives producing armed conflict will dissolve. It rests on the observation that the institutional design proposed here, implemented with the rigor the analysis demands, alters the financial landscape in which all relevant actors operate, and that altered financial landscapes alter behavior. That is not idealism but the consistent finding of every major institutional innovation in modern history that successfully reduced a category of harm at scale.

The Peace Dividend Mandate is a contribution to that tradition. It does not ask the world to become better. It asks the world's most powerful economic actors to confront what the evidence has always shown and what the system has always obscured: that peace is more profitable than war, that the war economy is underwritten by a massive, unaccounted externality, and that the institutional imagination to price that externality and redirect it toward human flourishing has been available to us for decades. We have simply lacked the political architecture to deploy it.

This paper has engaged the strongest objections available: from structural realists, skeptical economists, international lawyers, peace practitioners who have watched aid programs fail, philosophers who question the moral legitimacy of offset mechanisms, and military strategists who believe deterrence requires unconstrained production. In each case, the mechanism has been strengthened rather than abandoned. Where limits remain, and they do, they are named honestly, because a proposal that cannot acknowledge its own limits is not a serious proposal.

The paper undoubtedly contains errors that its author cannot yet identify. There are implementation problems that will become visible only in practice. That is not cause for alarm: every serious institutional innovation in modern history (the Marshall Plan, the European Coal and Steel Community, the Montreal Protocol, the establishment of the International Criminal

Court) was imperfect at its launch, improved through implementation, and succeeded not because its designers were prescient but because the underlying structural insight was correct and the institutions were robust enough to be improved rather than abandoned as imperfections emerged.

The author believes the structural insight here is correct, though that is an empirical question the paper invites others to test. The question is whether the world's intellectual, political, and economic leaders have the courage and imagination to act on it before the cost of inaction becomes, as it always does, undeniable.

Notes

1. Bruce Greenwald and Joseph E. Stiglitz, "Externalities in Economies with Imperfect Information and Incomplete Markets," *Quarterly Journal of Economics* 101, no. 2 (May 1986): 229–264.
2. Joseph E. Stiglitz, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent* (New York: W.W. Norton, 2019), 42–45. Stiglitz explicitly invokes the generalized Henry George principle as a basis for taxing negative externalities across all production sectors.
3. Joseph E. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W.W. Norton, 2012), 39–68, and Stiglitz, *The Origins of Inequality and Policies to Contain It* (Oxford: Oxford University Press, 2025). Across both works, Stiglitz documents how industries with concentrated economic power systematically shape regulatory environments to avoid obligations that would reduce profitability: a pattern he traces from financial deregulation to pharmaceutical pricing to the defense industry's exemption from conflict externality accounting.
4. Institute for Economics and Peace, *Global Peace Index 2023* (Sydney: IEP, June 2023) and *Global Peace Index 2026* (Sydney: IEP, June 2026). The IEP's annual *Economic Value of Peace* report estimates that violence and its containment costs the global economy approximately 10–13 percent of global GDP, with reported figures ranging from \$17.5 trillion (GPI 2023, covering 2022 data) to \$21.81 trillion in purchasing-power-parity terms (GPI 2026, covering 2025 data, equivalent to 10.5 percent of global GDP), yielding a ratio of approximately 5:1 to 7:1 against contemporaneous global military expenditure. See also Paul Collier et al., *Breaking the Conflict Trap: Civil War and Development Policy* (Washington: World Bank/Oxford University Press, 2003).
5. Center for Responsive Politics (OpenSecrets), Defense Industry: Lobbying & Campaign Finance, [opensecrets.org](https://www.opensecrets.org), accessed March 2026. Federal Election Commission data compiled by OpenSecrets documents tens of millions of dollars in annual defense industry campaign contributions and PAC expenditures, concentrated among the largest contractors. See also Taxpayers for Common Sense, *The Political Footprint of the Military Industry* (Washington:

Taxpayers for Common Sense, October 2024), reporting industry-wide contributions of \$53.6 million in the 2020 cycle and \$34.8 million in the 2022 cycle.

6. Mirko Draca, *Institutional Corruption? The Revolving Door in American and British Politics*, SMF-CAGE Global Perspectives Series (London: Social Market Foundation and CAGE, University of Warwick, October 2014). On lobbying and contract spending, see Christian Cox, “Lobbying for Government Appropriations,” *RAND Journal of Economics* 54, no. 3 (2023): 443–483, which estimates that lobbying raises federal contract spending by approximately \$8.8 billion (3.2 percent) per year; on defense contractor political activity and the defense budget, see Micky Tripathi, “PAC Contributions and Defense Contracting,” *Business and Politics* 2, no. 1 (2000): 53–73. See also Thomas Ferguson, Paul Jorgensen, and Jie Chen, “How Money Drives U.S. Congressional Elections,” Institute for New Economic Thinking Working Paper No. 48 (August 2016).

7. U.S. Government Accountability Office, *Post-Government Employment Restrictions: DOD Could Further Enhance Its Compliance Efforts Related to Former Employees Working for Defense Contractors*, GAO-21-104311 (Washington: GAO, September 2021). GAO found that the fourteen major contractors it reviewed employed, as of 2019, 1,718 former DOD senior or acquisition officials who had separated from the Department between 2014 and 2019.

8. Eric Lipton and Brooke Williams, “How Think Tanks Amplify Corporate America’s Influence,” *New York Times*, August 7, 2016. The investigation documented systematic non-disclosure of defense and corporate funding by think tank researchers who testified before Congress and appeared as independent analysts in media.

9. Andrew Cockburn, *Kill Chain: The Rise of the High-Tech Assassins* (New York: Henry Holt, 2015). See also Nick Turse, *The Complex: How the Military Invades Our Everyday Lives* (New York: Metropolitan Books, 2008). Multiple former senior officials on the Iraq WMD assessments have described the procurement-driven threat assessment process; see also Senate Select Committee on Intelligence, *Report on the U.S. Intelligence Community’s Prewar Intelligence Assessments on Iraq* (July 2004).

10. Stockholm International Peace Research Institute (SIPRI), *Trends in World Military Expenditure, 2025* (Stockholm: SIPRI Fact Sheet, April 2026). Global military expenditure reached \$2.887 trillion in 2025, the eleventh consecutive year of real-terms increase; U.S. expenditure was \$954 billion. For the SIPRI Top 100 arms revenues figure, see SIPRI, *The SIPRI Top 100 Arms-producing and Military Services Companies, 2024* (December 2025), reporting combined arms revenues of \$679 billion.

11. Organisation for Economic Co-operation and Development (OECD), *Development Aid at a Glance: Statistics by Region* (Paris: OECD, 2024). Total official development assistance from DAC members reached approximately \$200 billion in 2022.

- 12.** United Nations, *Approved Resources for Peacekeeping Operations for the Period from 1 July 2025 to 30 June 2026* (New York: UN, 2025). The approved UN peacekeeping budget for 2025–2026 was approximately \$5.38 billion, down from \$5.59 billion in 2024–2025.
- 13.** UN Peacebuilding Support Office, *Peacebuilding Fund Annual Report* (New York: UN, 2023). Annual voluntary contributions to the PBF have ranged from approximately \$100 to \$200 million per year. The UN General Assembly in December 2023 established a new Peacebuilding Account with \$50 million in assessed contributions beginning 2025, representing a significant increase from historical voluntary contribution levels.
- 14.** Ottoman demographic data are drawn from Benny Morris, *The Birth of the Palestinian Refugee Problem Revisited* (Cambridge: Cambridge University Press, 2004), 11–13. Morris cites Ottoman census figures and British Mandate surveys establishing the pre-immigration demographic baseline.
- 15.** The Balfour Declaration, November 2, 1917, reproduced in Walter Laqueur and Barry Rubin, eds., *The Israel-Arab Reader: A Documentary History of the Middle East Conflict*, 8th ed. (New York: Penguin, 2016), 16–17.
- 16.** United Nations General Assembly Resolution 181 (II), Future Government of Palestine, November 29, 1947. The resolution passed 33 to 13 with 10 abstentions.
- 17.** Morris, *The Birth of the Palestinian Refugee Problem Revisited*, 588–589. Morris’s archival research in Israeli military records established 700,000 as the displacement figure, consistent with UNRWA’s original registration data. For the 400 village figure, see Walid Khalidi, ed., *All That Remains: The Palestinian Villages Occupied and Depopulated by Israel in 1948* (Washington: Institute for Palestine Studies, 1992).
- 18.** United Nations Security Council Resolution 242, S/RES/242, November 22, 1967.
- 19.** International Committee of the Red Cross, *Commentary on the Fourth Geneva Convention* (Geneva: ICRC, 1958), Article 49. The ICRC’s authoritative commentary establishes that Article 49(6) prohibits all civilian transfers into occupied territory regardless of the stated motivation.
- 20.** United Nations Security Council Resolution 446, S/RES/446, March 22, 1979; Resolution 465, S/RES/465, March 1, 1980; Resolution 2334, S/RES/2334, December 23, 2016 (adopted 14–0, United States abstaining).
- 21.** International Court of Justice, *Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory*, Advisory Opinion, ICJ Reports 2004, 136.
- 22.** International Court of Justice, *Legal Consequences Arising from the Policies and Practices of Israel in the Occupied Palestinian Territory, Including East Jerusalem*, Advisory Opinion, July 19, 2024 (General List No. 186). By 11 votes to 4, the Court held that Israel’s continued presence in the Occupied Palestinian Territory is unlawful under international law.

- 23.** B'Tselem: The Israeli Information Center for Human Rights in the Occupied Territories, *Settlement Statistics* (Jerusalem: B'Tselem, 2026); Peace Now, *Settlement Watch* (Tel Aviv: Peace Now, 2026). Both organizations track settler population using Israeli Central Bureau of Statistics data.
- 24.** Smotrich made the remark in a speech in Paris on March 19, 2023; see “Israeli Minister Says There’s ‘No Such Thing as a Palestinian People,’ Inviting US Rebuke,” CNN, March 21, 2023. On Ben-Gvir’s convictions and his call to expel Arab citizens he deems disloyal, see “Who Is Israel’s Far-Right, Pro-Settler Security Minister Ben-Gvir?,” *Al Jazeera*, August 27, 2023.
- 25.** Tim LaHaye and Jerry B. Jenkins, *Left Behind* series (Wheaton: Tyndale House, 1995–2007). Publisher figures cite over 80 million copies sold across the 16-novel series; see also Stephen Spector, *Evangelicals and Israel: The Story of American Christian Zionism* (New York: Oxford University Press, 2009), 14–18.
- 26.** Christians United for Israel, About CUFI, cufi.org, accessed March 2026. CUFI’s self-reported membership figure of 10 million is its own claim and has not been independently verified by academic researchers; it is cited here as such. For an academic assessment of CUFI’s political influence, see Spector, *Evangelicals and Israel*, 119–145.
- 27.** Serhii Plokhy, *The Gates of Europe: A History of Ukraine* (New York: Basic Books, 2015), 1–28. Plokhy provides the most rigorous English-language account of Kievan Rus and its successor states.
- 28.** Andrea Graziosi, *The Great Soviet Peasant War: Bolsheviks and Peasants, 1917–1933* (Cambridge, MA: Harvard Ukrainian Research Institute, 1996); Anne Applebaum, *Red Famine: Stalin’s War on Ukraine* (New York: Doubleday, 2017), 335–340. Scholarly death estimates range from 3.5 to 7.5 million; the range reflects genuine methodological disagreement about how to count excess mortality under conditions of deliberate information suppression.
- 29.** Robert Conquest, *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (New York: Oxford University Press, 1986). Conquest’s work, completed without access to Soviet archives, was subsequently confirmed and extended by scholars with post-Soviet archival access, including Applebaum and Graziosi.
- 30.** Ukrainian Central Election Commission, Results of the All-Ukrainian Referendum of December 1, 1991. Official results: 90.32 percent in favor of independence; turnout 84.18 percent. Majorities in favor of independence were recorded in all oblasts including Crimea (54.19 percent) and Donetsk (83.9 percent).
- 31.** Budapest Memorandum on Security Assurances, December 5, 1994, reprinted in *SIPRI Yearbook 1995* (Oxford: Oxford University Press, 1995), Appendix 14A. The memorandum was signed by Ukraine, the Russian Federation, the United States, and the United Kingdom. Separate assurances were subsequently provided by France and China.

32. North Atlantic Treaty Organization, “Bucharest Summit Declaration,” press release, April 3, 2008, para. 23.

33. Olga Allenova, Elena Geda, and Vladimir Novikov, “Blok NATO razoshelsya na blokpakety” [The NATO bloc split into blocking stakes], *Kommersant*, April 7, 2008, reporting the remark on the authority of an unnamed NATO delegation source; the Kremlin declined to confirm it. See also Condoleezza Rice, *No Higher Honor: A Memoir of My Years in Washington* (New York: Crown, 2011).

34. Vladimir Putin, “Address by the President of the Russian Federation,” Kremlin.ru, February 24, 2022.

35. Joseph E. Stiglitz, “Wars Aren’t Won with Peacetime Economies,” *Project Syndicate*, October 17, 2022.

36. Gérard Prunier, *The Rwanda Crisis: History of a Genocide* (New York: Columbia University Press, 1995), 5–40. The institutionalization of ethnic identity cards beginning in 1933 under Belgian colonial administration is documented in Belgian colonial records and analyzed extensively in the post-genocide literature.

37. Peace Agreement between the Government of the Republic of Rwanda and the Rwandese Patriotic Front (Arusha Accords), August 4, 1993. The Accords established a power-sharing transitional government framework, ceasefire, and refugee repatriation process, and were widely regarded as a model for peace negotiations before their implementation was overtaken by the genocide.

38. Alison Des Forges, *Leave None to Tell the Story: Genocide in Rwanda* (New York: Human Rights Watch, 1999), 111–112, 133–140. Des Forges documents the machete imports and the RTLM’s role in directing killers. The 500,000 machete figure appears in multiple NGO and UN reports from the period; see also Philip Gourevitch, *We Wish to Inform You That Tomorrow We Will Be Killed with Our Families* (New York: Farrar, Straus and Giroux, 1998).

39. Roméo Dallaire, *Shake Hands with the Devil: The Failure of Humanity in Rwanda* (Toronto: Random House Canada, 2003), 142–148. The full text of the genocide fax (UNAMIR cable to DPKO, January 11, 1994) was declassified and is reproduced in Dallaire’s memoir and available in the UN archives.

40. The scholarly consensus on death toll is 500,000 to 800,000; see Des Forges, *Leave None to Tell the Story*, 15–16. The figure of approximately 800,000 is used by UNHCR and many UN agencies; 500,000 is the lower-bound scholarly estimate. The genocide lasted one hundred days, from April 6 to mid-July 1994.

41. State Department Briefing Transcript, June 10, 1994, National Security Archive, George Washington University. Deputy Spokesperson Christine Shelley used the phrase “acts of genocide may have occurred” when pressed to characterize the killings. Samantha Power’s

analysis of this episode remains definitive: Samantha Power, *“A Problem from Hell”: America and the Age of Genocide* (New York: Basic Books, 2002), 329–389.

42. Vincent Duclert et al., *La France, le Rwanda et le génocide des Tutsi (1990–1994): Rapport remis au Président de la République le 26 mars 2021* (Paris: Armand Colin, 2021). The commission’s conclusion speaks of “un ensemble de responsabilités lourdes et accablantes.”

43. William J. Clinton, Remarks to Genocide Survivors, Assistance Workers, and U.S. and Rwandan Government Officials, Kigali, Rwanda, March 25, 1998. The full text of the apology is available in the *Public Papers of the Presidents of the United States, William J. Clinton, 1998, Book I* (Washington: Government Printing Office, 1999), 431–434.

44. Joseph E. Stiglitz and Linda J. Bilmes, *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* (New York: W.W. Norton, 2008). The Bush administration’s 2003 projections ranged from \$50 to \$60 billion; Stiglitz and Bilmes calculated the true cost (including veterans’ healthcare, macroeconomic distortions, and regional destabilization) at \$3 trillion in their central published estimate, with scenario estimates ranging from \$2.2 trillion to \$5 trillion.

45. Joseph E. Stiglitz and Linda J. Bilmes, “The True Cost of the Iraq War: \$3 Trillion and Beyond,” *Washington Post*, September 5, 2010. The authors revised their estimate upward, identifying opportunity costs (foregone investments in education, infrastructure, and technology) as the most consequential underestimated category.

46. Institute for Economics and Peace, *Global Peace Index 2023* (Sydney: IEP, 2023), 2–4. The IEP estimates the total economic impact of violence at \$17.5 trillion in 2022, equivalent to 12.9 percent of global GDP; the 2026 edition reports \$21.81 trillion for 2025 in purchasing-power-parity terms, equivalent to 10.5 percent of global GDP (*Global Peace Index 2026*, Sydney: IEP, June 2026). The same edition finds that peacebuilding receives approximately 0.5 percent of global military expenditure, independently corroborating the \$10–15 billion global peace-spending estimate used in Section VI.

47. Collier et al., *Breaking the Conflict Trap*, 13–17. The World Bank research team estimated that the average civil war imposes costs of approximately \$64 billion on the affected country, a figure that does not include regional spillover costs or global externalities.

48. John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

49. Uppsala Conflict Data Program, UCDP/PRIO Armed Conflict Dataset, Version 23.1 (Uppsala University, 2023). UCDP data consistently show that more than 90 percent of active armed conflicts in any given year since 1990 are intrastate or internationalized intrastate conflicts rather than interstate wars between sovereign states.

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- Acemoglu, Daron, and Simon Johnson. *Power and Progress: Our Thousand-Year Struggle Over Technology and Prosperity*. New York: PublicAffairs, 2023. [Extends the institutional argument to technology and industrial policy, directly applicable to the PDM's reframing of the weapons industry as a misallocated industrial sector]
- Akerlof, George A. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* 84, no. 3 (1970): 488–500. [The original adverse-selection result invoked in Section 5.1]
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The Peace Economy Institute is a research, policy, and advocacy organization founded on a single organizing conviction: that peace is not only the absence of war but the presence of a structural arrangement in which human flourishing is more financially, politically, and institutionally rewarding than conflict. The Institute advances this conviction through rigorous economic analysis, policy design, historical scholarship, and public engagement.

The Institute's work spans four interconnected domains. In economics, it develops and refines the theoretical framework for understanding armed conflict as an unpriced externality, and designs market mechanisms to correct that failure. In policy, it translates that framework into implementable institutional architectures, from the Peace Dividend Mandate to the certification and governance systems necessary to sustain it. In history and international relations, it examines the documented record of conflicts driven by ideology, territorial ambition, and religious mandate, engaging directly with cases that test the framework's limits and strengthening it in response. In moral philosophy and humanist advocacy, it connects the structural argument for peace to the deeper claim that a world organized around human flourishing is not only more just but more economically productive than the one we currently inhabit. The war economy is the first domain to which the Institute has applied this framework, not its boundary. Companion working papers extending the same externality analysis to the carceral economy and to the campaign economy are in development.

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The Peace Economy Institute was founded by Christopher Louis. It welcomes collaboration from economists, legal scholars, conflict-resolution practitioners, military professionals, faith leaders, policymakers, and all who share the conviction that one of the world's most consequential market failures is among its most correctable.

About the Author

Christopher Louis is the founder of the Peace Economy Institute. A veteran of the United States Marine Corps and the United States Navy, he retired from the Navy in 2015. He holds a Certificate in Biblical Studies and is an MBA candidate at Southern New Hampshire University. He writes on the economics of war and peace, institutional design, moral philosophy, and religion, and is the author of *Love Is the Highest Power: The Fall of Awe, the Rule of Fear, and the Return of Love*, a work of interfaith reflection. His policy work addresses the structural conditions of armed conflict, the financial architecture of the war economy, and the institutional design of durable peace. The Peace Economy Institute advances the argument that peace is the most profitable condition human civilization can produce, and builds the economic, legal, and cultural architecture to make that argument operational.

A Note on This Work

This working paper is the founding publication of the Peace Economy Institute. It is released as an open working document, available for citation, critique, and academic engagement. The Institute welcomes collaboration from researchers, policy professionals, economists, legal scholars, conflict practitioners, civil society organizations, and members of the public. The ideas here are offered not as final conclusions but as the beginning of a sustained intellectual project.

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Appendix A. A Formal Model of Externality Correction under Producer Lobbying

Formal addendum to the working paper “The Peace Dividend Mandate”

Christopher Louis · Peace Economy Institute

September 2026

Abstract

This note supplies the formal core underlying the three theoretical extensions of the working paper “The Peace Dividend Mandate.” A single model of a defense contractor, a procuring government, and an accountable electorate yields, as connected results rather than separate assertions: the failure of linear Pigouvian correction against an amplified externality (§A.2); the necessity and sufficiency of a convex, conflict-indexed burden (§§A.2–A.3); the inversion of the producer’s lobbying incentive under that burden, including in the high-conflict regime where a static instrument inverts back toward war (§A.3); and the structural role of cost pass-through in correcting a second, nested information asymmetry (§A.4). The active-conflict ratio is derived as a calibrated Pigouvian rate rather than chosen for rhetorical force (§A.5). The amplification assumption on which §§A.2–A.3 rest is examined and weakened against the empirical record in §A.6; the scope conditions of §A.7 mark precisely where each result depends on empirical magnitudes not yet established; and §A.8 records how the pass-through result is carried in Section V of the working paper. The propositions are offered for formal scrutiny and refutation; they are claims about structure, and structure is the only thing that can be proven in advance of implementation.

A.1 Setup and notation

We model the interaction of three parties: a representative defense contractor (the *firm*), the *government* that procures from it, and the *citizens* to whom that government is accountable. Let $H \geq 0$ be a scalar index of the harm-generating activity the firm’s products sustain: jointly the scale and lethality of weapons output and the conflict intensity it underwrites. We call H the *externality level*.

The firm. The firm’s operating margin (revenue net of production cost) from activity at level H is $m(H)$, with $m'(H) > 0$: at the margin, escalation is profitable. We say the externality is in the *amplified regime* on an interval when m is strictly convex there, $m''(H) > 0$: the marginal profitability of harm is itself rising in harm, as when wartime scarcity lifts both volumes and unit margins.

Social harm. The external social cost of activity at level H is $D(H)$, with $D'(H) > 0$. Write $\lambda(H)$ for the *externality multiplier*: the marginal external social cost $D'(H)$ expressed per dollar of the firm's weapons spend at conflict level H . Section A.5 calibrates it from the documented record.

The correction. The Mandate imposes a compliance burden $B(H)$ on the firm. We compare two functional forms:

- a *static* (linear) Pigouvian charge, $B(H) = \tau H$, with constant marginal burden $B'(H) = \tau$;
- the Mandate's *dynamic ratio*, $B(H) = \rho(H)s(H)$, where $s(H)$ is the firm's weapons spend and $\rho(H)$ the conflict-indexed ratio with $\rho'(H) > 0$. Because ρ rises with conflict, the marginal burden $B'(H)$ rises with H under the mild curvature conditions stated in Proposition A.2, so that B is convex where a linear charge is not.

Pass-through. A share $\varphi \in [0, 1]$ of the burden is recovered in procurement prices and so borne by the government; the firm retains $m(H) - (1 - \varphi)B(H)$. We treat φ as a structural parameter of the procurement relationship rather than a free choice, and in §A.4 show it is the hinge on which the entire correction turns.

A.2 The amplified externality and the failure of linear correction

Throughout this section the firm bears the burden in full ($\varphi = 0$); pass-through is introduced in §A.3.

Definition A.1. A negative externality is *amplified* on an interval $\mathcal{H}$ if the producer's operating margin is strictly increasing and strictly convex in the externality level there: $m'(H) > 0$ and $m''(H) > 0$ for all $H \in \mathcal{H}$. Equivalently, the producer's marginal profit from harm, $m'(H)$, is itself increasing in harm.

Remark A.1. In the textbook externality the producer profits from *output*, and harm is a fixed byproduct of output; facing a per-unit-harm charge, the producer has every incentive to *reduce* harm intensity. The amplified case is the one in which harm intensity is itself the profitable margin (a more destructive product commands a higher price) so that $\partial(\text{profit})/\partial(\text{harm}) > 0$ directly. The distinction is not a matter of the *magnitude* of a Pigouvian rate but of its *functional form*, as the next two results show. To the author's knowledge this class has not been separately distinguished in the externality literature; the claim of novelty is recorded here as an invitation to identify prior treatment, not as a settled negative.

Proposition A.1 (Linear correction fails under amplification). *Let m be strictly convex on $[0, \bar{H}]$ and let the correction be linear, $B(H) = \tau H$. Then firm profit $\pi(H) = m(H) - \tau H$ is strictly convex, so it attains its maximum at a corner of $[0, \bar{H}]$. The firm selects maximal harm $\bar{H}$ whenever*

$$\frac{m(\bar{H}) - m(0)}{\bar{H}} > \tau.$$

Deterring the firm below $\bar{H}$ therefore requires $\tau \geq (m(\bar{H}) - m(0))/\bar{H}$, a threshold fixed by the average return to harm over the entire admissible range, not by local marginal damage. As $\bar{H}$ grows, the required rate rises without bound whenever m' does.

Proof. Since $\pi''(H) = m''(H) > 0$, π is strictly convex and its maximum over the compact interval $[0, \bar{H}]$ is attained at an endpoint. Comparing endpoints, $\pi(\bar{H}) \geq \pi(0)$ iff $m(\bar{H}) - \tau\bar{H} \geq m(0)$, i.e. iff $(m(\bar{H}) - m(0))/\bar{H} \geq \tau$. The deterrence threshold and its divergence in $\bar{H}$ follow at once. $\square$

The standard Pigouvian prescription (set the rate equal to marginal damage) presupposes a concave private objective with an interior optimum, and neither survives amplification. A linear instrument either fails to bind, leaving the firm at the ceiling, or must be pitched at the average return across the whole range, an extreme and range-dependent rate. What is required instead is a correction whose *marginal* burden rises with harm.

Proposition A.2 (Convex correction restores an interior optimum). *Let B be twice differentiable with $B''(H) > m''(H)$ for all $H \in [0, \bar{H}]$. Then $\pi(H) = m(H) - B(H)$ is strictly concave with a unique maximizer $\hat{H}$, interior whenever $m'(0) > B'(0)$ and $m'(\bar{H}) < B'(\bar{H})$, characterized by $m'(\hat{H}) = B'(\hat{H})$, and $\hat{H}$ falls as B is made uniformly steeper. The dynamic ratio $B(H) = \rho(H)s(H)$ generates such convexity whenever $\rho'(H) > 0$, $s'(H) \geq 0$, and ρ and s are weakly convex, with at least one of ρ'' , s' , s'' strictly positive.*

Proof. $\pi'' = m'' - B'' < 0$ gives strict concavity and hence a unique maximizer. The boundary-sign conditions place it in the interior, where the first-order condition reads $m' = B'$. Raising B' pointwise lowers π' pointwise, shifting $\hat{H}$ to the left. Finally $B'' = \rho''s + 2\rho's' + \rho s''$, which is strictly positive under the stated conditions, so B is convex. $\square$

A.3 The lobby inversion principle

So far H has been the firm's own choice. But the level of conflict is also shaped politically, and the firm can spend to move it: through threat inflation, opposition to arms control, and the financing of favorable analysis. We now ask which *direction* of political effort raises the firm's payoff.

Definition A.2. The firm's *lobbying direction* at externality level H is the sign of $d\pi/dH$. A correction mechanism *inverts lobbying* at H if $d\pi/dH < 0$, so that the firm's privately optimal political effort is directed at *reducing* H .

Proposition A.3 (Lobby inversion). *With firm payoff $\pi(H) = m(H) - (1 - \varphi)B(H)$, the firm's lobbying direction is the sign of $m'(H) - (1 - \varphi)B'(H)$, and lobbying inverts at H iff*

$$(1 - \varphi)B'(H) > m'(H).$$

Under the static charge $B'(H) = \tau$, inversion holds only on the set $\{H : m'(H) < (1 - \varphi)\tau\}$. Because m' is increasing in the amplified regime, this set is an interval $[0, H^)$, so inversion fails for all $H > H^*$, that is, in precisely the high-conflict region. Under the dynamic ratio, $B'(H)$ is increasing; if the schedule satisfies $(1 - \varphi)B'(H) > m'(H)$ across the escalation range, lobbying inverts throughout it, including at the highest conflict levels.*

Proof. Differentiating π gives the sign condition directly. In the static case $(1 - \varphi)\tau$ is constant and m' strictly increasing, so $\{m' < (1 - \varphi)\tau\} = [0, H^*)$ with $m'(H^*) = (1 - \varphi)\tau$. In the dynamic case, B' increasing together with the stated inequality yields $d\pi/dH < 0$ pointwise on the range. $\square$

This is the political-economy payoff, and it rhymes with Proposition A.1: the same convexity that defeats a linear *tax* at the production margin defeats a flat *tax* at the lobbying margin, and the same dynamic ratio repairs both. A correction that climbs with conflict is not adopted for emphasis; it is the unique form that keeps the firm's political incentive pointed at peace in the very regime where a static instrument inverts it back toward war.

Remark A.2 (Defensive baseline). One does not want inversion to bite at every H : legitimate defensive provision should remain viable. Let H_d denote the defensive baseline of Section 3.4a of the working paper. The schedule is properly calibrated when $(1 - \phi)B'(H) \leq m'(H)$ for $H \leq H_d$, defense is not penalized at the margin, and $(1 - \phi)B'(H) > m'(H)$ for $H > H_d$: escalation beyond it is. The marginal burden then crosses the marginal margin exactly at the defensive threshold, and the ratio tiers of Section 3.3 of the working paper are a discrete approximation to a schedule whose crossing point is H_d .

A.4 The nested information failure, and why pass-through completes the correction

The pass-through that complicates the inversion of §A.3 is, properly understood, the instrument that closes a second market failure. We make the point precise.

Definition A.3. A *nested information failure* obtains when an externality is sustained by two stacked private-information relationships. At the lower layer the producer holds information the intermediate principal cannot verify: here, the contractor's true costs, capabilities, and the genuine necessity of procurement, the asymmetry documented empirically by Stiglitz and Bilmes.¹ At the upper layer the intermediate principal holds information the ultimate principal cannot verify (here, the government's knowledge of the true cost and conduct of conflict, hidden from citizens). The relationships are *nested* because the intermediate party is the lower relationship's principal and the upper relationship's agent.

Let $g(H)$ denote the government's own payoff from conflict capacity (security, deterrence, and the domestic political returns to a credible posture) and suppose it is independently increasing in the relevant range, $g'(H) > 0$.

Proposition A.4 (Single-layer corrections are insufficient). *Let the externality be supported by a nested failure with $g'(H) > 0$. A correction acting only at the lower layer (reforming the procurement contract so the firm internalizes $B(H)$) leaves the upper-layer asymmetry intact: the government's choice over H still solves $\max_H g(H) - (\text{procurement cost})$, with the social cost still unobserved by citizens, so the externality persists through the uncorrected layer. Symmetrically, a transparency reform at the upper layer that does not price harm at the lower layer leaves the contractor's incentives unchanged. Restoring constraint requires action at both layers at once.*

Proof. A lower-layer reform alters the firm's payoff but neither the government's objective nor the citizens' information set: the government still chooses H to maximize $g(H)$ net of procurement

¹Joseph E. Stiglitz and Linda J. Bilmes, *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* (New York: W.W. Norton, 2008).

cost under unchanged upper-layer observability, so its optimum in H —and the externality it sustains—survives the reform. Conversely, upper-layer transparency without lower-layer pricing leaves the firm’s first-order condition in H unchanged. No single-layer instrument therefore removes the distortion; the corollary that follows shows how a lower-layer burden, passed through, reaches both layers at once. $\square$

Corollary A.5 (Pass-through is the upper-layer instrument). *Suppose the lower-layer burden $B(H)$ is passed through to procurement prices at share ϕ . Then ϕ governs both the locus of lobby inversion and the strength of the upper-layer correction.*

(i) Locus of inversion. *As $\phi \rightarrow 0$ the firm bears the burden and inverts when $B'(H) > m'(H)$ (Proposition A.3). As $\phi \rightarrow 1$ the burden ceases to bear on the firm at all: its retained payoff no longer depends on B , its lobbying direction reverts to the uncorrected sign of $m'(H)$, and the bite transfers to the government, whose payoff $g(H) - \phi B(H)$ inverts when $\phi B'(H) > g'(H)$. For intermediate ϕ both margins are partially corrected.*

(ii) Closure of the upper layer. *The same pass-through writes the priced social cost into the public budget as an entry increasing in H , rendering at the citizen layer the war cost previously hidden: exactly the observability the upper-layer asymmetry lacked.*

Hence the pass-through that weakens firm-level inversion is the very instrument that closes the second information layer.

Proof. The inversion conditions in (i) are Proposition A.3 applied to the firm’s retained payoff $m - (1 - \phi)B$ and to the government’s payoff $g - \phi B$, respectively; as $\phi \rightarrow 1$ the firm’s condition $(1 - \phi)B' > m'$ fails for every H (the left side vanishes while $m' > 0$), so the correction no longer bears on the firm at the lobbying margin, and the government’s condition reduces to $B' > g'$. For (ii), the procurement price rises by $\phi B(H)$, a public-account entry increasing in H ; observability at the citizen layer is restored to the extent $\phi > 0$. $\square$

The apparent tension—that pass-through dissolves the firm’s incentive to lobby for peace—is the model reporting that the correction is *dual-layer*. At low ϕ the mechanism acts on the contractor; at high ϕ it acts on the government and simultaneously makes the cost of conflict legible to the electorate, while the firm’s residual interest in conflict, no longer offset by a retained burden, is the object of the anti-gaming provisions of Section 3.4 of the working paper and of the pivot logic of its Section V. There is no value of ϕ at which the externality is left uncorrected; there is only a continuum along which the corrected party, and the channel of correction, shift from firm to electorate. The consequences for the working paper’s Section V are taken up in §A.8.

A.5 Calibration: the active-conflict ratio as a Pigouvian rate

The Pigouvian benchmark sets the marginal burden equal to the marginal external cost. Per dollar of the firm’s weapons spend, that marginal external cost is the externality multiplier $\lambda(H)$. Setting the ratio equal to it, $\rho(H) = \lambda(H)$, makes the dynamic burden $B(H) = \lambda(H)s(H)$ a Pigouvian correction in ratio form.

The active-conflict value follows from the documented record rather than from choice. World military expenditure reached \$2.89 trillion in 2025, an eleventh consecutive annual rise, while the Institute for Economics and Peace puts the total economic impact of violence in the same year at a record \$21.8 trillion, a gross ratio above seven to one.² Two measurement cautions keep the calibration conservative: the IEP total is purchasing-power adjusted where the expenditure figure is not, and it counts military and security spending itself among its components, so the external cost per dollar of spend (the object λ measures) lies below the gross ratio. The working paper accordingly documents the defensible range at five to seven to one, and the schedule takes the conditional multiplier in active major conflict at the lower bound of that range: $\rho \approx 5$, the 5:1 tier. The figure is therefore not selected for force; it is the conservative end of the documented external-cost ratio, applied as a rate.

Because the multiplier is conditional on conflict intensity (harm per dollar is higher in active war than in stable peace) $\lambda(H)$, and with it $\rho(H)$, rises with H . The tier schedule of Section 3.3 of the working paper (from 0.5:1 at verified long-term peace through 5:1 at active major conflict) is then a step approximation to the continuous Pigouvian schedule $\rho(H) = \lambda(H)$.

Combining $\rho = \lambda$ with the inversion requirement of Proposition A.3 gives the design's empirical content. The schedule supports inversion on the escalation range iff

$$(1 - \varphi) [\lambda'(H)s(H) + \lambda(H)s'(H)] > m'(H), \quad H > H_d.$$

In words: the conditional multiplier and weapons spend must grow, with conflict, at least as fast as the firm's marginal margin. The inequality is testable, and §A.7 records it as a scope condition rather than an assumption.

A.6 On the amplification assumption

Everything in §§A.2–A.3 rests on the externality being amplified: on the producer's marginal return to conflict rising with conflict. This is the binding empirical claim of the framework and the point at which informed objection will concentrate, the more so because the diagnosis of the war economy as a market failure descends from Stiglitz's own work. We state what the assumption requires, weaken it to a condition the evidence supports, and show that where even the weaker condition is in doubt the mechanism survives through a different channel.

The evidence bears on the assumption in three layers, and they do not all point the same way. *Demand and revenue rise sharply and unambiguously.* In 2024 the combined arms revenue of the hundred largest producers reached a record \$679 billion, a rise the Stockholm International Peace Research Institute attributes directly to the wars in Ukraine and Gaza and to elevated geopolitical tension; the response is steepest for firms closest to active conflict, with one Central European shell producer recording a single-year revenue increase of 193 percent and European and Ukrainian

²Stockholm International Peace Research Institute, *Trends in World Military Expenditure, 2025*, SIPRI Fact Sheet (Stockholm: SIPRI, April 2026); Institute for Economics and Peace, *Global Peace Index 2026* (Sydney: IEP, June 2026), reporting \$21.81 trillion in purchasing-power-parity terms, equivalent to 10.5 percent of global GDP.

producers as a group posting increases of 13 and 41 percent, respectively.³ *Asset markets price conflict as raising expected profit.* The cleaner causal signal is the equity response to escalation, a share price being the market's estimate of discounted future profit: an event study of 370 defense and aerospace firms in seventeen countries finds positive abnormal returns for most of them in the days around the February 2022 invasion, strongest among larger firms and firms based in NATO member states;⁴ over the three years that followed, the STOXX Europe Aerospace and Defence index rose by roughly 170 percent, and the most conflict-exposed European producer, Rheinmetall, rose roughly tenfold.⁵ That the repricing strengthens with the severity and proximity of conflict is consistent with a marginal return that rises, rather than merely stays positive, as conflict intensifies, though equity returns alone do not establish it. *Realized margins are the complication.* The structure of procurement works against a convex margin: a large share of major contracting is cost-plus, under which the government reimburses allowable cost and pays a fee that federal acquisition regulation caps at 10 percent of estimated cost for most work and 15 percent for research and development, so per-contract margins are deliberately constrained and do not balloon with demand.⁶ Industry margins have nonetheless drifted upward over two decades (the Department of Defense's own contract finance study records a move from roughly 7–9 percent in 2000–2009 to 11–13 percent in the following decade) and prime contractors are found to out-earn comparable commercial firms on assets employed,⁷ while fixed-price and surge work carries uncapped upside and, as recent multi-billion-dollar write-downs show, uncapped downside.⁸ The honest reading is that the firm's marginal return to conflict operates mainly through volume and mix rather than through an escalating fee on the regulated core.

The strong claim—that the marginal private return to conflict is positive—is therefore well supported. The strict claim of §A.2—that the margin is globally convex—is not established, and is in tension with the cost-plus cap. The framework should not rest on it, and need not.

Definition A.4. Let H_d be the defensive baseline and $[H_d, \bar{H}]$ the escalation range. The externality

³Stockholm International Peace Research Institute, *The SIPRI Top 100 Arms-Producing and Military Services Companies, 2024*, SIPRI Fact Sheet (Stockholm: SIPRI, December 2025). The shell producer is Czechoslovak Group (Czech Republic), whose arms revenue rose 193 percent to \$3.6 billion; arms revenues of European companies outside Russia rose 13 percent to \$151 billion, and those of Ukrainian companies 41 percent to \$3 billion.

⁴ATM Adnan, Md Tapan Mahmud, and Abdullah Al Mamun, “The Impact of Geopolitical Crisis on Defense and Aerospace Stock Performance: Evidence from the Russia–Ukraine War,” *Accounting Research Journal* 39, no. 1 (2026): 122–145.

⁵Reuters, “Analysis: ‘Beyond Fundamentals’: Is Europe’s Arms Race Priced In?,” March 4, 2025 (STOXX Europe Aerospace and Defence index up approximately 170 percent since the invasion); dpa, “Germany’s Rheinmetall Sees Share Price Up Tenfold Since Ukraine War,” February 26, 2025 (Rheinmetall at €968 against €96.8 on February 23, 2022).

⁶Federal Acquisition Regulation 15.404-4(c)(4)(i), implementing 10 U.S.C. § 3322(b) and 41 U.S.C. § 3905(b): under cost-plus-fixed-fee contracts the fee may not exceed 10 percent of estimated cost, or 15 percent for experimental, developmental, or research work.

⁷Department of Defense, Office of Defense Pricing and Contracting, *Defense Contract Finance Study* (Washington: DOD, April 2023), drawing on research by the University of Virginia’s Darden School of Business: defense companies “increased their operating margins from between 7 percent and 9 percent in the 2000–2009 timeframe to between 11 percent and 13 percent in the decade that followed,” and “returns on assets in defense exceed those of the commercial analogs.”

⁸For example, Lockheed Martin recorded \$1.6 billion of program losses in the second quarter of 2025, principally on a classified fixed-price aeronautics program: Lockheed Martin Corporation, “Lockheed Martin Reports Second Quarter 2025 Financial Results,” news release, July 22, 2025.

exhibits *regime amplification* if the firm's marginal return is increasing on the escalation range, $m''(H) > 0$ for $H \in [H_d, \bar{H}]$, with no restriction on m below H_d .

Regime amplification is strictly weaker than the global convexity assumed in §A.2. It permits the marginal margin to be flat or even declining on the defensive and cost-plus core $[0, H_d]$, the behavior the procurement evidence suggests, and asks for acceleration only where it is plausible: in active major conflict, where surge procurement, emergency supplementals, and a shift toward uncapped work raise volume and mix, and so realized profit, faster than proportionally. It is a claim about the slope of profit in the escalation regime, not about the regulated baseline.

Proposition A.6. *Under regime amplification the operational results survive on the escalation range. The static-correction failure of Proposition A.3 obtains for $H > H_d$: a flat charge feasible at the defensive baseline is overtaken by the rising marginal return on $[H_d, \bar{H}]$, so firm lobbying turns back toward conflict in the high-conflict regime. A dynamic ratio with B' increasing and $(1 - \varphi)B'(H) > m'(H)$ on $[H_d, \bar{H}]$ restores inversion throughout that range. Neither conclusion constrains m on $[0, H_d]$.*

Proof. The argument of Proposition A.3 is local to the range on which m' is increasing and is independent of the behavior of m elsewhere; restricting attention to $[H_d, \bar{H}]$ and applying it there gives both claims. □

The case for the dynamic form thus rests on acceleration in the escalation regime alone, which the evidence renders plausible, rather than on convexity everywhere, which it does not.

Suppose even this is doubted, and the cost-plus structure flattens realized profit so thoroughly that the firm's marginal return is near-constant in active conflict. The mechanism does not fail; it relocates. A high cost-plus share is precisely a high pass-through φ : the government bears the cost risk and the marginal burden. By Corollary A.5, as $\varphi \rightarrow 1$ the burden no longer bears on the firm and the correction operates on the procuring government and, through the public budget, on the electorate. The institutional feature that most weakens the firm-margin channel is the same feature that drives the system into the regime where the pass-through channel dominates. The framework is robust across the empirical uncertainty rather than hostage to it: where firm profit is amplified, the lobby-inversion arm of §A.3 operates; where cost-plus insulates it, the budget-legibility arm of §A.4 does. There is no configuration of the margin in which the externality is left uncorrected.

The decisive test is neither revenue nor equity return but realized profit. An estimate of the defense sector's operating profit as a function of conflict intensity, with the cost-plus and fixed-price mix modeled explicitly, would establish whether $m'' > 0$ holds on the escalation range; revenue overstates the response because of the fee cap, and equity returns conflate expected profit with shifting risk premia. Until then, regime amplification is properly carried as a maintained hypothesis—supported, not proven—and the robustness result above is what licenses building on the framework in the meantime.

A.7 Scope conditions and failure modes

Each result above holds under stated conditions; the mechanism is “foolproof” only in the sense that its failure conditions are explicit and bounded. We list them as such.

- **Amplification.** The dynamic-ratio results assume the externality is amplified. Section A.6 weakens this from global convexity to *regime amplification* (acceleration on the escalation range alone), reviews the mixed empirical record, and shows the mechanism is robust even where the weaker condition fails, through the pass-through channel of Corollary A.5. The case rests on the weaker condition, not the strict one.
- **Incidence.** Inversion requires the burden to fall on an actor with a stake in the outcome: $(1 - \varphi) > 0$ for firm inversion, $\varphi > 0$ for government inversion. If pass-through lands on a party that neither internalizes nor is accountable for H (undifferentiated future taxpayers with no present voice, for instance) neither margin inverts. The mechanism is only as strong as the accountability of whoever bears φB .
- **Marginal versus average multiplier.** The calibration $\rho = \lambda$ treats the documented cost ratio as marginal and causal. If the observed ratio is an average, or partly reflects reverse causation, the implied rate is mis-set and the schedule should be re-derived from a marginal estimate.
- **Salience of legibility.** The upper-layer arm of Corollary A.5 assumes that budget entries translate into democratic constraint. If voters do not respond to the now-visible cost, the second layer is priced but not corrected.
- **Jurisdictional completeness.** The model assumes B attaches to the relevant production. Reincorporation or jurisdictional flight (Section 3.4b of the working paper) voids it; market-access conditionality is the assumed closure, and absent it the burden is escapable.
- **Capture is a separate margin.** Inversion redirects lobbying aimed at the *conflict environment*; it does not address lobbying aimed at weakening the certification authority *itself*. That is the distinct task of the anti-capture architecture (Section 3.2 of the working paper), for which the model is no substitute.

A.8 Correspondence with Section V of the working paper

A natural reading of the lobby-inversion result is that the firm bears the burden and is thereby driven to lobby for peace. Corollary A.5 shows that this reading cannot survive the pass-through the paper itself specifies: at high φ the burden no longer bears on the firm, and the corrected actor is the procuring government, through the public budget. Section V of the working paper (“The Economic Logic: Why Compliance Becomes the Path of Least Resistance”) stands on ground the model ratifies, and the correspondence is worth recording precisely.

The paper’s Section 3.1 states the pass-through openly, and in the model’s terms: the obligation is recovered through procurement pricing, the cost of conflict becomes legible in public budgets, and accountability locates with the elected governments that procure. That is Corollary A.5(ii) in prose. The paper’s Section IV describes the Mandate as a dual-layer correction, addressing I_1 by contractor internalization and I_2 through the very pass-through that critics read as a weakness; that is Proposition A.4 and Corollary A.5 exactly, and the model supplies the formal warrant for the paper’s claim that the apparent bug is the second correction. And Section V’s compliance-to-pivot

logic, in which the contractor enters the peace-infrastructure market it is already funding, operates at every value of φ : the market the Mandate creates exists whether or not the firm bears the burden, so the pivot incentive is robust to the incidence question in a way a burden-based lobbying claim alone is not.

One implication of the model deserves emphasis alongside the paper's argument. At high pass-through the firm is indifferent to the *burden*—it suffers no concentrated loss from the Mandate and so has no concentrated interest in fighting the Mandate itself—even though its underlying return to conflict, $m'(H) > 0$, is untouched. Indifference to the instrument is easier to engineer than opposition to conflict and harder to organize against; the residual demand for conflict is then repriced at its democratic source, and the firm's own stake in conflict is the object of the production ceilings and anti-gaming provisions of Section 3.4. Where the paper argues political durability, the low-pass-through case is governed by the lobby-inversion result of §A.3, and the high-pass-through case, which the procurement evidence of §A.6 suggests is typical, by Corollary A.5; the two should be cited together.