

Chapter 2: Toward a solution: markets and outcomes

War is a racket. It always has been. It is possibly the oldest, easily the most profitable, surely the most vicious. A racket is best described, I believe, as something that is not what it seems to the majority of the people. Only a small "inside" group knows what it is about. It is conducted for the benefit of the very few, at the expense of the very many. Out of war a few people make huge fortunes.¹ Major General Smedley Butler, *War is a Racket*, 1935.

The previous chapter touched on some of the difficulties of identifying causal relationships between conflict and its possible precursors and looked at some of the real-world institutional rigidities that bedevil the prevention and ending of conflict. All these difficulties point to the need for a rational, flexible and adaptive mechanism for allocating conflict-reduction resources. This chapter makes the case for channelling market forces into efforts aimed at achieving sustained world peace.

Markets

The resources for all conflict-reduction activities are limited and, in economic theory, and on all the historical evidence, markets are the most efficient means yet discovered of allocating society's scarce resources. Unfortunately, many believe that market forces inevitably conflict with social goals. Understandably so, since in recent decades deregulation of some economies and an enhanced role for markets have led to staggering and disturbing levels of inequality of income and wealth, while many social and environmental problems appear to have worsened. As well, what ought to be free, competitive markets are often undermined or distorted by powerful bodies, and the terms 'free markets' and 'competition' are invoked to justify activities that have little to do with raising societal well-being.

So it is important to remind ourselves that market forces and self-interest can be channelled into achieving public, as well as private, goals. Often, these private goals coincide with social goals, so that, for instance, the market routinely performs vital tasks such as food distribution and the provision of such indispensables as medicines, baby needs, furniture and other consumer goods. These are exceedingly complex tasks but, left to the multiplicity of agents operating in reasonably competitive markets, they are accomplished in ways that fulfil not only the private goals of the firms and consumers involved but also society's goal of efficient supply of goods and services. This feat results from the combination of the self-interest of large numbers of market players, and their ability to react appropriately to ever-changing circumstances. Some would attribute the triumph of the western market economies over the state-controlled, centrally-planned economies of the Soviet Union and its satellites to the victory of materialist motivations over political ideals. But it is more likely that the market's efficiencies and incentives had won out over central direction; that decentralisation had triumphed over dirigisme.

Governments tend to be centralist in their instincts. In practice, this has meant that market forces are rarely allowed to play a significant role in organising the production and distribution of those goods and services that governments supply. Government agencies also operate in a non-competitive environment, which discourages self-evaluation.ⁱⁱ Since governments in the developed countries now spend on average about 42% of their Gross Domestic Productⁱⁱⁱ these are significant deficiencies. One result is that public services, such as health, education and housing, seem perpetually to be in crisis.

What about world peace? Are government-backed organisations like the United Nations any more efficient in allocating conflict-reduction resources? Unfortunately all these bodies' decisions about conflict reduction are subject to the same deficiencies as those of their contributing governments. They are centralised, unexposed to competition and rarely carry out meaningful self-evaluation. Most of the time governmental conflict-reduction activities are also uncoordinated with those of non-governmental organisations, whose own spending is probably more flexible and efficient.

The tragedy is that market incentives operate all too freely in the market for the weaponry that creates so much horror and misery. We saw in the Introduction that world military expenditure in 2024 reached \$2718 billion. Financial incentives aren't limited to arms merchants: a recent portent is the 'gamification' of war whereby, under a scheme dubbed 'Army of Drones: Bonus', Ukrainian military units can earn points for each Russian soldier killed or piece of equipment destroyed.^{iv} By contrast, extraordinarily few global resources are committed to the prevention, management, or resolution of the world's most prevalent wars, almost all of which take place in poor countries. Nor, in relative terms, is much spent on peacekeeping and post-conflict reconstruction. The annual budget for UN peacekeeping is about \$5.6 billion.^v Preventive diplomacy missions cost only a tiny fraction of this amount: the United Nations Department of Political and Peacebuilding Affairs, which leads the UN's preventive diplomacy and conflict prevention work, operates on an annual budget of approximately \$80 million.^{vi}

Given the huge benefits that sustained world peace would generate: financial as well as humanitarian, it's an indictment of the way things are currently being done that we spend so little, collectively, on trying to eliminate conflict. It speaks to the failure of our current conflict-reduction efforts that we don't think it worthwhile to devote funds to conflict reduction at anything like amounts commensurate with its potential benefits.

The manifold complexity of conflicts, the proliferation of possible root causes, the intricacies involved in conflict reduction: virtually all aspects of conflict cry out for diverse, adaptive solutions of the sort that competitive markets can provide. The key, I believe is to find a way of channelling the market's efficiencies and incentives into bringing about world peace.

Inputs, outputs and outcomes

Always taking peace as our goal, some definitions are required:

Inputs into conflict-reduction activities and organisations would comprise such items as expenditure on conflict prevention, numbers of full-time equivalents of organisations devoted to conflict reduction, or spending on peacekeeping.

Outputs are products or services that are directly attributable to the performance of a conflict-reduction agency. Examples include: the number of patrols carried out by peacekeeping forces; firepower of weapons withdrawn from conflict areas by a decommissioning agency; proportion of time that communications and Information Technology services to a conflict-reduction agency are up and running. Outputs however efficiently supplied, do not necessarily lead to more favourable, or more efficiently supplied, outcomes.

Even if market forces were introduced into the supply of conflict-reduction outputs, there would be a major problem: outputs do not necessarily bring about better outcomes.

Outcomes are desirable sets of circumstances, which are likely to be influenced by both an agent's outputs, and by factors outside agents' control. Targeted conflict-reduction outcomes could include: numbers of people killed by violent political conflict; numbers of refugees from conflict - see discussion in text below. Our world peace goal would include these and other metrics that are meaningful to human populations. The terms 'objectives' and 'goals' are used synonymously in this text to mean outcomes.

Governments have tried to introduce more-market methods into achievement of some of their objectives. But they have been less willing to experiment with the stipulation of outcomes, as against outputs or other simple numerical targets. There have been efforts to link payments and other rewards such as autonomy to outcomes in, for example, the UK,^{vii} Kenya,^{viii} and Indonesia.^{ix} These and other similar efforts have been successful – but limited in scale and application. Part of the difficulty with extending outcome-based incentives is that *the existing conflict-reduction institutions are taken as given*. This drastically limits range of outcomes that can be considered, for two related reasons:

- Existing institutions are unlikely to encourage innovative approaches. This is partly because they have established ways of doing things: innovation has upfront costs: staff would need to be retrained or recruited. And partly because the time scale on which they typically operate makes investment in innovation unattractive.
- Institutional inertia of this kind bedevils innovation in many areas. In so many institutions, be they government bodies, aid organisations, religious organisations, trade unions or universities, self-perpetuation becomes an end in itself – and one that often overrides all others. We shall say more about the need for a new type of institution below.

More charitably, it is fair that bodies should not be penalised if the outcomes they are charged with achieving are not reached because of circumstances that are beyond their control. But that means that these bodies have little incentive to look at these circumstances to try to bring them within their control, nor to manage the risks and so maximise their performance against

those circumstances that cannot be controlled. Most organisations simply are simply not big enough to take on these tasks.

The result is that institutions charged with reducing conflict aren't rewarded according to how successful they are in actually achieving them. Even at the individual level, actual outcomes matter little: nominees for the Nobel Peace Prize included Benito Mussolini in 1945 and Joseph Stalin in 1948, while more recent awards to Henry Kissinger (1973), Yasser Arafat (1994), Aung San Suu Kyi (1991) and Barack Obama (2009) have been, to say the least, controversial.

A new paradigm

Consider those conflict-reduction operations that are currently performed by the United Nations, national governments or other inter-governmental bodies: conflict assessment, conflict mediation, peacekeeping, arms verification, reconciliation, and re-integration of combatants. In some cases their efforts to reduce conflict are by-products of programmes focused on other social problems. But more importantly, such resources as are devoted specifically to conflict reduction are allocated to activities or institutions, rather than any targeted outcome. And, unfortunately, the most important of these bodies are organised along the same lines as the governmental bodies in the developed countries that are charged with social and environmental responsibilities:

- they are centrally run, either by governments, or by intergovernmental agencies,
- they do not explicitly reward the reduction of conflict, and
- they subordinate the achievement of outcomes to existing institutional structures and payment mechanisms.

The many non-governmental organisations, working diligently in conflict reduction and related areas, suffer from similar problems. They are small and, while their own resources might be very well managed and allocated rationally, they do not receive funds in proportion to their success or otherwise in their chosen field of endeavour.

No single solution is going to work. The world's conflicts arise from a multiplicity of causes. What is needed then is a way of preventing or defusing war that is flexible enough to identify and deal with root causes when doing so will be the most practical and efficient way of reducing conflict, but that can also operate even when the supposed causes or aggravating factors are unknowable or intractable. For some conflicts there might be nothing wrong with current methods: all that is needed are more resources. But for other conflicts, totally new approaches and institutions might be necessary and people must be motivated to look for, find and use them. We cannot prejudge whether this conflict or that can best be solved by any particular method. Circumstances are always changing, and no conflict is exactly like any other.

An ideal solution then would encourage a range of diverse and responsive approaches. It would mobilise the interests of the large majority of people in every country of the world who want peace. It would find ways of co-opting or subsidising those people in positions of

authority and power who want to build peace, and at the same time it would bypass, distract, or otherwise undermine those opposed to that goal. It would operate on a large scale, so that variables outside the control of smaller bodies can be brought under control, and so that resources can shift to where they will be most efficient.

Ideally too, it would use market forces: the multiplicity of causes of armed political conflict, and the need for a wide range of diverse, adaptive solutions strongly suggest that market approach could be effective. If market forces could be harnessed into the achievement of a specific, targeted conflict-reduction goals, their pluralism and incentives would work better than current methods at directing scarce resources into their most efficient use. Greater efficiency in terms of conflict-reduction per unit outlay could bring about double benefits: it would be an end in itself, but it could also attract more resources into conflict reduction.

The rest of this book describes a new financial instrument, World Peace Bonds, which are intended to channel the market's incentives and efficiencies into ending for all time what must surely be the world's most urgent and terrible social problem: war.

ⁱ Major General Smedley Butler, *War is a Racket*, Round Table Press Inc., 1935.

https://archive.org/stream/WarIsARacket/WarIsARacket_djvu.txt, sighted 28 July 2025.

ⁱⁱ Stephen Van Evera, *Why states believe foolish ideas: non-self-evaluation by states and societies*, Massachusetts Institute of Technology, Political Science, Department and Security Studies Program, 10 January, 2002.

ⁱⁱⁱ OECD: *Government at a glance*, 2025, https://www.oecd.org/en/publications/2025/06/government-at-a-glance-2025_70e14c6c/full-report/general-government-expenditures_395dfea8.html, sighted 6 July 2025.

^{iv} Paul Adams, *Kill Russian soldiers, win points: Is Ukraine's new drone scheme gamifying war?*, BBC. <https://www.bbc.com/news/articles/c80p9k1r1dlo>, sighted 22 July 2025.

^v Sum is for the year ended 30 June 2025. *United Nations Peacekeeping: How we are funded*, <https://peacekeeping.un.org/en/how-we-are-funded>, sighted 23 July 2025.

^{vi} United Nations DPPA: *Giving peace a chance. 2020-2022 Multi-Year Appeal Mandate*: https://dppa.un.org/sites/default/files/6141_unny_appeal_2021-v28_i.pdf, sighted 20 July 2025

^{vii} Some local area agreements attach reward grants to the achievement of specific, agreed-upon goals—like crime rate reduction or environmental improvements—focused squarely on outcomes. *The Use of Sanctions and Rewards in the Public Sector*, the National Audit Office, September 2008. https://www.nao.org.uk/wp-content/uploads/2008/09/sanctions_rewards_public_sector.pdf, sighted 18 July 2025.

^{viii} Some teachers were rewarded based on their schools' results in government exams, a clear instance of outcomes (student achievement) rather than outputs (teaching hours taught) being rewarded. *Rewarding bureaucrats: Can incentives improve public sector performance?*, IGC Growth Brief, March 2017. <https://www.theigc.org/publications/rewarding-bureaucrats-can-incentives-improve-public-sector-performance>, sighted 18 July 2025.

^{ix} Villages received incentive payments based on performance on specific health indicators—such as increasing prenatal visits and reducing malnutrition. This directly tied rewards to measurable health outcomes rather than simple activity counts. IGC Growth Brief, March 2017. <https://www.theigc.org/publications/rewarding-bureaucrats-can-incentives-improve-public-sector-performance>, sighted 18 July 2025.