

Chapter 5: Potential pitfalls

World Peace Bonds would represent a radical change in the way in which our society does things. At first sight, a bond regime may even seem outlandish: it would allow governments or private sector bodies to contract out the achievement of a goal that has always been the responsibility to national governments and supranational bodies, especially the United Nations. So it is important to realise that under a government-backed World Peace Bonds regime governments would merely be contracting out the *achievement* of peace. The backers of the bonds, which could include governments in agreement with each other and in consultation with other potential contributors to the funds, academic bodies and experts, would still define the scope of the bonds and they would specify the exact definitions of the conflict-reduction goals that they would pay to achieve. As backers of the bonds, it is they who would be undertaking to redeem the bonds and it is they who would still be the ultimate source of finance for the projects that achieve them. Note though, that while investors in the bonds, whether they be national governments, international bodies or corporations, would profit from this successful achievement of the peace goal, they would also bear the risk of failure. Note too, that, competitive bidding for World Peace Bonds would bid away excessive profits. And, most important of all, we must keep in mind that *the comparison that matters is with current ways of ending conflict*, not with some imagined utopia.

People would need to be reminded of these facts when asked to contemplate a bond regime. Nevertheless, the concept does present some possible pitfalls. Could free riders or derivatives markets undermine operation of a bond regime? Could a bond regime generate perverse financial incentives? This chapter looks at these and other questions.

The Free Rider question

Some people or institutions might purchase World Peace Bonds with the idea of doing nothing but holding on to them until they could sell them at a profit. Such passive investors would have no intention of doing anything to help reduce conflict: they would buy bonds (or fractions of a bond) hoping to hold onto their investment until the bonds' market value had risen sufficiently high for them to enjoy a worthwhile capital gain. Other passive investors might be speculators who thought that the likelihood of the targeted objective being achieved quickly were greater than the rest of the market believed it to be — in other words, that the bonds were underpriced.

Another category of passive investor might be the hedger. These are people who, in the absence of the bond issue, would stand to lose if the conflict-reduction target were achieved. They could be suppliers of weapons or other equipment to the military, fearful of losing contracts as a result of reduced political tension. Hedgers might buy the bonds as a form of insurance against that possibility.

Casual purchasers and speculators would want to become 'free riders', hoping to benefit from any increase in the bond price without actually participating in any objective-achieving

projects. Hedgers wouldn't particularly want the value of their bonds to rise, but their bondholdings could similarly reduce the supply of bonds available to active investors.

None of these passive purchasers of World Peace Bonds would do much to help reduce violent political conflict. However, the way markets for the bonds would work to limit the scope for profitable passive investing. To see this, assume that would-be free riders succeed in buying a large proportion of the bonds in circulation. Then the bond issue as a whole would generate very little incentive for people to do anything to reduce conflict. So it is most likely that the targeted level of conflict would become more remote, and as it did so, so the value of all World Peace Bonds would fall. As the bonds lost value, they would become a more attractive purchase for people who *were* prepared actively to help achieve the targeted objective. So free riders would be tempted to sell, even at a loss, rather than see the value of their bonds continue to fall. Because too much free riding would be intrinsically self-defeating, it would be of interest only to smaller players in the bond market, with further implications:

- Individual free riders would have no incentive to collude with other free riders because the more they did so, the more remote would the world peace goal become, and the further would the value of their bonds fall. This would act so as to limit any free riding activity to small players.
- As with other financial instruments, small players would have to pay proportionately higher transaction costs than the bigger institutions — the ones that would be most likely to initiate conflict-reducing projects.
- Small players also would not have access to all the research and information that would enable big players more accurately to value the bonds or anticipate their price movements. Therefore they would be at a disadvantage in the market.

Note also that even if free riders were to gain from holding World Peace Bonds, they would do be doing so only because their bonds had risen in value as a result of the targeted lower level of conflict becoming closer to being achieved. As well, some attempted free riding would have important positive effects: it would add liquidity to the bond market, and increase the robustness of the market prices that would supply useful information to potential investors in the bonds.

Important to remember is that our goal is not to minimise free riding, nor to create policies that generate no free riding. Most policies do have an element of free riding, in the sense of people taking advantage of the efforts others have made to supply some collective good without actually contributing themselves. Society accepts even spectacularly egregious cases of free riding, such as rewarding property owners when transport infrastructure is extended to their locale. Corporate executives holding some proportion of their company's shares will try to maximise company sales or profits and will benefit by doing so - but so too will passive shareholders, and the fact that they do so is both socially acceptable, and has no demonstrable disincentive effect on those executives or the functioning of the company.

World Peace Bonds are intended to solve an urgent, huge problem that we not only are currently failing adequately to address, but that we also have little idea *how* to address. Free riding would be problematic only if it so diminishes the World Peace Bond concept that it makes it less efficient or less effective than any other approach, including existing approaches. Most of us would not see as a downside that one result of successfully securing world peace for several decades is that some people could buy the bonds and make a bit of cash without exerting themselves.

In short, there are grounds to believe that free riding would not seriously undermine the operation of a World Peace Bond regime, mainly because it is unlikely much free riding would occur, and partly because even if it did occur it would not impede the operation of the bond mechanism.

Futures and options markets

Another possible source of perverse incentives could arise from the development of futures and options markets in World Peace Bonds. Certain derivatives when bought (put options, for example) or sold would enable participants in futures and options market to benefit from a falling bond price, so giving them an incentive to delay achievement of the targeted reductions in conflict.

It is quite likely that there would be futures and options markets for large bond issues, and it is almost certain that the price of any particular World Peace Bond would not always be increasing along an upward trend from its float price to its redemption value. It would be justifiable, as well as efficient, if bondholders could hedge against consequent falls in the value of their assets. People who did not hold bonds might also want to participate in markets for derivatives of bonds, some of which would rise in value as the targeted level of conflict became more remote. This in turn means that speculators and short sellers could profit from short-term bond price falls, and the question is whether these people would then take steps to increase the level of conflict, and so impede progress towards the targeted objective.

There are two main reasons why they would probably not. The first is that, in the long term, the weight of money would be against them. Provided sufficient funds were allocated to achieving the goal of world peace, there would be a net positive sum of money payable to bondholders if the targeted reduction in conflict were to be achieved, and a net zero sum paid as long as the goal were not achieved. The long-term incentives would always favour those working to achieve world peace. Those who, for whatever reason, would suffer from achievement of the objective could buy put options or sell futures as a hedging strategy. (Bondholders could always pay particularly obstructive interests to cease their conflict-raising activities.) Note also that for every buyer of a put option there would be a seller, and that for every futures contract bought on the expectation that the bond price would fall, there would be an equivalent futures contract sold on that basis, so that the net incentive generated by derivatives would be in line with the incentive created by the underlying financial instrument, the World Peace Bond: in the long run, this would favour achievement of the targeted objective.

The other reason that short sellers, or holders of put options in World Peace Bonds might not take actions aimed at interfering with achievement of the goal is that such actions might well already be illegal or, again given the incentives that the bonds would generate, be made illegal once the bonds had been issued. They would almost certainly be ethically objectionable as well. Derivatives that rise in value as the price of an underlying share falls are of course widely traded, and do not appear to generate any significant efforts aimed at undermining share prices.ⁱ

Futures and options markets for World Peace Bonds would also make markets for World Peace Bonds more liquid, and so improve pricing efficiency.

Perverse incentives

One potential disadvantage of World Peace Bonds is the possibility that bondholders could try to bring about peace in ways that undermine other societal goals. It is hard to imagine much worse than war. But tyrannies and genocidal regimes can operate within their own borders in ways that might not be captured by a targeted conflict index; this raises two questions for a World Peace Bond regime.

Benign intervention

What would be the role of World Peace Bonds if violent regimes had been content to operate within their borders as was, say, Stalin's repressive regime, and, following the first Gulf War, that of Iraq's Saddam Hussein, or as North Korea's is today?

In such cases, most of humanity would argue that armed conflict would be preferable to standing by and doing nothing. An ideal measure of conflict with worldwide application would aim to specify as targets for reduction not only the deaths resulting from armed political conflict between states, but also a country's persecution of domestic minorities, which timely, well-intentioned, armed intervention from outside could end. Two approaches are possible:

- Include within the scope of the bonds' redemption terms such elements as: numbers of people killed through violent political repression; numbers of men and women under arms; and military spending. Of course, for the bond mechanism to function well, information about societies such as North Korea would have to be sought, found and verified. But such information is more readily available today than in previous generations, and a bond regime would stimulate more interest. Merely seeking, accumulating and publicising information about, for example, North Korea's military, could serve extremely useful purposes in bringing the horrors of these regimes out into the open, and doing something to forestall them - quite independently of the direct incentives a bond regime would give to those opposing these regimes.
- Accept that such persecution within national borders is outside the scope of World Peace Bonds.

A related question is whether issuing World Peace Bonds might make oppressive regimes more secure, knowing that it would be in bondholders' interest not to provoke a conflict that

would tend to lower the value of their bonds. The most salient historical example of conflict that led to the downfall of dictatorships is World War 2: few now dispute that, from the standpoint of 1939, the decision of Great Britain to go to war against Nazi Germany was morally justified. Nor that, in 1941, the US was right to go to war against Germany and Japan. If World Peace Bonds that targeted, amongst other elements, the number of people killed in violent political conflict between states, had been issued then, they might have discouraged bondholders and their agents from waging war and this, we can assume, would have been against the interests of humanity.

Proponents of World Peace Bonds might also argue that both Nazi Germany and the Japan of the 1930s were regimes that had a history of war and conquest that preceded confrontation with the Allied Powers. There were voices calling for rearming the Allies before the outbreak of World War 2,ⁱⁱ and it is quite possible that such rearmament, perhaps with some pre-emptive assassinations or military operations, could have avoided much of the bloodshed that actually occurred. Well-crafted World Peace Bonds, that valued lives of all people equally, could have rewarded such pre-emptive actions and spared humanity the Second World War.

The second Gulf War (2003) also led to the downfall of a dictatorship though, and here opinion is more deeply divided. Again, though, it's arguable that war could have been pre-empted. Saddam Hussein's Iraq, had invaded Iran and Kuwait before western intervention, and if bonds targeting conflict in the relevant part of the world had been issued before his later military actions, the Gulf War of 2003 could have been avoided.

Both these cases make a strong case for the decades-long perspective of World Peace Bonds. The financial incentives they offer would not affect decisions about starting a major conflict, but could conceivably lead to steps being taken to avoid them.

Price manipulation

A World Peace Bond would create incentives for people to manipulate the price of the bonds by, for example, threatening conflict, buying some bonds (or call options, or futures) and then backing off inflammatory chatter and selling the bonds at a profit. This could happen, but the question is whether the potential for such cynical price manipulation is more dangerous or harmful to societal well-being than the opportunities that are currently available for such would-be manipulators. For example, a recent analysis found that 37 members of the US Congress traded between \$24 million and \$113 million in defence stocks over the course of 2024, with one congressman trading at least \$22 million.ⁱⁱⁱ And it is not far-fetched to imagine, say, the Chinese Government talking up tension between itself and Taiwan - having taken short positions in Hongkong or Taiwan shares - and then switching the rhetoric along with their portfolio holdings.

But preparation for actual war involves mobilisation of military personnel and materiel, which is financially costly. It also involves preparing public opinion,^{iv} and this takes time as well as money. The cynical government or military organisation then would have to invest considerable financial and political capital for a return from its bondholdings (or from bondholders) that might be large or small, but would definitely be uncertain. So, unless

bondholders were exceptionally naïve, we could expect them to quickly distinguish between credible and unrealistic bellicose declarations.

Negative-but-legal behaviour

World Peace Bonds would be wholly new, and could give rise to unanticipated behaviour against which there is no legal sanction. While experimentation of the World Peace Bond concept would be difficult, some valuable experience could be gained by applying the bond principle to other, more immediate, social or environmental problems, perhaps on a small scale. For instance, bonds could be issued that targeted reductions in a country's crime or air pollution rates.^v For peace goals, there are two alternatives. First, the Peace Bond principle could be applied to conflicts that are relatively small and self-contained, whose progress could be more easily measured. With such conflicts it would be a relatively simple matter to watch out for negative-but-legal behaviour. Second, the bonds could at first target only incremental reductions in conflict, so that a short time scale would allow the observation and remedying of any unanticipated negative behaviour. Later tranches of bonds could incorporate provisos stipulating that they would be redeemed only if any unwanted, and previously untargeted, activities did not exceed a minimal level.

Those who back and issue bonds would collate and apply lessons learned from early trials to before launching bonds with wider application. Lessons could extend beyond how to deal with any perverse behaviour on the part of bondholders. They might, for instance, give some direction as to the circumstances under which bonds could best be used as complements to existing policies, and when they could safely replace them.

If, despite such measures, bondholders behaved in negative-but-legal, ways, government (or private-sector backers) would have other options. In ascending order of severity, they could:

- Chide, persuade, or cajole bondholders into toeing the line. It could do this publicly or privately — initially, at least, holdings of World Peace Bonds could be registered in the same way as ownership of shares;
- Buy back bonds on the open market; which would reduce the total potential funds payable on redemption, so effectively penalising negative behaviour of large bondholders; or
- Legislate, or lobby for legislation, against the negative activity.

If a government had issued the bonds, it could, in extreme circumstances, even declare the bonds null and void, and offer compensation related to the bonds' issue price or their current market price.

The potential problems of a bond regime should not be overstated. Careful choice and specification of targeted objectives, combined with existing legal sanctions, would probably circumvent or remedy most of them. It's likely there would be unanticipated hitches, at least at first. But, once the bonds gain acceptability amongst people in and out of government, more people could discuss and refine the bond concept and practical aspects of its implementation. And we should not forget that *the comparison that matters is with the*

current state of affairs, under which negative behaviour – war, its financing and its fanatical encouragement– proliferates. In the long run, a World Peace Bond regime would act as a counterweight to such an outrage.

ⁱApanard (Penny) Prabha, Keith Savard, and Heather Wickramarachi, *Deriving the Economic Impact of Derivatives: Growth through risk management*, Milken Institute, March 2014.

<https://milkeninstitute.org/sites/default/files/reports-pdf/Derivatives-Report.pdf>, sighted 6 September 2025.

ⁱⁱ Most notably, Winston Churchill. 'In a barrage of speeches, broadcasts and articles [Churchill] raised public awareness of Germany's rearmament and Britain's lack of preparedness.' *Gathering Storm*, America's National Churchill Museum, <https://www.nationalchurchillmuseum.org/winston-churchill-and-the-gathering-storm.html>, sighted 23 July 2025.

ⁱⁱⁱ Congress members had to supply only a range for stock trading disclosures. Nick Cleveland-Stout, *Top defense stock traders in Congress in 2024*, Quincy Institute for Responsible Statecraft, Quincyinst.org, 25 December 2024. <https://responsiblestatecraft.org/congress-defense-stocks/>, sighted 24 July 2025.

^{iv} W Ben Hunt, *Getting to War: Predicting International Conflict with Mass Media Indicators*, University of Michigan Press, ISBN 9780472107513, 1997. <http://www.jstor.org/stable/10.3998/mpub.15234.1>, sighted 1 August 2025.

^v For applications of the Social Policy Bond concept, which underlies World Peace Bonds, see my website at <http://SocialGoals.com>.