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How Markets Price Reality: Governing Prediction Markets and 'Post-Truth' Economies

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Abstract
Prediction markets are commonly framed as tools for forecasting and information aggregation, but this report argues they pose deeper governance challenges at the intersection of financial speculation, information integrity and democratic legitimacy. By attaching financial incentives to outcomes such as elections, wars and public health events, these markets do not merely reflect uncertainty but can shape how reality is publicly described and verified. Under post-truth conditions, they convert contested facts into tradable claims, intensifying epistemic risk and feeding back into media narratives and institutional decision-making. Their expansion is driven by financialization and may be further accelerated by artificial intelligence, which automates speculative dynamics. The report concludes that prediction markets should be governed as information infrastructures, requiring stronger oversight, transparency, protections for knowledge producers and investment in non-speculative public forecasting capacity.

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"Prediction is now *the entire game*. It is the movement and meta-aesthetic that defines our main branch of society going forward; about how we interpret the world and participate in it… [It] is a distinct break from postmodernism. It is what comes next" (Danco 2025).

Introduction and Overview

This report argues that prediction markets are not only speculative financial products, but also emerging governance challenges for public institutions operating in an increasingly unstable informational environment. These markets allow users to buy and sell contracts tied to the possible occurrence of specific future events, including elections (Parker 2026), armed conflict (Thomsen and Guilfoyle 2026), court rulings (Khalili 2024), economic indicators (Aratani 2026), and other socially consequential developments.

Contemporary prediction market platforms, including regulated exchanges and crypto-based venues, are commonly defended as tools of forecasting, information aggregation, or price discovery (Barone 2026). Yet this description remains incomplete. Their growing significance lies in their ability to attach financial incentives not merely to future outcomes, but to the public processes through which those outcomes are described, verified, and accepted as authoritative (Down 2026).

This matters because the central problem of "the era of post-truth, post-veracity and charlatanism," and of "the proliferation of fake news on the internet," (Camacho 2019, n.p.) does not lie merely in the existence of misinformation, the circulation of propaganda, or the fact that partisan actors lie. More fundamentally, post-truth describes a condition in which the social authority of factual verification grows more fragile, more contested, and more vulnerable to strategic manipulation (Das 2023, 85).

Governance becomes more difficult in such an environment, because public institutions rely on some shared

confidence in how events are named, measured, and validated (Goodell Ugalde 2026a). Social cohesion depends on shared standards of public credibility. People must recognize elections as legitimate, treat health claims as credible, and publicly establish wars, crises, or major economic changes if coordinated action is to remain possible. Otherwise, the resulting fragmentation "makes the achievement of broadly based egalitarian policies difficult… at a minimum it diverts political effort away from universalistic [material] goals" (Barry 2001, 325). When prediction markets place prices on events whose meaning depends on contested verification, they do more than register uncertainty. They create fiscal incentives to speculate on, pressure, and potentially distort the public settlement of reality itself (CFTC 2024a; CFTC 2024b).

The core claim of this report is therefore institutional rather than primarily philosophical. Under conditions of financialization, crisis management, and informational fragmentation, prediction markets function as infrastructures that intensify epistemic risk for governance. They convert uncertainty, disagreement, and contested recognition into what Polanyi (2001) calls "fictitious commodities," forms treated as marketable even though their commodity status is "entirely fictitious" (75), and in so doing reshape the informational environment within which public institutions operate. The central question, then, is not only whether these markets forecast accurately; it is whether they create pressures that erode information integrity, weaken public authority, and compromise democratic legitimacy. For this reason, prediction markets are best understood at the intersection of three domains: *(i) information integrity*, *(ii) financial speculation,* and *(iii) institutional legitimacy.*

Accordingly, this report proceeds in four stages. First, it defines post-truth more precisely and shows how epistemic communities and public institutions, while historically central to the production of authoritative knowledge (Haas 1992), have also helped produce some of the ideological conditions that have undermined confidence in expertise (Das 2023). Second, it situates the rise of prediction markets within the broader context of financialization and the search for new speculative frontiers, locating them within a wider dynamic of *overaccumulated capital* seeking new avenues for valorization (Goodell Ugalde 2026b).[i] Third, it argues that prediction markets can convert contested public facts into tradable propositions in ways that feed back into media narratives and institutional processes, thereby creating financial incentives that may undermine information integrity, public authority, and democratic legitimacy. Finally, it considers the role of artificial intelligence (AI) and outlines a policy framework for regulating these markets as part of a broader agenda of information governance and market integrity.

Post-Truth and the Governance Problem of Public Verification

The politicization of truth became especially visible during the 2016 U.S. presidential election, when Oxford Dictionaries selected "post-truth" as its Word of the Year, defining it as relating to circumstances in which "objective facts are less influential in shaping public opinion than appeals to emotion and personal belief" (n.p.). Public officials have raised analogous concerns. In an address to the *United Nations* (UN), Bob Rae, former Canadian Ambassador to the UN, warned that "there are forces in the world that spread messages of despair. Let us resolve to join together in the fight against misinformation and lies, and to take back the dark night that denies the light of truth, rationality, and science" (2025, n.p.). This appeal to restore truth, rationality, and science, however, also reveals a deeper tension. The suspicion toward truth that now circulates so widely did not emerge only outside institutions of expertise; critiques that arose within and against those institutions also helped in its cultivation.

This irony becomes sharper in the older literature on epistemic authority. Peter M. Haas defined epistemic communities as "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area" (1992, 4). Scholars once treated such communities as essential for the formation of public judgment under conditions of uncertainty. But critiques initially directed at authority within these expert formations gradually widened into suspicion toward expert mediation as such, extending to scientists, medical researchers, climate specialists, and other bearers of specialized knowledge (McIntyre 2018).

The contradiction runs deeper still because the "science" Rae invokes now operates within technological and market infrastructures that not only intensify post-truth dynamics but increasingly profit from them (Viner 2016). What began as an internal critique of authority has, once generalized, helped produce a much broader weakening of confidence in the institutions through which modern publics adjudicate truth claims (Boghossian 2006, 6–7). Once distrust extends indiscriminately to scientists, medical researchers, climate experts, election administrators, or journalists, the issue no longer consists simply of disagreement within a knowledge system (or episteme). It becomes a crisis in the public conditions of verification themselves (McIntyre 2018).

This dynamic has intellectual roots that long predate today's digital information environment. Postmodern and anti-foundational currents often treated claims of universal truth with skepticism, emphasizing discourse, contingency, and perspective (Morley and Alizadeh 2022). Lapid described this tendency as a "condition of epistemological [and ontological] anarchy under which almost any position can legitimately claim equal hearing" (1989, 249). Lyotard's "incredulity toward metanarratives" similarly elevated the plurality of language-games while weakening confidence in universal grounds of adjudication (Lyotard 1984, xxiii–xxiv). Žižek later warned that without some account of totality or "global meaning," politics risks becoming confined to "local" truths that cannot sustain broader claims to validity (2009a, 181).

The point is not that poststructuralist or postmodern theorists somehow caused contemporary disinformation politics, nor that expertise is ever neutral, universally inclusive, or untouched by power. Expertise can be ideological, exclusionary, and bound up with institutional domination (Goodell Ugalde 2026a). Rather, the issue is that critiques originally directed at authoritative institutions can, once generalized and detached from their initial context, be appropriated in ways that erode confidence in public verification (McIntyre 2015).

Bruno Latour later explicitly recognized this danger. Although readers often took Latour's earlier work to belong to the postmodern canon, his later reflections were markedly more cautionary, even corrective. He warned that claims suggesting "facts are made up" had been repurposed by "dangerous extremists" to attack "hard-won evidence that could save our lives" (Latour 2004, 227). In a 2018 interview, he likewise reflected on having been cast as "a monster" of anti-scientific postmodernism and expressed concern about what those earlier critiques had come to mean politically (quoted in Koffman 2018, para. 5).

This broader weakening of confidence in public adjudication appears across multiple domains. Climate denial, anti-vaccination politics, and election conspiracy narratives all rely, in different ways, on the claim that official institutions cannot be trusted to define reality credibly or authoritatively (Kadić-Maglajlić, Lages, and Pantano 2024). Contemporary anti-vaccination discourse illustrates this dynamic. Robert F. Kennedy Jr., the United States Secretary of Health and Human Services, has claimed that "there is no vaccine that is safe and effective" (U.S. Congress 2025, S903), while popular anti-vaccination discourse often frames skepticism toward institutional expertise as a principled refusal of elite authority (Jubilee 2025). It follows, then, that the governance problem is not reducible to any one ideology. It is structural: once public mechanisms of

verification lose legitimacy, states and institutions face growing difficulty in coordinating action, establishing facts, and sustaining trust (D'Ancona 2017).

That is why post-truth should be understood as a problem of governance capacity. It (i) destabilizes the informational environment within which institutions operate, (ii) complicates crisis response and exacerbates economic instability, (iii) weakens democratic deliberation, and (iv) makes it more difficult to build authoritative public consensus around high-stakes issues. Paradoxically, although one strand of post-truth can be traced to forms of postmodern skepticism initially directed against authority and universal claims (Das 2023, 85), epistemic communities themselves also reproduced the wider erosion of trust. As Latour later observed, "entire Ph.D. programs are still [teaching] that facts are made up, that there is no such thing as natural, unmediated, unbiased access to truth," even as "dangerous extremists are using the very same argument … to destroy hard-won evidence that could save our lives" (2004, 227). In this sense, institutions ironically took up and circulated critiques originally framed as skepticism toward authority, helping normalize mistrust toward expertise and public mediation more broadly. The result is a more fragile terrain of public verification. Within this context, the emergence of financial products that can profit from contested verification becomes especially consequential.

Financialization and the Search for New Speculative Frontiers

To understand why prediction markets are expanding now, we must place them within the broader trajectory of financialization. Critical political economy has long examined how markets respond to recurrent pressures of stagnation, overaccumulation, and insufficient profitable outlets in production (Goodell Ugalde 2026b). Rosa Luxemburg's classic formulation remains useful because it treats imperial expansion not as a contingent policy choice, but as a structural response to the realization problem under expanded reproduction. In *The Accumulation of Capital*, she argued that surplus value could not be fully realized within a self-contained market system because effective demand was structurally constrained. As she put it, the "realization of the surplus value … requires … that there should be strata of buyers outside capitalist society," since it "cannot be realized by sale either to workers or capitalists," but only through sale to "social organizations or strata whose own mode of production is not capitalist" (Luxemburg 1963, 351–52).

The essential point is that capitalist production tends to expand more rapidly than the demand able to absorb its output. Firms raise productivity through technological change, automation, and labour-cost reduction, but these same strategies can suppress aggregate purchasing power when wage growth weakens or employment declines. Because households remain the principal consumers in most advanced economies (World Bank 2026), weak wage growth can depress demand across the system as a whole. The result is what crisis economists call *overaccumulation*: capital, commodities, and productive capacity accumulate more quickly than the market can profitably absorb them (Clarke 1990; Harvey 2026).

Later critical international political economists reformulated this problem in ways that are especially relevant to the present conjuncture. Paul Sweezy did not accept Luxemburg's claim that realization is formally impossible within a closed capitalist economy. Instead, he treated it as a chronic and unstable problem internal to capitalist reproduction, asking the decisive question: "where is the demand for the [over] accumulated surplus value?" (Sweezy 1942, 202). This shift matters because it directs attention away from the outward incorporation of non-capitalist spaces alone and toward the internal mechanisms through which advanced capitalist economies defer crisis (Goodell Ugalde 2026b).

Financialization is one of the most important of these mechanisms. Harvey describes this dynamic as the circulation of "money that is thrown into circulation as capital without any material basis in commodities or productive activity" (2018, 95). Arrighi similarly characterizes it as a form of "temporal deferral," through which capitalism postpones crisis rather than resolves it (Arrighi 2006, 202). Financial expansion can absorb overaccumulated surplus through credit creation, asset inflation, state expenditure, and speculative investment, even when productive expansion remains weak (O'Connor 1966). Bellamy Foster therefore describes financialization as a "shift in gravity of economic activity from production … to finance" (Bellamy Foster 2007, n.p.).

In practical terms, these arrangements allow capital to seek profitability in increasingly abstract and anticipatory domains. Investors can value assets less by their direct relation to productive output than by future expectations, narrative momentum, and liquidity conditions "suspended in thin idealist air" (Ashley 1984, 247). Under such conditions, capital does not simply profit from production or exchange in the conventional sense. It increasingly profits from managing, circulating, and pricing future-oriented claims (Fig. 1).

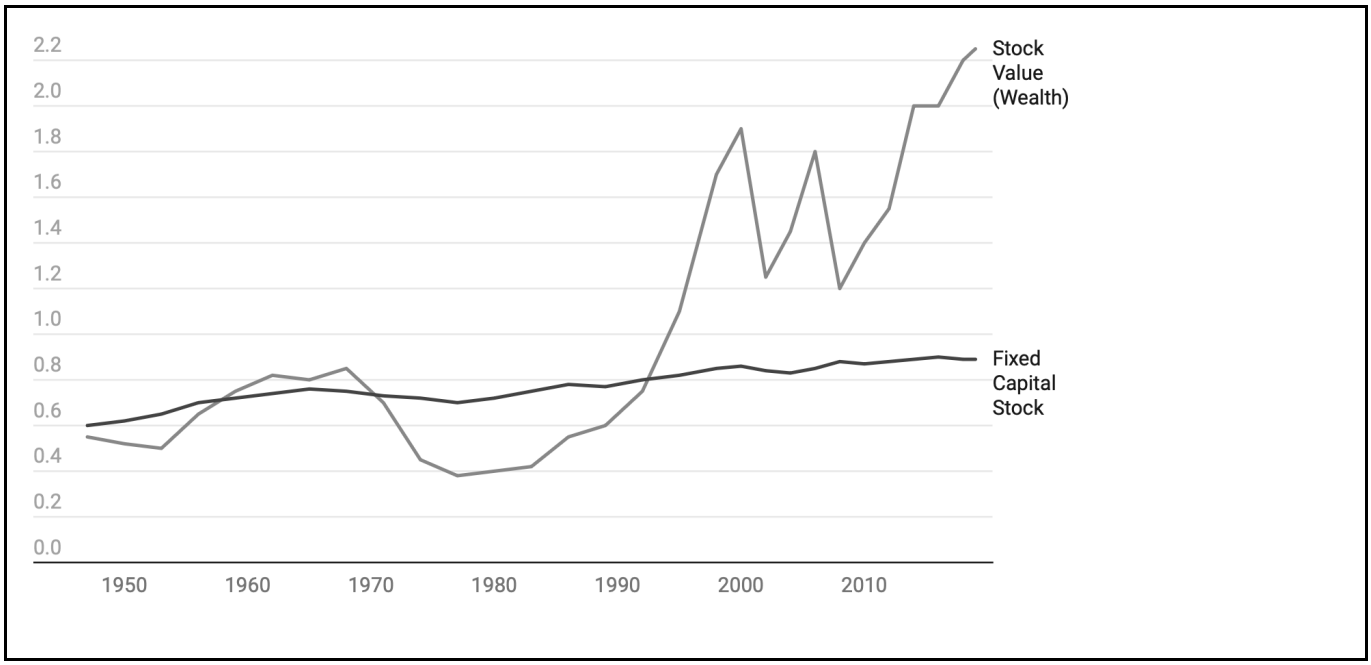

Figure 1. Recreated from Clark, Bellamy Foster, and Jonna (2021), the graph shows that since the mid-twentieth century, particularly after the 1990s, stock market wealth has risen much faster than fixed capital stock as a share of GDP. This divergence highlights a broader dynamic of financialization in which financial asset values become increasingly detached from underlying productive investment.

Prediction markets become intelligible in precisely this context. They offer a means of converting uncertain future states into tradable propositions. Unlike equity shares or traditional claims on revenue streams, prediction-market contracts derive their value from whether an event is later judged to have occurred according to pre-specified settlement criteria (CFTC 2026a). This means that they trade not just on uncertainty in the abstract, but on the future public verification of contested events. They are therefore particularly well suited to a financialized environment in which value increasingly depends on anticipation, mediated judgment, and the pricing of abstract risk (Parker 2026).

Kalshi, a U.S.-based prediction market platform, captures this logic clearly in co-founder Tarek Mansour's ambition to "financialize everything and create a tradeable asset out of any difference in opinion" (More Perfect

Union 2025). What appears as entrepreneurial enthusiasm also concisely expresses a broader structural tendency. When profitable outlets in production are limited, new opportunities for accumulation emerge through the commodification of increasingly intangible and contested domains of social life (Polanyi 2001). Disagreement itself becomes a potential asset class. In that setting, prediction markets are not simply novel forecasting tools. They are plausible new frontiers for accumulation in a financialized economy searching for fresh objects of speculation.

Prediction Markets, Public Narratives, and Epistemic Risk

Prediction markets are often justified as mechanisms for aggregating dispersed knowledge. On this view, participants reveal information through trading, and prices provide useful probabilistic signals about future outcomes (Barone 2026). This argument has some intuitive appeal, and policymakers should not dismiss it out of hand. Yet recent developments in these markets suggest a more complicated reality. As one industry account notes, prediction markets have evolved from "academic experiments, to corporate intelligence tools, crypto protocols, and most recently regulated financial exchanges," while platforms such as *Kalshi* and *Polymarket* have expanded from "barely any trading activity to weeks in the billions of notional traded" (Decio, Baronia, and Stellings 2026).

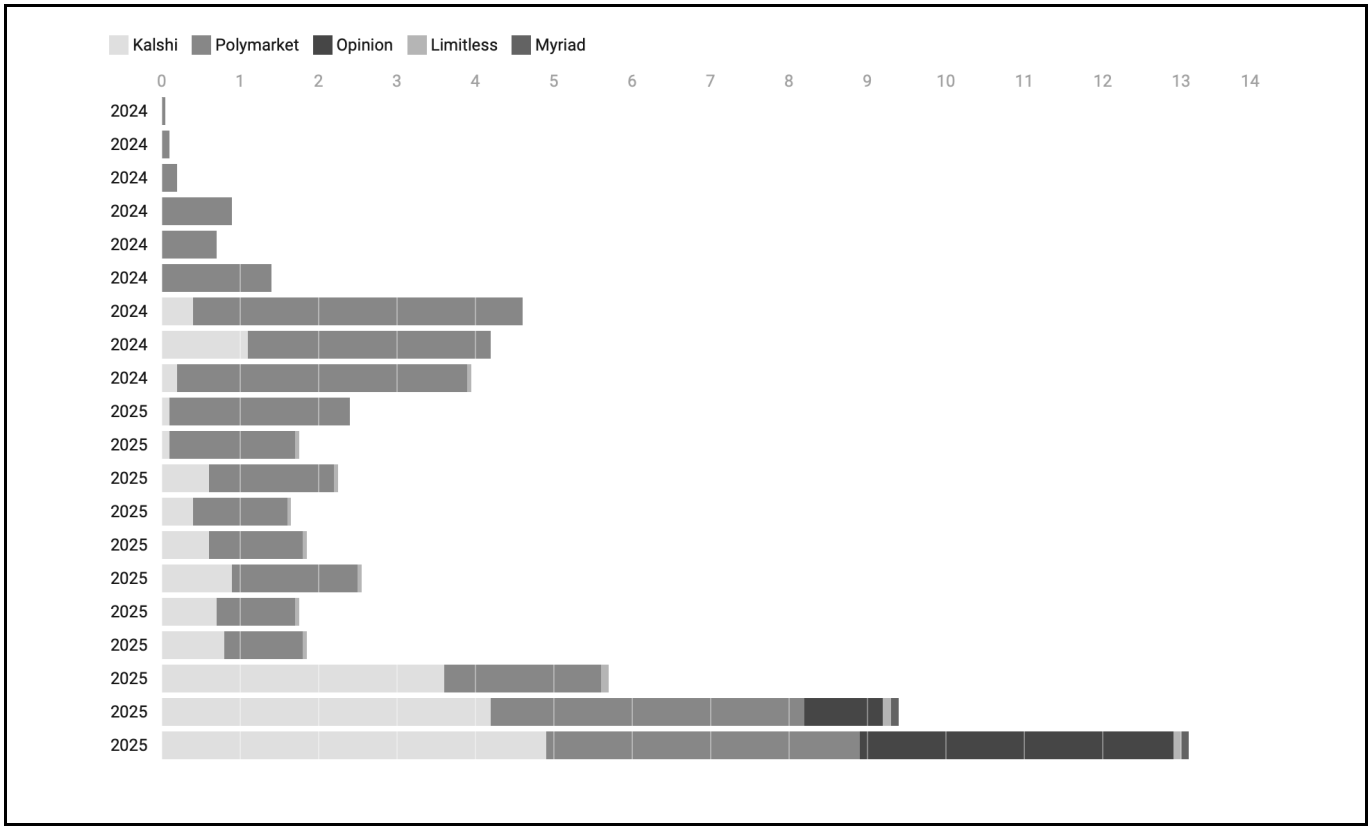

Figure 2. The chart shows monthly prediction market trading volume (in billions of U.S. dollars) from April 2024 to late 2025 (Data from Keyrock 2026)

From a governance perspective, the key issue is not only whether these platforms aggregate information, it is that they may also shape the informational environment within which actors interpret and verify events. Katarina Mattmuller describes decentralized prediction markets as platforms that combine forecasting and blockchain technology, "aggregate the collective wisdom and opinions of their participants," and permit

participation on a wide range of topics while enabling users to engage "without revealing their identities" (2024, 384, 389). This architecture may widen participation, but it also broadens the domain of speculative claims and weakens traditional institutional constraints on how actors convert socially consequential propositions into financial positions (Fig. 2).

Keynes's insight is especially useful here. In *The General Theory*, he argues that financial actors do not simply choose what they themselves believe to be best. Under conditions of speculative uncertainty, they instead try to anticipate how others will judge, and how those others will anticipate still others in turn. As he writes, "we devote our intelligence to anticipating what average opinion expects the average opinion to be" (Keynes 2009, chap. 12).

This recursive logic can be understood as a market structured by "beliefs about other people's beliefs" (Žižek 2009b, 7). Prediction markets intensify this dynamic in a particularly sharp form. Traders estimate the likelihood of an event while simultaneously anticipating how evidence will be interpreted, how institutions will classify outcomes, and how authoritative verification will be publicly settled. What is at stake, therefore, is not simply the occurrence of events, but the conditions under which they come to be recognized as having occurred. Prediction markets thus price expectations about the social recognition of events, transforming collective interpretation itself into an abstract object of speculation. As Harvey puts it, "the abstract rules established through capital are extremely powerful in regulating what happens," especially in relation to "prices, interest rates, and similar dynamics" and "the abstractions that come to dominate us are those generated by capital itself" (Harvey 2021, n.p.).

This has important implications for governance. The value of certain contracts may depend less on brute events than on the public recognition of those events. A contract concerning an election dispute, a missile strike, a public-health declaration, or a judicial ruling may hinge on how officials describe an event, which source(s) institutions treat as authoritative, and whether contradictory claims gain traction before settlement.

The case of Israeli journalist Emanuel Fabian illustrates this point with unusual clarity. After he published what he described as "a relatively unimportant update" concerning a missile strike near Jerusalem, Fabian learned that his report had become central to the settlement of a *Polymarket* wager worth more than $23 million. He reported that *Polymarket* platform users had pressured him to revise the article so that it referred to "missile fragments" rather than a direct strike. When he refused, the pressure escalated into threats, including messages warning that unless he "correct it," he would "discover enemies who will be willing to pay anything to make your life miserable" (Down 2026). Fabian later remarked that "it all balanced on my inconsequential report," and warned that if such markets continued expanding without reform, "other journalists will get contacted or harassed or even threatened" (Down 2026).

This episode reveals a structural vulnerability, not merely a bad-actor problem. Once contract settlement depends on how events are publicly described within media and epistemic communities, traders with active financial positions may place direct material pressure on journalists, analysts, researchers, or public officials involved in producing authoritative knowledge. Markets are no longer solely reacting to information; they may instead generate incentives to intervene in the processes through which information is produced and validated.

Recent empirical research on the 2024 U.S. presidential election further complicates the standard defense of prediction markets as efficient aggregators of information. Clinton and Huang examined more than 2,500 markets across *IEM, Kalshi, PredictIt*, and *Polymarket*, involving roughly $2.4 billion in transactions, and found

"little evidence of efficiency" even on the largest platforms (Clinton and Huang 2025, 1). Prices for identical contracts diverged across exchanges, price movements were weakly correlated or negatively autocorrelated, and arbitrage opportunities increased rather than narrowed as election day approached. The authors concluded that traders reacted "not only to political developments but also to the dynamics of the markets themselves" (Clinton and Huang 2025, 1). More strikingly, they warned that these markets may end up "constructing rather than reflecting political realities" when media and elites recycle market prices as if they were objective indicators of collective expectation (Clinton and Huang 2025, 4).

Policymakers should take that finding seriously. Once market prices become evidence of what "the public" thinks, what is "likely" to happen, or how an issue is "really" unfolding, the relationship between finance and public narrative becomes more circular.

Artificial Intelligence and the Automation of Recursive Speculation

Artificial intelligence (AI) is likely to deepen these tendencies of prediction markets. Recent reporting suggests that "AI agents are quietly rewriting prediction market trading" by automating signal detection, sentiment analysis, and strategic response in real time (Canny 2026, n.p.). This development does not fundamentally alter the recursive logic identified by Keynes; it scales it. As automated systems trained to monitor patterns in sentiment, price action, and information flow increasingly mediate human expectations about other humans' expectations, speculative judgment becomes faster, more opaque, and more technically entrenched.

The result is not simply more efficient trading. It is a more automated and potentially more self-referential information ecology. The International Organization of Securities Commissions (IOSCO) has warned that AI use in capital markets can create risks associated with weak accountability, insufficient supervision, opacity, overreliance on automated systems, and the erosion of meaningful human oversight (2025). These concerns apply to prediction markets with particular force because their value often depends on how narratives evolve, how evidence is classified, and how market participants interpret signals about future settlement.

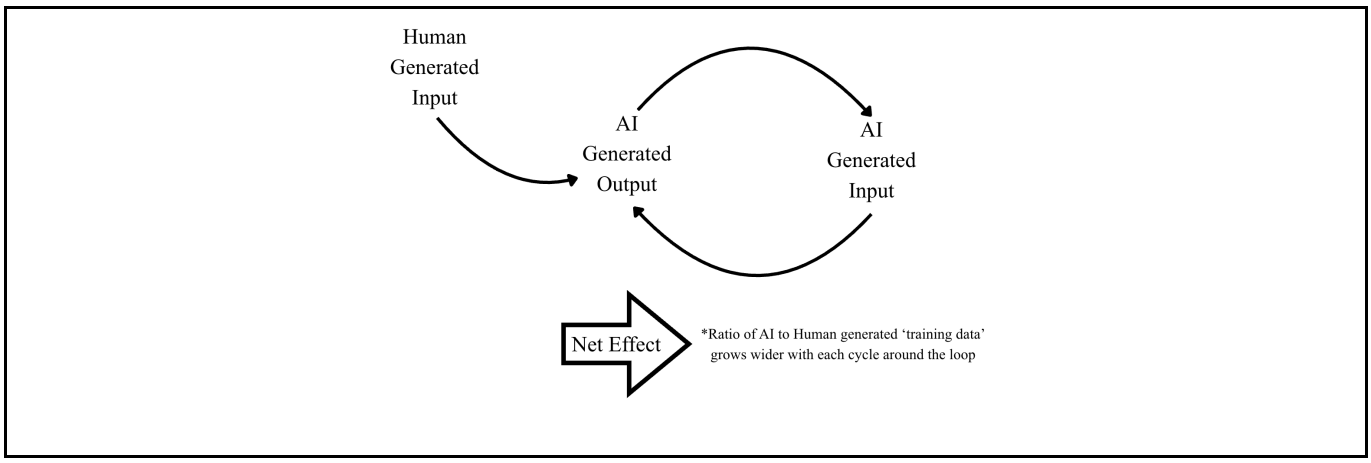

Figure 3. Recursive human-machine feedback loops can make digital information environments increasingly synthetic, self-referential, and less tethered to independently verified reality.

This tendency becomes even clearer when considered alongside growing concerns about synthetic information environments. A number of commentators argue that digital spaces are becoming increasingly saturated with automated, machine-generated, and strategically amplified content, to the point that online discourse is shaped less by direct human exchange than by recursive interactions among bots, algorithms, and

generative systems (Ghantous 2025). The implications for AI governance are straightforward. Many AI systems are trained on massive datasets that now include not only human-produced material, but also content generated by earlier automated systems. As synthetic material proliferates, newer models may increasingly learn from recursively generated outputs rather than from relatively fresh human input, making the informational environment more self-referential and potentially further removed from independently verified reality (Yoshija 2025) (Fig. 3).

In the context of prediction markets, this raises a serious policy concern. Much as Keynes described speculative markets as driven by expectations about how others will make judgement calls, trading systems may increasingly respond to machine-mediated representations of how hybrid human-machine publics are likely to interpret first-order social developments, rather than to those developments. The recursive structure remains the same, but it becomes more automated, faster, and less transparent. These systems price not only the event itself, but also expectations about how that event will be perceived and classified within an increasingly synthetic informational environment. The result is a more reflexive informational field, one less directly tethered to independently verified public reality. Where such systems materially contribute to market making, sentiment analysis, or settlement-related processes, policymakers should treat disclosure, documentation, and auditability as core regulatory requirements.

Policy Implications and Recommendations

The policy challenge posed by prediction markets extends beyond the supervision of a novel financial product. In the United States, regulators already treat event contracts as a live matter of derivatives regulation, and the Commodity Futures Trading Commission has recently sought formal public comment on whether new rules are needed for prediction markets (CFTC 2026a). That development matters because prediction markets are not simply speculative side bets on future events. When contracts concern elections, armed conflict, judicial decisions, or public health emergencies, they can create incentives that have direct bearing on how people describe, verify, and publicly accept events as authoritative. In such cases, policymakers must address not only market integrity in a narrow financial sense, but also the relationship between financial speculation, public knowledge, and democratic legitimacy.

For that reason, policymakers should govern prediction markets as part of a wider information-governance and market-integrity framework rather than treat them solely through the inherited categories of gambling law or conventional market-efficiency analysis. The CFTC's own recent rulemaking record points in this direction. In its 2024 proposal on event contracts, the Commission argued that contracts involving war, terrorism, and assassination may be contrary to the public interest because they risk enabling market participants to profit from devastating events and may create incentives around violence and public harm (CFTC 2024a, 2024b). Even when a product is legally structured as a derivatives contract, regulators should ask whether a given class of contracts creates incentives that could distort the public processes through which facts are established and institutions exercise legitimate authority.

I. Apply differentiated oversight according to subject matter.

Contracts tied to politically or socially consequential events should receive heightened scrutiny, especially when settlement depends on contested reporting, official declarations, or rapidly changing factual circumstances. Election-related contracts, war-related contracts, judicial decisions, and public health events all warrant particular caution because the public verification of these outcomes is itself significant for governance

and may be vulnerable to manipulation or strategic intervention (Smart et al. 2026; Andrade and Newall 2025). In such cases, regulators should be willing to restrict or reject contracts when the likely social costs outweigh the claimed informational benefits, particularly where these markets create controversial or harmful incentive structures (Roth 2025; Prediction Market literature). That approach would be consistent with the CFTC's position that some classes of event contracts raise public-interest concerns that extend beyond ordinary price discovery (CFTC 2024a, 2026a).

II. Strengthen transparency and disclosure requirements.

Platforms that offer contracts on matters of public significance should be required to provide clear public information about contract design, settlement criteria, dispute-resolution procedures, and the authoritative sources they use to verify outcomes. They should also disclose position concentration, major exposures, and the role of automated trading in shaping prices. These are not simply consumer-protection measures. They are necessary conditions for evaluating whether such platforms contribute meaningful information or instead intensify systemic epistemic risk. Recent CFTC rulemaking questions point in this direction by emphasizing resolution criteria, dispute procedures, surveillance, settlement integrity, and position accountability for prediction markets (CFTC 2026a). More broadly, derivatives scholarship has long argued that standardized, audited disclosure of positions, risks, and concentration exposures is essential for systemic oversight (Acharya et al. 2011). IOSCO's recent analysis of artificial intelligence in capital markets reinforces this point by emphasizing investor protection, market integrity, and financial stability where advanced technical systems influence financial decision-making, while the European Systems and Market Authority (ESMA) has likewise stressed transparency regarding AI's role in investment decisions (IOSCO 2025; ESMA 2024).

III. Protect journalists, researchers, analysts, and other public knowledge producers.

When contract settlement depends on how people publicly describe an event, those whose reporting becomes relevant to verification may become targets of pressure or coercion. The case of Israeli journalist Emanuel Fabian, discussed above, illustrates this danger. Even if such incidents remain uncommon, they reveal a structural vulnerability: once market participants acquire a financial stake in the public understanding of events, they may place direct pressure on information producers linked to active positions. In analogous areas of market governance, IOSCO has emphasized that benchmark-determination processes are vulnerable to abusive efforts to influence those responsible for submissions, expert judgment, or final determinations. IOSCO has therefore stressed the need for strong controls, accountability, and complaints procedures (IOSCO 2013; IOSCO 2016). Regulators should therefore treat efforts to intimidate or coerce outcome-relevant information producers as a form of market abuse, and they should require platforms to maintain reporting, escalation, and enforcement procedures for threats connected to contract settlement.

IV. Impose heightened oversight for material AI use.

Where AI systems materially contribute to trading, market making, sentiment analysis, or settlement processes, regulators should impose stronger standards of documentation, auditability, and oversight. IOSCO has warned that AI use in capital markets can create risks associated with governance and oversight failures, data-quality problems, opacity, inadequate monitoring and testing, concentration, and weak accountability (IOSCO 2025). These concerns are directly relevant to prediction markets, where automated systems may intensify the recursive and self-referential dynamics through which prices shape narratives and narratives in turn reshape prices. European securities regulators have likewise stressed that firms remain responsible for regulatory

compliance when using AI, should be transparent about AI's role in investment decision-making, and must maintain adequate human oversight (ESMA 2024). At a minimum, regulators should make the disclosure of material AI use standard practice, and supervisors should have sufficient access to model-governance documentation to assess whether automated systems are amplifying volatility, obscuring responsibility, or undermining meaningful human control, especially where firms integrate AI tools into real-time market analysis or trading workflows (BIS 2025).

V. Build non-speculative public forecasting capacity.

Policymakers should also recognize that prediction markets are gaining traction in part because they appear to address a genuine institutional gap. Governments and public institutions often lack robust tools for horizon scanning, structured forecasting, and anticipatory risk assessment under conditions of uncertainty. Recent public-sector foresight work from the OECD argues that governments need to build anticipatory capacity and integrate strategic foresight more systematically across the policy cycle rather than rely only on reactive forms of policymaking (OECD 2025). UK government guidance likewise presents horizon scanning, scenario analysis, and related futures methods as structured tools for identifying emerging issues, exploring possible futures, and supporting more informed strategic decisions (UK Government Office for Science 2024; 2025). The appropriate response, however, is not to assume that tradable event contracts offer the best model for public foresight. Public institutions can instead invest in non-speculative forecasting capacity, including expert-led horizon scanning, structured scenario analysis, and hybrid risk-assessment systems that combine quantitative and qualitative inputs without attaching private financial incentives to contested outcomes. Such approaches are more compatible with public-interest governance because they seek anticipatory knowledge without commodifying disagreement over reality itself.

Conclusion

Prediction markets should be understood as more than novel instruments for forecasting or speculative exchange. As this report has argued, they emerge at the intersection of financialization, information disorder, and institutional fragility, transforming contested public events into tradable claims whose value depends on how reality is described, verified, and socially recognized. Under conditions of post-truth, this is not a marginal concern. Where the authority of public verification is already weakened, markets that monetize uncertainty can intensify the problem by feeding back into media narratives, institutional decision-making, and public expectations themselves. The central governance question, then, is not simply whether prediction markets produce accurate forecasts, but whether their expansion undermines the informational conditions on which democratic legitimacy and effective public action depend.

For policymakers, the implication is clear. Prediction markets cannot be governed adequately through narrow appeals to market efficiency, consumer choice, or inherited distinctions between gambling and finance. Policymakers should instead treat them as infrastructures with consequences for information integrity, public authority, and democratic governance. This requires a regulatory approach attentive not only to price formation and market abuse, but also to contested settlement processes, coercion directed at journalists and other knowledge producers, and the growing role of AI in automating recursive forms of speculation. If public institutions fail to respond, they risk allowing speculative incentives to encroach ever more deeply into the processes through which societies establish credible knowledge. The task ahead, therefore, is not merely to regulate a new asset class, but to ensure that the public settlement of reality itself is not subordinated to the logic of the market.

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Notes

i. Overaccumulated capital refers to a condition in which surplus capital, whether in the form of money, commodities, or productive capacity, exceeds the available opportunities for profitable investment in the productive economy. Under these conditions, capital is redirected into financial and speculative activities, or into geographic expansion, as a way of absorbing excess value and deferring crisis.

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