The role of markets and preferences on resource conflicts

ABSTRACT

This article investigates a generalized resource curse. The existing empirical and theoretical literature on the resources-conflict nexus argues that higher resource rents (or a lower opportunity cost of appropriation) exacerbates conflict. We demonstrate that these widely accepted results rely on two fundamental elements relating to market conditions and agents' preferences. When resource prices are treated as exogenous, we obtain the conventional result, where an increase in the profitability of either the appropriative or productive activity incentivizes agents to reorient efforts accordingly. However, when the price of the contestable resource is endogenously set (i.e., locally determined), we find the opposite result may hold depending on the nature of agents' preferences: conflict can increase when the contestable resource becomes scarcer. Intuitively, if the contestable resource is abundant, players' relative marginal utility of the resource will be low, thereby resulting in low relative prices. Increases in the size of the contestable resource will lead to a reduction in appropriation effort, whereas scarcities will be conducive to conflict. We show an identical result is obtained if markets are absent for the contestable resource, such as when considering civil liberties and political rights.
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