

# WORKERS, WARRIORS, AND CRIMINALS: SOCIAL CONFLICT IN GENERAL EQUILIBRIUM

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## Abstract

We incorporate appropriation activities ("social conflict") into canonical models of trade and study how economic shocks and policies affect the intensity of conflict. We show that not all shocks that could make society richer reduce conflict: positive shocks to labor intensive industries diminish conflict, while positive shocks to capital intensive industries increase it. The key requirement is that conflict activities be more labor intensive than the economy as this determines how shocks affect the returns and costs of conflict. Our theory is consistent with several observed patterns of conflict and implies that empirical work should take into account the relative factor intensities of the productive and conflict sectors in each country. Incorporating appropriation into a canonic general equilibrium model affects what policies may be deemed desirable: in order to reduce conflict and generate Pareto-improvements policy must be distortionary, while reforms that appear efficiency-enhancing under the unrealistic assumption of perfect property rights may backfire. This offers one explanation for why reforms based on traditional models without appropriation may be delayed and become unpopular when implemented, and why societies may sympathize with seemingly inefficient redistribution. (JEL: D72, D74, D78, F13, H23, K42, O1)