Analyzing Economic Market Interactions as Conflicts: New Concepts to Assess Market-Based Policy Instruments

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Abstract
Complementing market-based policy instruments with conflict analysis approaches provides a wider understanding of market situations and allows to identify minimal requirements regarding needs, power and conflict dynamics. If these are not met, a market cannot be successfully introduced or a liberalization process implemented. Conflict analysis offers a language better suited to the concerns of people negatively affected by new markets. Applying this language helps to counterbalance the predominance of economic concepts. This fosters mutual understanding and enhances the prospect for successful implementation of market-based policies. We illustrate the potential of conflict analysis with examples from water privatization and labeling.

Keywords: market interactions, liberalization, privatization, labeling, conflict analysis, needs

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1 Introduction

In the last three decades, market-based policy instruments have become increasingly popular. This is so in various contexts, particularly in environmental policy making and in network industries. The main rationale to implement such policy instruments is that they provide cost-effective measures to increase efficiency by correcting for market or policy failures.

Here we understand market-based policy instruments as instruments fostering activities through market signals instead of explicit governmental directives. The design of these instruments is based on "harnessing market forces" to set the right incentives for efficient actions of the economic actors. Examples of such instruments are new tax regimes to internalize external costs, markets for newly introduced and designed goods like tradable pollution permits, or newly established markets in previously tightly regulated sectors like electricity.

The introduction of new markets faces a general skepticism from various parts of society. Especially implementation in new and less traditional settings causes controversy, because political and social concerns are often accentuated there. We argue that the design and the assessment of these instruments has to pay due attention to this debate and to the fears of opponents. Today, formal concepts dominate and non-economic aspects – the so-called "soft factors" – often tend to be neglected[1]. As an alternative, we propose to employ a conflict analysis framework to complement economic analysis. This offers a promising set of concepts and methods to address the "soft factors" in a systematic way.

The motivation to employ a conflict analysis framework is given by the observation that any real – and thus necessarily incomplete – market situation is a potential conflict. Such a conflict can, for example, be caused by non-internalized externalities, market power or asymmetric information. A market situation often introduces a conflict in the social relations among its participants, yet ignores the difference between basic needs and luxury goods, for example, or the psychological dynamics of power asymmetry and escalation that may result if the accompanying regulatory framework is inadequate. Examples are the conflicts in the context of liberalization and privatization in the water sector (Postel and Wolf 2001) or conflicts related to effects of globalize markets on smallholders (Ellis and Seeley 2001).

By combining economics and conflict analysis we can explore the demarcation between the arguments for free markets and increased efficiency and the arguments for governmental institutions and privately initiated cooperation. The paper also adds to the discourse on whether "competition destroys ethical behavior" (Shleifer 2004). Shleifer discusses cases where unethical conduct is a consequence of market competition, but he sees the solution of these problems in competition as well. Our article promotes a new understanding of this situation and the inclusion of broader non-economic solutions. Related discourses are those on "obnoxious markets" (Kanbur 2001) and on the notion of "power" employed in economics (Rothschild 2002). Conflict analysis helps to discuss these issues within a single framework.

Our approach also sheds a different light on the relationship between economic interdependence and (interstate) conflict. A growing body of empirical research supports the claim that open international markets and heightened economic exchange inhibit interstate hostilities (Mansfield and Pollins 2001). The general argument is that once traders or consumers become dependent on foreign markets, they are unwilling to support public officials engaging in hostile actions towards these countries. However, more research is needed concerning which groups within a society benefit from and which groups are harmed by commercial openness (Mansfield and Pollins 2001). We argue here that by using a different and wider conflict definition one can better grasp these aspects. We do not argue against the liberal claim that open markets inhibit hostilities, but we outline some framework conditions that need to be considered if one seeks to introduce markets in such a way as to benefit all groups of a society.

In this paper, “market-based policy instruments” and the “conflict analysis framework” are seen as two viewpoints on a complex situation - a real market. The goal of this paper is to introduce the conflict viewpoint as a complementary approach to the traditional economic one. Section 2 introduces the basics of conflict analysis and section 3 discusses the links between conflicts and markets. Section 4 presents conflict analysis in the context of market-related conflicts, contrasting them with the market-based approach. Two examples serve as illustrations. Section 5 concludes.

2 Conflicts – Definition, Characterization and Conflict Analysis Approaches

We first give the definition of a conflict:

“A social conflict arises when: 1) at least two parties interact; 2) at least one of these parties experiences damage from the interaction; and 3) at least one of these parties intends or ignores the negative impacts on the other party stemming from the interaction.” (adapted from Mason 2004).

This definition combines the aggressor aspect from Coser’s[2], and the recipient aspect of Glasl’s[3] conflict definition. There are many other definitions of “conflict” emphasizing different aspects, but this one is best suited for our task. It includes the whole range of conflict levels from non-escalated up to highly escalated violent conflict.

2.1 Characterization

Whenever analyzing conflicts, we must consider the system boundaries we have set, and reflect on how they relate to the environment the conflict is embedded in. Depending on where we set the boundaries, the conflict will present itself differently.

Once what to analyze (a conflict) and what is the perimeter (system boundary) has been decided upon, one can look at its characteristics, keeping in mind that it may be necessary to revise these first two steps while proceeding. Amongst other criteria, the following six dimensions can be used to characterize a conflict: 1) actors (with their interests, fears, means, etc.), 2) issues, 3) options and strategies, 4) context (structures, processes, rules, larger system), 5) causation, 6) escalation dynamics.

Actors: They refer to everyone involved in a conflict, be this directly (conflict party) or as an outsider that becomes involved to facilitate conflict transformation (third party). Actors can be individual people, groups of people or whole countries.

Issues: These are the “themes” of the conflict. Issues should avoid judgments and interpretations, they should reflect what the people want to talk about. An example of an issue could be: “water use” and not “the upstream village is using more water than we are”.

Options / strategies: Conflict analysis often has a normative goal of improving the situation. That is why this dimension of conflict analysis focuses on conflict parties' and third parties' options and strategies to deal constructively with the conflict.

Context: A conflict is a sub-system in a larger system – its context. A conflict is often carried out at a system's weakest point, not necessarily where it is caused. One has to pay attention to the possibility of the conflict being rooted in the very structure of an organization or society, i.e. it might be misleading to localize the conflict in any sub-system at all.

Causation: Conflicts, according to most conflict theories, are never caused by one factor alone. The analysis of causal pathways always depends on who is the "storyteller". The main cause of a conflict is seldom identical with the causes the parties involved believe they must act upon. The perception of causes may also change over time. A conflict over scarce resources, for example, may develop into an ethnic conflict, if ethnicity is used to group people to fight for their cause (Suliman 1997).

Dynamics: The dynamics of a conflict refers to the escalation level, to the form of interaction between the conflict parties and its evolution.

These six dimensions can generally be found in all arenas, in interpersonal, organizational and international conflicts.

2.2 Conflict Analysis – Three Frameworks

Two broad complementing schools of thought in conflict management can be differentiated: "conflict transformation" (also termed facilitative or process oriented) and "conflict resolution" (also termed evaluative or problem-solving). Conflict transformation used as a descriptive concept addresses the process by which human beings create conflicts, and once created, it conceptualizes the way human beings and their actions are "transformed" by the conflict dynamics and vice-versa. Used prescriptively, conflict transformation acknowledges that conflicts are inherent in all social interactions, and the challenge is thus to transform how the conflicts are dealt with, rather than trying to get rid of them, a goal that often cannot be achieved (Lederach 1995; Bush and Folger 1994). The conflict transformative approach emphasizes that a conflict can also result in positive outcomes and need not be damaging in the end. A conflict can be transformed into an opportunity for the parties involved. A key idea of conflict transformation understood prescriptively is that it tries to achieve "sustainable peace", i.e. a stable combination of peace and justice (Lederach 1995).

Conflict resolution is more focused on outcome and less on process and relationship; it seeks to resolve the conflict issues in the sense that the conflict is not present anymore afterwards. Conflict resolution seeks to fulfill different interests through a (often third party assisted) process of negotiation, a give and take that optimally concludes in a "win-win" situation (Fisher et al. 1991).

To analyze a conflict situation we present three conflict analysis frameworks: 1) the position-interest-needs framework (Fisher et al. 1991) focusing on "actors" and "issues", 2) the power-rights-interests framework (Ury et al. 1993) focusing on "actors", "context" and "causation", and the conflict escalation model (Glasl 2002) focusing on "dynamics". "Options/strategies" play a role in all these frameworks. The first two are oriented to conflict resolution, the last one to conflict transformation. There is no generally accepted "conflict theory". Using these three approaches, we sketch a wide range of possible aspects of a conflict and point out underlying principles. Furthermore, each of these approaches addresses issues crucial to markets.

2.2.1 The Position-Interest-Need Framework

The framework organizes a conflict analysis along the questions "What do you want?" and, subsequently, "Why do you want what you want?". Critical, detached and honest answers to these questions lead from "positions" to "interests" and "needs". ***Positions*** are what we say we want, fixed ideas and solutions to solving our problem (and the "other" party's problems!). An example for positions would be two countries staking claims for fixed amounts of water from a shared river. ***Interests*** are the reasons why we want what we want. The interests could be the use of water for irrigation or hydropower, respectively. Fisher et al. (1991) point out that by focusing on interests in negotiations we will better satisfy our goals than if we focus on positions. Mutually compatible gains are more frequent and more innovative changes in collective agreements are found if both conflict parties use an interest-based negotiation approach (Paquet et al. 2000). There are indications that interest-based negotiation is a useful framework for analyzing negotiation in many situations, even if it is not universally applicable (Senger 2002). ***Needs*** are the most powerful human interests. Max-Neef (1991) differentiates between nine basic needs that people strive after simultaneously: subsistence, protection, affection, understanding, participation, idleness, creation, identity and freedom. The human needs approach to introducing a market would be to find out – with the people affected – if the market will help to satisfy these needs or not. Often the needs are the same irrespective of the other differences between the conflict parties. In the example above, the common basic need is to use the river as a basis for development (cf. the situation in the Nile Basin, Mason 2004). According to Burton (1990), a conflict cannot be sustainably transformed if the basic needs of the conflict parties are not satisfied[4].

Conflicts are intrinsically loaded with emotions (Rosenberg 1999). Reasoning and emotions need to be integrated, as emotional techniques are central to post conflict reconciliation processes (Long and Brecke 2003). Awareness regarding one's own and the other's emotions is crucial to move from "positions" to "interests" and "needs". However, often people in conflicts are advised to focus on "facts", emotions are seen as childish complications of the problem. Expressing and recognizing emotions is one of the first steps to changing a situation. By expressing our emotions like fear, anger and hope, we can move closer to our interests, as we no longer have to grasp in panic at our positions:

> "Ultimately, however, conflict lies not in objective reality, but in people's heads. (…) Fears, even if ill founded, are real fears and need to be dealt with. Hopes, even if unrealistic, may cause war. Facts, even if established, may do nothing to solve the problem." (Fisher et al. 1991).

In summary, the position-interest-needs approach focuses on why we want something and the basic needs behind this. Emotions and language need to be paid due attention.

2.2.2 The Power-Rights-Interests Framework

This framework focuses on the different approaches conflict parties take in negotiations to reach an agreement. Conflict parties can try to resolve a conflict by seeking to understand the other parties' interests, or they can try to apply rights, laws and contracts or use coercive power to force the other party to make concessions. Human relationships are characterized by the respective power of the parties, the rules and rights governing interaction, and interest based negotiations between the parties (Ury et al. 1993). The conscious use of these elements during negotiation is more effective then a pure interest-based approach (Lytle et al. 1999).

Power can be seen as our possibilities to enforce our own will, even against the resistance of others. One can differentiate between *coercive power* and *synergetic power* (= power that comes from cooperating). In mediation one seeks to tap into the synergetic power that arises when the conflict parties address their problem together. Here, if not specified otherwise, we use "power" in short to refer to coercive power. Power factors are *specific* to each situation and *relative* towards the other parties involved[5]. If actors take on a power focus in dealing with conflicts, the result is generally a distributive agreement that may lead to a desire for revenge or the initiation of future conflicts (Ury et al. 1993).

Imbalance of power (e.g. Deutsch 2002) is one of the main causes of conflicts related to "oppression", i.e. to experiences of repeated, widespread, systemic injustice. Consensus-based negotiations need some degree of "coercive" power symmetry between conflict parties to be successful in generating "synergetic" power. If power asymmetry exists, it is tempting for the relatively more powerful party to use coercive rather than synergetic power. In this case a negotiated outcome may be blocked, one-sided and the weaker party may be manipulated. Yet power is never equally balanced, awareness of power is necessary to deal constructively with it, to realize when a consensus approach is at all possible. Low-power actors can nevertheless be influential. Analyzing the role of the Alliance of Small Island States (AOSIS) countries in climate negotiations, Larson (2003) shows how low-power actors may be more influential in multilateral negotiations than in bilateral ones, which are less inclusive and transparent.

Rights, ***rules*** and ***laws***, formal and informal, are agreed on by a society, organization or group to regulate interaction, avoid violence and make life more predictable. Rules and laws represent a balance of interests on an abstract, generalized level. In contrast, negotiations represent a balance of interests on a concrete level (see below). Greater predictability reduces arbitrary actions of relatively more powerful people. Our freedom is curtailed by law to protect the freedom of others. Rules need to be backed by power to be implemented. The power should be separated from the rules to avoid power misuse. In a rights approach to negotiation, conflict parties refer to existing rights, laws and rules, especially if they are to their own position's advantage (Ury et al. 1993, Lytle et al. 1999).

Rules and laws in sum are invaluable to protect human rights and prevent and regulate conflicts. Rules and laws, however, tend to focus on a "right-wrong" and "win-lose" way of thinking.

Interest-based negotiations are bargaining processes, where each party defines the problem in terms of interests, ways are sought to "enlarge the pie" and mutually acceptable solutions are aimed at (CRC 1998). In contrast to rules and laws, interest-based negotiations can discover new ways to meet the interests and needs of both conflict parties. Such negotiations focus on "right-right" and "win-win" solutions. However, negotiating without consideration of the legal framework is as short sighted as application of laws when negotiations could reach better solutions.

All three elements of power, rights and interest-based negotiations are needed. The adequate "mix" of those is specific to a given situation. "Reciprocity" has a decisive influence on the "mix": negotiators tend to reciprocate interests, less so rights and power. Negotiators may refocus a negotiation on interests by the conscious use of reciprocity (Lytle et al. 1999). The "mix" of these three dimensions can change over time. Often a new problem is first solved by interest-based negotiations. Once an agreement is reached, the solution is then codified in a law for future similar situations. Laws can be viewed as frozen negotiation outcomes.

2.2.3 The Conflict Escalation Model

Conflicts escalate when "heavier tactics are employed, issues proliferate, increased resources are devoted to the struggle, issues become more general, relationships deteriorate, a goal of hurting the other party develops and additional participants enter the struggle" (Pruitt and Rubin 1986). The concept of escalation and the corresponding model developed by Glasl (2002) is related to the concept of "moral disengagement"[6], i.e. the process we go through during escalation to make it acceptable to inflict suffering on others (Bandura 1999). An example of moral disengagement is the process of dehumanization, where an opponent is viewed as less than a human being. Moral disengagement is one instance showing the effects the use of a certain language can have. According to Rosenberg (2004) a process oriented rather than static language is needed for conflict transformation and resolution. It is needs rather than position oriented. Smith (2002) also points out how legal language can be used to justify the "erosion of distinctions between soldiers and civilians and thereby to legitimize collateral damage". Language that depersonalizes and delegates responsibility is one form of moral disengagement.

The conflict escalation model is more process-oriented than the position-interest-needs approach. Similar to the power-rights-negotiations approach, it focuses on relations, interactions and perceptions. However, it puts more emphasis on the dynamics of these relations and the potential development that can be expected. It frames different levels of conflict according to different actions taken with respect to the opponent. Fisher and Keashly (1991) developed this idea in a contingency model of third party intervention. The escalation model and the psychological phenomena of moral disengagement can give some indication of when and how a third party can or should intervene in a conflict situation in a constructive way, or when and how propositions for new legal and institutional frameworks may be fruitfully adopted. Often the conflict parties operate at the same escalation level, but this is not a necessity.

Glasl (2002) differentiates between nine levels of escalation, summarized in Table 1 below. Important steps in this process are from escalation level two to three, when people no longer believe that talking helps. Another decisive step is from level four to five, when a conflict party directly attacks an opponent seeking to cause face loss and humiliation in public. The aim of analyzing the escalation level of a conflict party is that the method of intervention in the conflict should be adapted to this level.

[Insert table 1 here]

Table 1: Glasl's escalation model (adapted from Glasl 2002).

Besides being on a certain level of escalation, a conflict can be "hot" or "cold" (Glasl 2002). Hot conflicts are extrovert and explosive. Cold conflicts in contrast are characterized by an avoidance of the opponent. The importance of recognizing the temperament of a conflict lies in avoiding the mistake of perceiving a cold conflict for a low escalated conflict. Hot and cold phases may alternate, independent of the escalation level of a conflict.

3 Market Situations Seen as Conflicts

The conflict character of incomplete markets is described in this section. We illustrate why it is likely that the conflict intrinsic in the market situation is not resolved or transformed. We first discuss the complete market as the ideal reference case where no conflict is present, and which market-based policy instruments try to approximate.

3.1 Complete Market

We do not present a formal exposition of a complete market here. We only recapitulate the characteristics that are crucial for our discussion[7]. A competitive market in the general or partial equilibrium context with I consumers, J producers and L commodities is characterized by

- absence of external costs,
- complete information (esp. no asymmetric information, no transaction costs),
- absence of market power of a single producer or consumer (all participants face the same prices they cannot influence), or of a group of such, i.e. absence of collusion,
- absence of dynamics (potentially painful adjustments while reaching the equilibrium are no topic) and possibility for free entry and exit (any new producer can decide to enter or leave the market at any time).

In particular, no producer faces a downward-shaping supply curve that would signify increasing returns to scale (an increased output for example would lead to lower marginal costs and this would lead to a monopoly). The price of each traded good is given by the marginal costs, where the achieved level of supply is given by the market clearing condition that aggregate supply equals aggregate demand.

A competitive equilibrium is characterized by maximization of the profit of each producer, maximization of the utility of each consumer and a market clearing condition. The First Fundamental Welfare Theorem then states that such a situation is Pareto optimal, i.e. that nobody can be made better off without making at least someone worse off. This is the famous “invisible hand” of Adam Smith. “Pareto optimality” does not address questions of distribution and equity. The Second Fundamental Welfare Theorem states that for any Pareto optimal choice of utility levels of the consumers, wealth transfers are possible that lead to a competitive equilibrium with these utility levels. A central authority could achieve any Pareto optimal allocation it is interested in by wealth transfers among consumers. These results hold true for considerable generalization, but some assumptions are essential, in particular the presence of a competitive market.

The welfare theorems indicate that there is no conflict in this highly idealized theoretical setting. In a competitive market, producers and consumers are driven to interact in a perfectly compatible way resulting in the equilibrium situation. Neither market participant has the power to force his or her position onto others. This goes along with increased efficiency as an overall goal.

3.2 Incomplete Market

The shortcoming of the complete market discussed above is its highly stylized nature. If not all the necessary assumptions are met, the results fail to hold and the hitherto optimal outcome is no longer optimal. This is always the case in reality – real markets are incomplete. There are negative externalities, transaction costs and asymmetric information, there is market power, collusion takes place, there are painful adjustments processes and market barriers can make free entry impossible.

We now show how each of these issues potentially induces a conflict. In reality, they often come together further accentuating potential problems, particularly so under the presence of power asymmetry, which is almost always the case. According to the conflict definition from section 2, three conditions have to be met: 1) interaction, 2) experienced damage, 3) intended or ignored negative impacts. The first condition is met by definition in market situations. The third is met in general, as each market participant is generally not interested in the fate of the others. We thus discuss only the second condition.

Negative externalities: Negative externalities arise if the price of a product does not fully account for the (social) costs incurred in its production. The actions causing the externality are often directly related to some damage incurred by another party. Examples are resource overuse or pollution. Often, there is forced interaction in the context of negative externalities: parties primarily not part of the market are forced into interaction as they incur parts of the costs and get nothing in exchange for it.

Asymmetric information, transaction costs: Without complete information, the quality of goods and services cannot be verified in advance and in relation to other offers. Transaction costs refer to the costs necessary to get this information, or to the costs related to set up business relations or contracts, to enforce regulations, etc. This leads to sub-optimal outcomes and to potential damage to the party not able or willing to get full information or to incur the necessary costs.

Market power, collusion: Under the presence of market power of single or groups of actors, e.g. based on collusion, other parties incur damage almost by definition. The power can for example be used to exploit them, to force them into disadvantageous relations or to drive them out of the market.

Adjustments, market barriers: The necessity of adjustments and the presence of market barriers in the dynamic of real market situations can lead to damages because of missing financial means to deal with periods of adverse conditions or because of sunk costs that cannot be recovered.

4 Conflict Transformation in the Market Context

Conflict analytical approaches are a promising tool to deal with potential market-related conflicts. Ideally, these and market-based policy approaches complement each other.

4.1 Common Approach: Market-Based Policy Instruments

The main goal of this approach is to correct for missing aspects of a competitive market, thus creating situations closer to an ideal market or even introducing new markets. Having re-set the frame, the participants are again expected to act as in a competitive market setting. They maximize profits and utility and thus – it is hoped – also aggregated welfare will be maximized and overall efficiency will increase.

The main problem with this approach is that it may correct some market failures by transforming the situation towards a more competitive market, but it cannot always achieve the resolution or transformation of the conflict inherent in an incomplete market situation. Some failures will remain even after the intervention, – because a real market never achieves the theoretical ideal. In some cases the market-based instruments and the related simplifying economic models fail because they do not provide an adequate language and adequately broad concepts to grasp the complex situations of the conflicts related to real markets.

4.2 New Approach: Conflict Analysis

We now discuss conflict transformation and resolution in the incomplete market situation employing the conflict analytical approaches introduced in section 2.

4.2.1 The Position – Interest – Needs Approach
Answers to the questions “What do you want?” and, subsequently, “Why do you want what you want?” are sought.

In a market context, on a formal, theoretical level, answers to the first question take the form of “I want to make higher profits, to produce more cheaply and sell at higher prices!” from the producers side and “I want to have greater purchasing power, buy more cheaply, get more for my money!” from the consumer’s side. This is essentially the same answer in different forms. The answer to the second “why” question is also the same for both producers and consumers: “Because I want to maximize my profit, my utility!” In the formal market context, therefore, positions and interests are essentially the same. For a formal economic analysis in this context, the needs by definition take the same form as well.

The position-interest-needs framework can break this mono-dimensional view of the actors’ motivations in a market. This is essential, for in case of the introduction of a market or a liberalization process there may be an inherent unresolved conflict. Only the correct identification of positions, interests and needs allows for steps towards a resolution or transformation (cf. section 2.2.3).

To apply the concepts of position, interest and needs widens the language used. Actors opposing or harmed by the introduction of a new market can communicate with a language that expresses their perspective, rather than adopting the economic language used by the proponents of the new market. Concerns would thereby no longer have to be translated into the predominantly economic language. In this way concerns, which have in the market-based approach been considered as “soft factors” of secondary relevance are given greater importance. A more level communication field between opponents and proponents can be created.

4.2.2 The Power – Rights – Interests Approach
“Power” is crucial in driving outcomes in any incomplete market. “Rights” and rules refer to the legal and informal boundary conditions and context of a new or liberalized market. “Interest-based” negotiations are crucial in the process that has led to these or may alter them in the future.

“Rights” and “interests” are important in both the market-based and the conflict analytical approach and also essentially have the same standing, although “interests” are more narrowly defined in the economic approach. “Power” is perceived very differently. In the market context it mainly refers to economic issues and is a means to hold the positions or to achieve any goal formulated. This ultimately signifies power to influence the prices – be it directly or by capturing the political authorities to set advantageous rules, or by other channels. In conflict analysis, power is a much broader concept involving psychological aspects as well. It can even develop a certain dynamic of its own and become a goal in itself, not only a means to fulfill positions, interests and needs.

To move towards resolution of a market-based conflict it is essential to identify the power distribution between the involved parties. In particular, it is necessary to achieve this not only regarding economic power but also including a wider understanding of the concept.

4.2.3 The Conflict Escalation Model
Not paying due attention to the possibility of conflict escalation in a market situation may leave this process unrecognized until it gets out of hand making its mitigation difficult. The escalation model provides a tool to recognize these essential dynamics in time and to identify which actions should, and can, be taken.

In the market context, "moral disengagement" (cf. section 2.2.3) becomes relevant the more indirect the relations between the participants are. Many do not care about the labor conditions of the people that produce their clothing or food – or they do care but do not act accordingly. As the manufacturing often takes place thousands of miles away the likelihood of disengagement is very high. Explicitly addressing moral disengagement in markets could thus serve to make issues related to equity and power a topic.

4.2.4 Synthesis of the Three Approaches
Besides pointing to specific issues, each of the three approaches can be understood as setting some minimal boundary conditions to the implementation of new markets or a de-/re-regulation process.

The *position-interest-needs* framework sets boundaries with regard to basic needs. Basic needs can be differentiated from luxury interests. Some political decisions and societal agreements on what has to be delivered by public services and what not enters this decision in almost every case. A distinction based on some objective criteria is only rarely possible (e.g. in case of the amount of water necessary to physically survive). This approach argues that goods necessary to satisfy basic needs (e.g. drinking water, hygiene and food preparation) are different from other consumption goods (e.g. water to fill a swimming pool; cf. Perry et al. (1997) on water markets in the third world). Guaranteeing access to the goods necessary to satisfy basic needs at an equitable level avoids conflicts on this basic and vital level. It thus can be argued that these goods should not be traded in a market, while a luxury good can well be. Access to water for basic human needs, for example, has been declared by the UN as a fundamental human right (UN 2003).

The *power-rights-interests* approach suggests that a successful introduction of a market or liberalization is only possible if the power-distribution between the actors is not too unequal. If it is, weaker parties need to be empowered or protected through legal or other means.

The *escalation model* draws attention to possible boundaries regarding conflict dynamics. If there is already a conflict, the introduction of a market may further escalate the situation. In such a case it is highly unlikely that it will be implemented successfully. Before introducing a market or taking steps towards a liberalization, it is necessary to be aware of any potential conflict already present, be it latent or manifest. Actions towards recognizing, resolving or transforming this conflict have to be taken before further steps in the other issues are possible.

4.2.5 Two Examples
We present two examples to show the potential of conflict analysis to avoid or counteract market-induced conflicts.

1) Drinking Water Liberalization in Cochabamba: There are different perceptions of the events related to the privatization of drinking water in Cochabamba, Bolivia's third largest city during 1999/2000. Reports agree that drinking water was privatized, water rates increased, demonstrations followed and the drinking water was then returned to public control. There are differences on the causes and actors involved, however. According to a popular and anti-globalization oriented view, water bills following privatization were unfair and for some residents were equal to a quarter of their income. Demonstrations by poor people followed, including violent riots. In April 2000, the government sent troops, some 100 demonstrators were hurt, and one person was killed (depending on the source, zero to nine deaths are reported). The violence subsided only after the water system was returned to public control (de la Fuente 2003). Despite such opposition in Cochabamba as well as elsewhere, the IMF loan agreements often call for some degree of water system privatization – this is viewed critically as the rights of poor people are often not protected (Postel and Wolf 2001).

Another source draws a different picture. According to Nickolson and Vargas (2002), the tariff structure to be implemented after privatization was progressive, considerably supporting poor people. Indeed, the tariffs were higher than before privatization, but in combination with the obligation to connect the poor to the grid, poor people would have been better off than before, when they were dependant on private water-vendors who charged much higher rates than the richer citizens had to pay who were connected. According to this version of the story, the following causes of the conflict are given: 1) the timing of connecting the people to the grid, 2) the requested rate of return, and 3) the monopoly of the drinking water provider. The tariff increases were implemented before any improvement of the system and increase in connections had been undertaken. The requested rate of return on capital for these investments (16%) was difficult to justify to the customers although the consortium claimed that this was normal for such projects. Furthermore, the right to provide drinking water was given exclusively to the firm taking over the system. Thus, several interest groups (such as private water vendors or the richer households that had dug their own wells) who were going to lose from the privatization, seemed, according to Nickson and Vargas (2002), to have played a significant role in organizing the protest of the poor against the privatization plans. These groups used popular opposition to pursue their interests, mingling them with the necessity to assure the basic needs of the poor.

The water privatization in Cochabamba is an example where all three boundary conditions identified above have been violated. First, basic needs and interests of the several groups involved had not been systematically taken into consideration. There was no participatory introduction of the privatization plans that could have taken some of these interests on board by modifying the plans. This led to fear and an emotional opposition against the project in particular, and against privatization and “globalization” in general. Second, the power asymmetry between the actors was ignored. The increasing number of people with unmet “basic needs” and disparity in power between actors has also to be seen in the wider context of the structural adjustment programme of 1984 and the major state reform programme of 1993 that had not led to the promised results concerning growth and poverty alleviation. Third and related to the above points, an already existing conflict between the actors was not considered: the US-financed programs to eradicate coca-production in 1999 caused the coca-leaf farmers in the region to lose their source of employment. This caused considerable migration of these people to the city of Cochabamba with the corresponding consequences regarding unemployment rates and poverty (Nickson and Vargas 2002). Thus all three boundary conditions for the successful implementation of a privatization process were not explicitly addressed – to the detriment of both the consumers and producers.

In contrast to the classical regulatory approach, the conflict analytical concepts tools presented above would have enabled the government or the consortium to recognize these potential problems at an early stage. This would have given the possibility to act accordingly and to adapt the whole process to the genuine situation encountered, paying due account to the different groups and their positions, interests and needs, to the relevant power relations and to the latent conflicts in the region.

2) Globalize Markets / Labeling: Smallholders selling in global agricultural markets – respectively depending on traders in these markets – are not protected against price shocks, e.g. in cotton, sugar, or coffee. The smallholders in developing countries face market power, as they have to compete against subsidized large-scale producers in other countries (cotton from the US, for example). They often cannot satisfy their basic needs, as the profit on the market is too low and they cannot freely change business, as the infrastructure and skills cannot be exchanged quickly – if at all. Transaction costs militate against identification or realization of new, more profitable opportunities. Moral disengagement plays a crucial role, as the trade partners and the consumers, often far away geographically and mentally, show a minimum interest in the fate of the farmers – as long as they can buy at low prices.

"Labeling" can counter-act such problems. "Labeling" is a system to guarantee and monitor minimal social and environmental standards for the farmers and their products, examples include price guarantees or certification of organic production (see e.g. Dankers 2003). Another approach to mitigate certain negative effects of global markets is the "Extractive Industries Transparency Initiative" (DFID 2003) that aims to increase transparency of financial transactions related to markets with natural extractive resources (e.g. oil, copper, diamonds). Greater transparency of financial transactions related to resource extraction and trade would help prevent corruption, state failure and civil-war in countries that are heavily dependent on primary commodity exports, as government and companies could be made accountable for money received or spent (Collier, Elliott et al. 2003).

Labels and regulations to increase transparency can also be implemented in a traditional economic setting – thus serving as a source of information. In the conflict analytical approach, however, their application would go further, as questions of equity play a role and whole firms, industries, economic sectors or even nations could commit themselves to only buying and allowing certified products – to counteract moral disengagement in a comprehensive way.

5 Conclusion

Any real market is potentially a conflict. We therefore suggest complementing market-based instruments with conflict analytical approaches when designing and assessing markets. Especially in cases where new markets for previously not traded goods are introduced or where tightly regulated markets are liberalized, conflict analytical concepts add new dimensions.

By widening the traditional economic discussion through the introduction of concepts like needs, power, escalation and moral disengagement, new views can be integrated. The conflict analytical approach also provides minimal boundaries to the introduction of a market or to a liberalization process. If these boundaries are not met – if fulfillment of basic needs is not guaranteed, the power asymmetry is too great or there is a minimally escalated conflict already present – introduction of a market or a liberalization process are unlikely to be successful. Identification of these boundaries can support cooperation between potential opponents and proponents of such policies.

The conflict analytical approaches make these the "soft" aspects of markets an explicit topic. They support the identification of the limitations of markets and suggest ways to mitigate these. This would not be possible if economic concepts were used alone, as conflict analytical approaches help to find out in advance whether market-based instruments may be successful.

The introduction of conflict analytical concepts enriches the language that can be used in such situations. This is especially important for the opponents of new markets as it allows them to formulate their points in their own language. They no longer need to feel pressed to only use economic concepts, as is the case if only economics provides the "legitimate" concepts to be used to assess a certain situation – as is frequently the case. This helps to distinguish actions performed in best economic practice and in line with cooperative behavior from actions that should be considered aggressive but come under the cover of wise economic strategy. Conflict analysis adds a moral component to the discussion. This might seem unscientific, but it is unavoidable if one wants to deal with the real problems of our societies. We therefore argue that it is better to do this systematically in a well-organized and well-enunciated way, rather than letting the divide between proponents and opponents of markets increase.

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Endnotes

[1]There are exceptions, though, such as the discussion of regulatory impact assessment in Kirkpatrick and Parker (2004) or the guidelines for water privatisation given in Gleick et al. (2002).

[2] "For the purpose of this study, [the term social conflict] will provisionally be taken to mean a struggle over values and claims to scarce status, power and resources in which the aims of the opponents are to neutralize, injure or eliminate their rivals." (Coser 1956).

[3] "A social conflict occurs when: 1) at least two parties interact in such a way that at least one of the parties experiences incompatibility in their interaction, and 2) the damage resulting from their incompatible interaction is seen as stemming from the other party. Interaction is understood as interaction of thought and/or feeling and/or will *and* action (action can be speech, perceptions alone are insufficient)" (freely translated from Glasl 2002).

[4] Rather than power being a main cause of conflict, the human needs theory approach says that it is people seeking to fulfil unmet needs that is a primary cause of conflict. The difference between interests and needs is that needs are non-negotiable (Burton 1990).

[5] - Micro level "power" factors affecting interpersonal relationships include age, education, gender, rhetoric and social skills, etc.
- Meso level "power" factors in organizations include, among others, available budget, number and quality of employees, media presence and networking, etc.
- Macro level "power" factors in international conflicts include e.g. socio-economic, military, cultural and geographical factors.

[6] "The moral disengagement may centre, among other possibilities, on the cognitive restructuring of inhumane conduct into a benign or worthy one by moral justification, sanitizing language, and advantageous comparison." (Bandura 1999).

Table

Escalation Level	Description
1. Hardening	Positions harden, first confrontation. The conviction still exists that tensions can be solved in discussion. There are no fixed camps.
2. Debate	Polarization of thinking, feeling and will. Black and white thinking. Perception of superiority and inferiority.
3. Actions	“Speaking will not help anymore”. Strategy of “fait accompli”, presenting the opponent with facts on the ground. Empathy is lost. There is a danger of false interpretation of the other side.
4. Images, coalitions	The parties maneuver each other into negative roles and fight these roles. Parties seek support from people who have not been involved so far.
5. Loss of face	Public and direct attack, aiming at the loss of face of the opponent.
6. Threats	Threats and counter threats. The conflict accelerates through ultimata.
7. Limited destructive blows	The opponent is no longer seen as a human being. As a consequence of dehumanization, limited destructive blows are legitimate. Values are shifted, ones own “small” loss is seen as a worthy investment.
8. Fragmentation	Destruction and fragmentation of the opponents system is a main aim.
9. Together into the abyss	Total confrontation without any possibility of stepping back. The destruction of oneself is accepted as the price of the destruction of the opponent.

Table 2: Glasl’s escalation model (adapted from Glasl 2002).