Optimal Mediators in Conflict Resolution

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Extended Abstract

We study the design of optimal mediation protocols in the framework of Mitusch and Strausz [2005, "Mediation in situations of conflict and limited commitment", *Journal of Law, Economics, & Organization*, 21(2), 467-500]. In this model, an agent possesses private information about a binary state of the world. This information is required by an uninformed principal in order to make a decision in the real line. Individuals have quadratic preferences, with a difference in their bliss point parametrized by a *state-dependent* bias parameter. Therefore, a conflict of interests between both parties arises because of the agent's informational advantage. We assume that in order to resolve such a conflict of interests, both parties can engage in a mediation procedure. We consider mediation protocols in which a neutral trustworthy mediator gathers information from the agent and makes non-binding recommendations to the principal. The agent's report is not verifiable either by the mediator or by the principal, which allows the agent to strategically manipulate his private information. Within this setup, we compare the two scenarios in which every individual is given effective control over the information transmission strategies that a mediator can adopt. Unlike the standard classic framework by Crawford and Sobel, in which both scenarios are (mathematically) equivalent, in our setup, the fact that the bias parameter is state-dependent creates room for disagreement between both individuals regarding the best mediation protocol. Our main results show that a necessary condition for mediation to be helpful (i.e., to improve upon babbling equilibria) is that the likelihood of a conflict of interests between both individuals be not too high. This condition also turns out to be sufficient when the principal chooses the mediation protocol. When the agent chooses the mediation protocol, however, sufficiency further requires that the difference in the degree of conflict between both states be not too large. We also show that whenever mediation is helpful for both parties, they will agree on the choice of the mediation protocol. On the contrary, if mediation is only beneficial for the principal, then the agent will prefer to remain silent. In this latter case, it then comes naturally to ask: which mediation protocol should we expect to be selected when both parties are allowed to bargain over different mediation plans? Such an agreement must stablish an *equitable* compromise between the payoff maximization goals of both individuals. We build on Nash bargaining theory in order to provide an answer to this question. When defining the individuals' disagreement behavior, we consider two different possibilities. In the first case, we assume that both parties cannot commit themselves in advance to any planned strategies in the event of disagreement. Under such circumstances, the conflict is resolved in favor of the agent, i.e., the Nash bargaining solution gives the agent what he would demand if he were given the power to select the mediation protocol. In the second case, we assume that each player can before negotiation commit himself to a single planned strategy that he would carry out in the event of disagreement. In this instance, the conflict is resolved in favor of the principal.