

Extensive Summary

AN ECONOMIC APPROACH TO THE THEORY OF MEDIATION

Effective mediation for a conflict resolution with incomplete information:

Biased or Unbiased?

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Introduction

With its widespread application to the issues of international dispute resolution, prevention of civil war or conflict, commercial disputes, legal conflicts including but not limited to ones between the employer and employee, marriage dissolution; mediation is an important tool for generating cooperation between conflicting parties. Despite the extensive literature on mediation for conflict resolution, due to the quantitative and qualitative nature of these studies, the theoretical underpinnings of as to why mediation is needed and when it is effective remains underinvestigated. However, especially given its applications across several geographical internal and external conflicts, ascertaining the mechanisms of effective mediation is of utmost importance for conflict resolution around the world.

Within this context, the contribution of this study is twofold. First, we will lay out the conditions under which the conflicting parties with asymmetrical or incomplete information in a given circumstance (that is to be specified shortly) will feel the need for a mediator. Following that, we will show the characteristics of an effective mediator in terms of being biased or unbiased for the conflict resolution to succeed, using the methods of game theory. Finally, we probe the plausibility of the hypotheses we generated with conflict resolution cases from around the world.

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Method

One of the main sources of conflict between the parties is the existence of uncertainty stemming from asymmetrical, private, or incomplete information, which is the very focus of many studies on conflict resolution in the disciplines of economics and political science.³ In our model, the source of incomplete information relates to the levels of importance attributed to different issues that are affected by the strategic interaction of two parties who have conflicting interest on some issues while they share common interest in others. At this point, a mediator who claims a better understanding of the levels of importance of these different issues at stake among the two parties may increase chances of resolution by conveying this information. In order to model this situation, we take a version of "cheap-talk" (costless communication) games extensively researched in formal modeling and provide a simple theoretical model of mediation. In the basic cheap talk game, "a sender" with access to private information conveys this information to "a receiver" who then takes an action that determines the payoff of each player. Adapting to the current framework, in ours, "the sender" is the mediator and two actors in conflict are the "receivers". These receivers are engaged in a strategic interaction that affects two-issues involving common and conflicting interests with varying levels of importance attributed to each of these issues. More importantly they may lack information as to the importance of these issues for the other actor, i.e. the two actors have incomplete information about the importance of each issue for the other party. A mediator who is better informed about the importance levels of the two parties may reveal this information (truthfully or untruthfully) by costless communication. We analyze the Bayesian Nash equilibria of the described game and determine the conditions of when the mediator

³ An impartial list includes Fearon (1995), Powell (1999, 2004), Leventoğlu ve Tarar (2008), Meiorowitz ve Sartori (2008), Yared (2010), Sanchez-Pages (2012). Some studies model the conflict by introducing incomplete information about the bargaining powers of each side; whereas others model it as it is rooted in the uncertainty stemming from the private information about the military strenght of the agents or about the benefit and cost of the war for the parties.

chooses to be truthful and found credible by the conflicting actors, and what characteristics (biased or unbiased) she should have for a successful mediation that would increase the probability of cooperation in equilibrium. Furthermore, in addition to the cheap talk, in our model, if she prefers, the sender (mediator) can change the payoff structure through its interaction with the receivers, which can be interpreted as using carrot and stick strategies. We investigate when costly carrot/stick strategies may be preferred to costless communication (cheap talk) by the mediator.

Results

Our findings indicate that in the case of complete information, as both actors are aware of the different levels of importance attributed to each issue by the other actor, the only way for the mediator to ensure conflict resolution is by imposing incentives or sanctions (carrot and stick strategies). The minimum amounts of these are determined by the payoff structure of the game. For the mediator to assume this role, the interest it is to derive from the parties cooperation should exceed the cost of incentives and sanctions it is to impose. In this case, whether the mediator is biased or not is unimportant in that both biased and unbiased mediators that can impose sanctions or incentives can potentially increase the likelihood of conflict resolution.

An example of a successful mediation of this kind can be found in the embargo employed by Organization of African Unity (guided by United Nations) against both Ethiopia and Eritrea in 1998 when they had a border conflict. When the parties reached an agreement the UN Security Council sent peacemaking troops and observers to both countries to ensure implementation. This indicates the cost of ensuring conflict resolution for the mediator.

Yet, in the case of incomplete information, mediator has two options in increasing the odds of cooperation. One is the costly incentives & rewards provision as in the case of complete information, and once again the biasedness of the mediator should not make a

difference when this method is applied. The other option which has no direct cost on the mediator is provision of the missing information on the different levels of importance attributed to each issue by each actor via cheap talk. For this method to succeed the mediator should be perceived to be a truth teller by each actor. The qualifying characteristics of a truth teller are; the mediator should not be indifferent to the different outcomes of the conflict, she should also not prefer one outcome to the other by a large margin, and be unbiased. The unbiasedness of the mediator is defined as its opposition to abuse of one side by the other.

A successful case of an information providing mediation by an unbiased mediator is exemplified by UN mediation of Turkey and Armenia (which have common interest in trade as neighbouring countries but conflict of interest due to the historical events surrounding the 1913 events) by the signature of the October 2009 protocol to establish and promote diplomatic relations. Nonetheless, despite the provision of missing information, bias of the mediator can jeopardize resolution as in the unsuccessful mediation case of Camp David. US President Bill Clinton's attempts to end the conflict between Israel and Palestine on July 2000 reached no end as Palestine saw US as a biased mediator trying to trap it in a bad deal.⁴

Conclusion

In this article we attempted to answer two important questions widely debated in the literature on conflict resolution. One relates to the role of the mediator in cases of incomplete information between the conflicting parties and second relates to the relation between the biasedness of the mediator and its success in resolving conflict. Our results have important theoretical and political implications. First they indicate that the attributes of a successful mediator depends of the kind of conflict in that, in the case of asymmetrical information between conflicting parties specified in the current paper, the mediator has to be unbiased to

⁴ Amnon Kapeliouk, *A summit clouded by suspicion*; Haaretz, 23 November 2001.

be perceived as a truth teller in costless communication, but she should not be indifferent to the outcome of the conflict. While these are the necessary conditions of a successful mediation they may not be sufficient. Yet, when the mediator imposes sanctions and incentives both in the cases of complete and incomplete information, both costly methods, its biasedness does not play a role on the outcome. Our initial plausibility probe of different conflict resolution processes across the world also lays out cases that could provide support for the hypotheses generated by our model.

We should emphasize that in reaching these conclusions we assumed a one shot instead of a dynamic game as in the latter the mediator is more likely to be perceived as a truth teller due to its tendency to build or maintain a reputation. This model can be further improved by modeling a dynamic game where we can incorporate the implications on the actors' behavior from previous attempts into the model. Another way of improving this model would be by incorporating a mediator who is biased to Actor A on some issues and Actor B on others. Also, multiple mediators, some biased some not, can also be incorporated into this model in a related research agenda.