

## **BARGAINING PIECEMEAL OR ALL AT ONCE?**

New research published in the *Economic Journal* provides valuable insights into the process of negotiation and in particular whether it is better for the two sides to make a bargain one issue at a time or on all issues simultaneously. The authors of the report, Professors **Kevin Lang** and **Robert Rosenthal**, use both theoretical analysis and one of the authors' direct experience of negotiations between an employer and a union.

Several years ago, Kevin Lang was living in a community where tense teacher-contract negotiations were in progress. With the threat of a strike looming, he found himself involved in informal and unofficial mediation between the teachers' union and the school board. There were two major issues separating the parties: the first was salaries; the second concerned continuing litigation between the two parties.

For a variety of reasons, Lang urged the parties to reach an agreement on the litigation, sign it, and then turn to negotiating salaries. Both parties resisted the suggestion. Union officials worried that if they got a favourable settlement of the litigation, the school board would then argue that there was no money left for wages. Representatives of the school board claimed that they did not know how big a settlement they could afford unless they knew the outcome of the salary negotiations. Each party was convinced that settling the issues sequentially would put it at a strategic disadvantage.

There were plenty of 'how to' books offering conflicting advice on bargaining and mediation strategy, but Lang, a labour economist at Boston University, wondered whether economics offered any guidance. He turned to colleague and game theorist, Robert Rosenthal.

They found that existing models of bargaining were ill-suited to their purpose. Economists generally assume that whatever the process of bargaining, parties will reach agreements that cannot be changed without making one of the two parties worse off. If the union and firm first agree on hours and then on wages, it may be possible to go back and change both (for example by both increasing hours and wages) in a way that both the union and firm prefer. So most economists who think about bargaining assume that all issues get discussed at once.

Lang and Rosenthal use a very stylised model of bargaining. The parties take turns making offers. Delaying agreement is costly. So each side weighs the benefits of making an offer that is more favourable to itself against the cost of further delay.

The authors work through a series of examples and show that in some cases, both sides are better off if they negotiate one issue at a time while in others they are better off if they negotiate all issues simultaneously. In yet other cases, one side would be better off negotiating individual issues while the other would be better off bundling all the issues.

This last scenario means that how bargaining is structured can greatly influence each party's strategic advantage. Frequently, a union is the sole bargaining agent for the employees of a particular employer but is organised into several bargaining units, representing different groups of employees. This structure allows the union to insist that issues distinct to each bargaining unit, such as the wages of different types of workers, are negotiated separately. In at least some cases, the union will be better off with this structure. In others, combining several bargaining units into a single negotiation will be advantageous to the union, and possibly to the firm as well.

In many ways, these results are bad news for both economists and practitioners. For economists, the news is that they cannot ignore the black box of negotiation by simply assuming away outcomes in which mutual gains are possible. For practitioners, the news is that, at this stage, economists do not have much advice to give them.

**Notes for Editors:** 'Bargaining Piecemeal or All At Once?' by Kevin Lang and Robert Rosenthal is published in the July 2001 issue of the *Economic Journal*. The authors are at Boston University.

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