

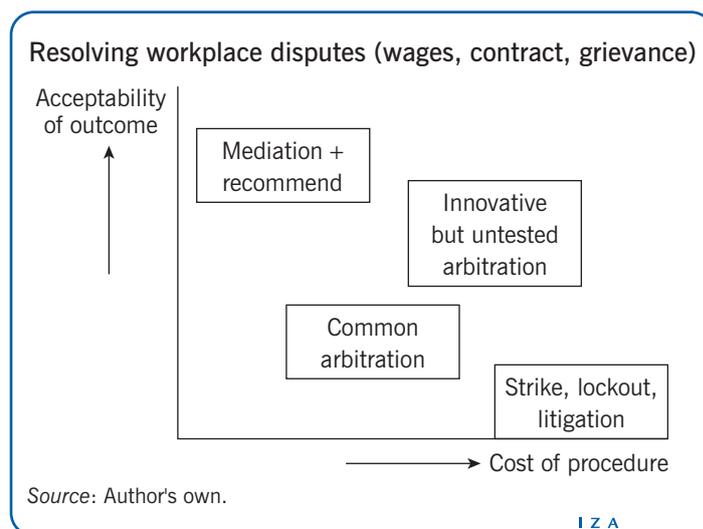
Alternative dispute resolution

How different procedures might succeed in settling disputes

Keywords: dispute resolution, arbitration, mediation, risk aversion, optimism

ELEVATOR PITCH

Alternative dispute resolution procedures such as arbitration and mediation are the most common methods for resolving wage, contract, and grievance disputes, but they lead to varying levels of success and acceptability of the outcome depending on their design. Some innovative procedures, not yet implemented in the real world, are predicted to improve on existing procedures in some ways. But controlled tests of several procedures show that the simple addition of a nonbinding stage prior to binding dispute resolution can produce the best results in terms of cost (monetary and “uncertainty” costs) and acceptability.



KEY FINDINGS

Pros

- + Binding dispute resolution guarantees a settlement.
- + A well-designed procedure can promote voluntary settlements.
- + A nonbinding stage to a dispute resolution procedure can help limit disputes caused by incomplete information.
- + Any procedure promoting voluntary settlement is likely to be beneficial in the long term.

Cons

- Common dispute resolution procedures increase dispute rates relative to such alternatives as strikes and lockouts.
- Poorly designed dispute resolution procedures may limit good faith bargaining.
- Settlements from a third party may be extreme and less acceptable than voluntary settlements.
- Dispute resolution procedures may be addictive, as reliance on them can increase over time.

AUTHOR'S MAIN MESSAGE

Dispute resolution procedures can be useful for workplace wage negotiations, contract disputes, or other grievances. The most helpful type uses a nonbinding stage (such as mediation) before any binding procedure (such as arbitration) to reduce unrealistic expectations and encourage voluntary settlement. Controlled laboratory tests show that adding a nonbinding stage is effective and easier to implement than complicated theoretical procedures. Policymakers should consider high-quality laboratory evidence, just as scientists do, so that conclusions or policy decisions are not based on misinterpretations of confounding factors typically present in naturally occurring field data.