Review of *Inefficient Concessions and Mediation*

This paper attempts to highlight with a theoretical model why countries may make inefficient gifts to one another (which provide less value than their cost) to develop trusting relationships. The basis of their model is an infinitely repeated game where only high discount rate types would be prepared to always cooperate with each other. It also attempts to highlight a beneficial role for a mediator in facilitating gift exchange and so creating that trust.

Comments:

I'm afraid that I did not like the paper. Ostensibly the authors apply some basic game theory and mechanism design to a very simple model (they would thus seem to offer little in the way of a technical contribution). If this could highlight some important features of peace negotiations and mediation, however, it could still be great. Sadly, I really don't think I learnt anything of great interest here - in fact its not entirely obvious what the authors really believe is the important contribution. Is it that when stage game payoffs (in particular the incentive to defect in a prisoner's dilemma) can be affected gifts (which otherwise serve as useful signals), then inefficient gifts which don't affect those stage game payoffs can be good? That seems kind of obvious.

My biggest frustration with the paper is its exposition. It is very poor. The authors need to lay out each iteration of their model rigorously and clearly, stripping out much of the superfluous discussion along the way (in a related point - the introduction wonders around aimlessly with such discussions, although that is less harmful). The clarity of proofs/explanations can also be considerably improved. It is often hard to know what the authors are trying to say. This applies particularly to section 4 and 5 but is evident throughout. To take an example, consider the start of section 4. We are told that α_i is the portion a country chooses to allocate to the civil and military sectors, and now players payoffs in the stage game are a function of their investments. What function? Are we assuming linearity here so that $T(s_2 + \alpha_2 g_1)$ means $T \times (s_2 + \alpha_2 g_1)$. Also, do concessions still have a direct benefit to utility of g_i? How is it related to the previous model? (Also, why these functions? The setup seems slightly contrived. And why can't subjects use other payoffs, not just gifts, to change their stage game?). Immediately afterwards we are told in Theorem 3, itself, to consider a situation when concession has no material value. This possibility shouldn't be bought up for the first time in the middle of a theorem - it was previously stated that the benefit to j of a concession of g_i was g_i.

In section 5, the introduction of the mediator is similarly unclear. Is the mediator able to enforce choices of parties spending on civil vs military sectors, as well as subjects actions in the prisoners' dilemma? If both why doesn't everyone sign up and commit themselves to mutual cooperation. If only where gifts are spent, then why doesn't a low type exchange gifts (only) with another high type and then defect evermore afterwards. If neither, why can't one of the parties tell the mediator that they are a high type and then simply refuse to follow through on making a gift? Writing out what the incentive constraints are supposed to be would undoubtedly help clarify what the authors see the mediator's role.

To the extent that I do understand what they are trying to do, it does not seem like mediation at all. Typically, a mediator is viewed as able to communicate with parties and make recommendations to bring them to a voluntary agreement. A mediator should be able to therefore receive messages and transmit messages back out before letting the parties choose their actions freely. I certainly don't think it is reasonable to expect a mediator to be able to enforce outcomes such as parties spending on domestic vs military sectors going forward (nor their actions in the prisoner's dilemma). To claim that mediation is actually beneficial, it should also be compared to multiple rounds of free communication (cheap talk) which could also potentially improve outcomes (see Horner et al(2010)).

Why don't the authors consider the possibility for asymmetric equilibria to bring Pareto improvements?

In particular, even when $\delta_l < \frac{W}{W+D}$, a low and a high type could potentially improve on "always defect" in a number of ways, (e.g. having the high type always cooperating and the low type cooperating half the time, using a public correlation device). In fact with different discount factors players can typically get payoffs outside the convex hull of stage game payoffs (Lehrer and Pauzner 1999). The possibility of sequential separation could also lead to softer incentive constraints than those considered (e.g. in period 1: player 1 always chooses F, but a high type player 2 chooses T. If 2 chooses T in period 1, then in period 2 and 3 a high type of player 1 chooses T, before reverting to grim trigger from period 4 onwards?) Could sequentially ordered gift improve outcomes?

The literature on starting small (e.g. Watson 1999) and gradualism is quite similar to the idea of trust building through gift exchange and should also be discussed.