

## ABSTRACT

This paper is about face-to-face bargaining. It attempts to shed some light on the contradictory evidence provided by laboratory face-to-face bargaining experiments and real-world data. The problem is that while face-to-face bargaining seems efficient in the lab, it appears to break down often in the real world. Our explanation for this discrepancy relies on the fact that in the real world face-to-face bargaining is usually conducted not between principals but between the agents of principals, i.e., between fiduciaries like lawyers. Hence while people meet face to face and bargain, the fact that these bargainers are acting as agents for others leads to a breakdown of efficiency. In short, the efficiency of laboratory face-to-face bargaining relative to real-world experience is not an artificial aspect of a laboratory environment, but rather a result of the fact that in the real world bargaining is often done through agents and not directly by principals. A set of experiments run to investigate this hypothesis is reported on here. We find a substantial increase in inefficiency when bargaining is conducted through agents rather than through principals and offer an explanation for this rise in inefficiency.