

Abstract

Fallback bargaining is a bargaining procedure under which bargainers begin by indicating their preference rankings over all alternatives. They then fall back, in lockstep, to less and less preferred alternatives—starting with first choices, then adding second choices, and so on—until an alternative is found on which all bargainers agree. This common agreement, which becomes the outcome of the procedure, may be different if a decision rule other than unanimity is used. The outcome is always Pareto-optimal but need not be unique; if unanimity is used, it is at least middling in everybody's ranking.

Fallback bargaining may not select a Condorcet alternative, or even the first choice of a majority of bargainers. However, it does maximize bargainers' minimum "satisfaction." When bargainers are allowed to indicate "impasse" in their rankings—below which they would not descend because they prefer no agreement to any lower-level alternative—then impasse itself may become the outcome, foreclosing any agreement.

The vulnerability of fallback bargaining to manipulation is analyzed in terms of both best responses and Nash equilibria. Although a bargainer can sometimes achieve a preferred outcome through an untruthful announcement, the risk of a mutually worst outcome in a Chicken-type game may well deter the bargainers from attempting to be exploitative, especially when information is incomplete.

Fallback bargaining seems useful as a practicable procedure if a set of "reasonable" alternatives can be generated. It leapfrogs the give-and-take of conventional bargaining, which often bogs down in details, by finding a suitable settlement through the simultaneous consideration of all alternatives.

JEL Classification: D58, D63, D71. *Keywords:* Bargaining; impasse; social choice; Condorcet winner; implementation; Nash equilibrium.