

Information and Bargaining through Agents

Experimental evidence from Mexico's Labor Courts

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Motivation

When we think about the efficiency of public sector services, we usually think about management

Here we take a different approach. Can providing information to *users* of the public service make the institution more efficient?

Our Project

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We undertake two main activities.

- 1 **Administrative case files:** We digitize data from more than 5000 completed cases.
 - Characteristics of the worker: wage, tenure, claims, etc.
 - Outcomes: settlement, judgment, award (collected)

We use these data to document a set of stylized facts about the functioning of the court.

- 2 **Experiment(s):** We implement two interventions in 5 sub-courts of the MCLC:
 - *Information:* We use the data from the case files to predict outcomes of ongoing cases, based on case characteristics. "The calculator"
 - *Conciliation:* Encourage parties to sit with a conciliator before their hearing.

The main outcomes of interest are settlement rates and settlement amounts.

Motivation: Bargaining

Courts are a disciplining device for a bargaining game between the plaintiff and defendant.

- Most cases reached a bargained settlement.
- The 60% settlement rate in Mexico is lower than rates of 70% in Australia, 80% in the U.S. 90 in Sweden, etc.

Context

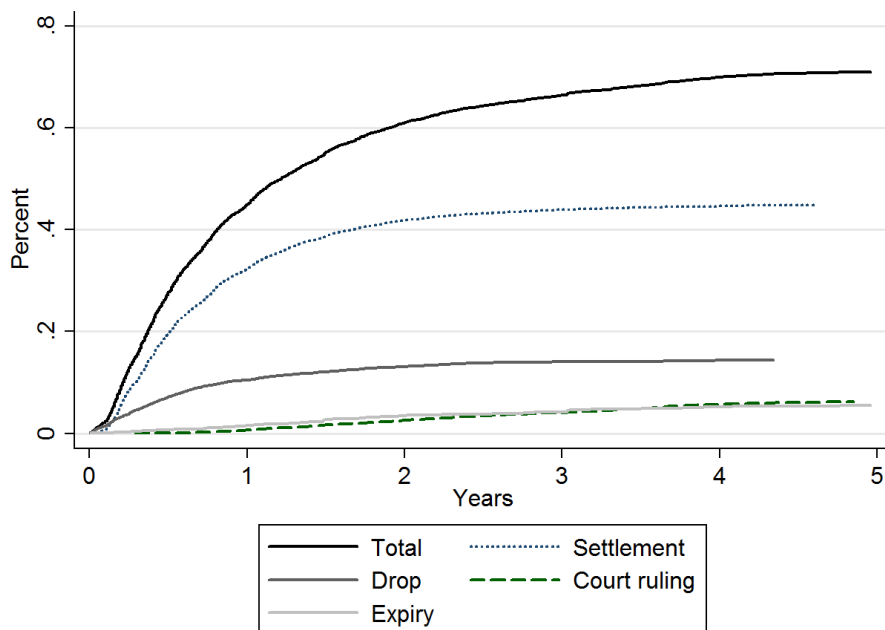
- **The court:** We work with the Mexico City Labor Court (MCLC).
 - Receives 30,000 new cases per year.
 - Its backlog would take 4 years to process.
- **The lawsuits:** The courts must determine fair/unfair dismissal.
- **The law:** Proving fair dismissal is difficult; legal severance is a minimum of three months' wage with benefits. Defendants may claim:
 - I don't know this person
 - This person resigned voluntarily
 - I did not fire this person, will offer reinstatement
- **Enforcement:** is not trivial. Workers collect nothing between 30 and 50 percent of the time the judge rules in their favor.
- **Lawyers:** Legal representation is necessary to file a lawsuit. Lawyers dominate the process of the lawsuit. The presence of the plaintiff / defendant at hearings is not compulsory.

Stylized Facts: Long Duration

We begin by describing a few stylized facts based on data from the case files and surveys.

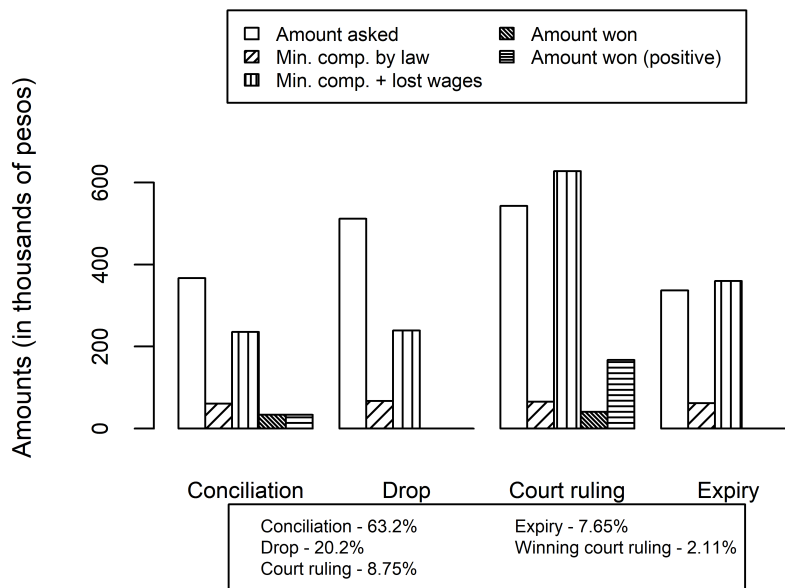
- **Fact 1 (Low settlement rates in spite of long trials):**

- Mexico 52% of cases are settled. (79% in Australia, 80% US, 90% Sweden.)



Stylized Facts: Recovery is low

- **Fact 2 (Awards are low):** The amount awarded is a small percentage of the amount asked for, and is even less than what the law mandates.



Experimental Design

Interventions: The experiment was conducted with parties in ongoing cases in two phases:

- Phase I:
 - A single sub-court (7)
 - 1103 cases, March - May 2016
 - Interventions on information and conciliation
 - hearings at all points of the process

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 - ~1300 cases, October 2016 - March 2017
 - Information treatment only (+ placebo)
 - First hearings only

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Outcomes

- We use administrative records of the court to trace case outcomes
- We conduct surveys before [and after] treatments to measure expectations (and other variables)

Design, Phase I

- **Participants:** At the day level, randomly assign parties to cases with hearings on the day to one of three conditions:
 - ① Information from a "Calculator" with a range of predicted outcomes based on the characteristics of their case (e.g., wage and tenure).
 - ② Encourage parties to sit with the sub-court's conciliator before proceeding with the hearing
 - ③ A control condition with neither of these two.

Experiment: provide information to reduce information asymmetries and debias parties

Given the environment of low information, misaligned incentives, overconfidence, and possible agency issues...

- **Treatment 1: “Calculator”**. provide (objective) statistical information that could help “debias” the plaintiff’s expectations and lead to more settlement.
 - Based on data from 2500 concluded cases in Phase I and 5000 cases in Phase II
 - Probability and amount won conditional on winning
 - Unbiased prediction (out of sample tests – good fit)
 - Explained that is was an average for concluded cases similar to theirs.
- **Treatment 2: “Expert advice”**. Face-to-face advice from a conciliator.
- Take-up of treatment was about 70 % in each arm. Will show ITT results.
- **Outcomes:** Settlement, welfare of the plaintiff (more on this later)

Calculator treatment

CÁLCULO DE COMPENSACIÓN TRABAJADOR MARZO 2016

Datos del Trabajador

Género: Hombre Salario diario: \$350.00 mxn diarios Antigüedad: 6.23 años

En caso de despido injustificado, la Ley Federal del Trabajo le otorga al trabajador las siguientes prestaciones mínimas:

1.- Indemnización Constitucional - consistente en 90 días de salario diario integrado:	\$31,500.00
2.- Prima de Antigüedad - 12 días por año laborado a razón del salario base con tope de 2 veces el salario mínimo:	\$9,687.39
3.- Aguinaldo - Parte proporcional de 15 días por año, a razón del salario base, del último año calendario laborado:	\$1,861.80
4.- Vacaciones - Parte proporcional de vacaciones del último periodo laborado, a razón del salario base:	\$1,060.50

SU COMPENSACIÓN DE LEY: \$44,109.68

¡IMPORTANTE! Después de 3 años, el 48% de los juicios NO ha concluido.

Ahora le mostramos resultados de juicios concluidos y que son SIMILARES al suyo.
Nos basamos en 4500 expedientes de 2009, 2010, 2011 y 2012.

	%	Tiempo estimado	Cantidad pagada
Convenio	65.11%	0.86 años	\$26,052.29
Desistimiento	25.62%	0.65 años	\$0.00
Caducidad	3.40%	2.94 años	\$0.00
Laudos con pago	3.41%	2.39 años	\$50,925.21
Laudos sin pago	2.46%	1.01 años	\$0.00

Tomando en cuenta las posibilidades de ganar y el proceso de ejecución, los datos estadísticos indican:

SU COMPENSACIÓN ESPERADA: \$18,699.32

Main Results I

The results in Phase I and Phase II are very consistent:

- ① We find that **same day conciliation increases by 4 - 5pp** for calculator and conciliator
 - 6% (12%) of the Phase I (Phase II) control group settles on the day; The higher settlement rate in Phase II may reflect the selection of first hearings.
- ② Settlement is 14 pp more likely *in the control group* when the employee is present.
- ③ The **treatment effect** is much stronger when the worker is present.
 - The calculator effect is significant only when the employee is present, when it is 14 - 16 pp.
 - The conciliator treatment (Phase I) is 16 pp stronger when the employee is present.
- ④ There is an increase in the percentage of cases settled in all three groups over time.
 - The calculator treatment effect does not change significantly over time.
 - The conciliator treatment effect appears to increase over time when the employee was present, but goes to zero when the employee was not present.

Main Results II

Table 3: Treatment Effects

	Months after treatment					
	Same day		2 months		5+ months	
	Experiment		Scale Up		Experiment	
	(1)	(2)	(3)	(4)	(5)	(6)
Control	0.060*** (0.012)	0.034*** (0.011)	0.12*** (0.027)	0.11*** (0.027)	0.061*** (0.014)	0.18*** (0.022)
Calculator	0.051** (0.021)	0.019 (0.017)	0.041** (0.018)	0.0074 (0.017)	0.031 (0.022)	0.0089 (0.032)
Conciliator	0.054*** (0.021)	0.033* (0.018)	-	-	0.032 (0.022)	-0.0014 (0.031)
Emp present (EP)		0.14*** (0.047)		0.14* (0.072)	0.13*** (0.049)	0.073 (0.057)
Calculator##EP		0.16** (0.076)		0.14 (0.092)	0.15* (0.078)	0.21** (0.087)
Conciliator##EP		0.16** (0.081)	-	-	0.20** (0.084)	0.30*** (0.090)
Observations	1074	1074	1294	1294	1074	1066
R-squared	0.01	0.12	0.046	0.10	0.1	0.06
DepVarMean	0.1	0.1	0.21	0.21	0.12	0.22
Calc=Conc	0.89	0.49	-	-	0.96	0.75
Calc=Conc=0	0.01	0.17	-	-	0.23	0.94

Settlement vs. projected judgment

(b) Settlement amount vs Judgement amounts

Treatment effect. Nearest-neighbor matching					
Phase 1/2					
	(1)	(2)	(3)	(4)	(5)
ATE	8513*** (1105)	7577*** (1021)	8864*** (1116)	4849*** (1405)	-3172 (2849)
% ATE	253	225	264	73	-28
Baseline mean		3363		6623	11386
Obs	344	344	344	345	345
Obs HD	353	353	353	367	382
Matches	[1,1]	[1,3]	[1,1]	[1,1]	[1,1]

Notes: Table (a) shows the difference in settlement amount between those induced to settle and our control group. Table (b) shows the difference between settlement amount and court-ruling amount as a counterfactual. It is important to note that in panel (b) only Calculator and Conciliator arms are considered, hence the difference in observations in both panels. Counterfactual and settlement quantities are brought to present value at the time of suing with a monthly interest rate of 0.797, with a 30% cost, and an initial fee of \$2000 pesos for private lawyers and deflated into June 2016 MXN pesos. The ATE is calculated via nearest-neighbors matching between casefiles from Phase 1/Phase 2 and Historical Data (HD) with the basic variables (Public lawyer, Gender, At will worker, Tenure, Daily wage & Weekly hours), entitlement by law and calculator prediction for court ruling amount. Different models are as follow:

- (1)- Baseline 1-1 matching, trimmed at 95%
- (2)-Baseline 1-3 matching, trimmed at 95%
- (3)-Exact matching on public lawyer, bias adjustment correction on continuous variables, 1-1, trimmed at 95%
- (4)-Same as (3) but trimmed at 99%
- (5)-Same as (4) but no trimming

Private lawyer agency

- Evidence on inflation of initial claim: Private lawyers ask for much more in initial suit, conditioning for observables. But recover only about 20% (gross) more than public lawyers implying plaintiffs are worse off, on average.
- Current intervention providing information about the public lawyer's office to dismissed workers coming to the court prior to filing a suit
- Working on a "lawyer quality index". This is challenging, because outcomes are quite variant in the matching of plaintiffs to lawyers is endogenous.

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Our results indicate that the plaintiffs retain control of decision-making when they are fully informed.

- Their lawyers retain influence over decision-making by controlling the flow of information to clients.
- Agency lives, but information can overcome it.