

How Does Pre-Play Communication Deteriorate Efficiency in a Social Dilemma? Experimental Study on a Gift Exchange Game*

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Abstract

To explore whether pre-play communication deteriorates efficiency in a social dilemma by stimulating self-interested behavior, we conducted laboratory experiments on a gift exchange game in the context of firm-worker relationships; this game models the incentive problem in an incomplete labor contract. Our experiment consists of three treatments: one is the baseline gift-exchange game and the other two consist of the worker's payoff-irrelevant voice. In the intention treatment, before the firm makes a wage offer, the worker discloses to the firm the wage he is willing to receive and the effort level he will choose if he/she receives the desired wage. The request treatment is the same as the intention treatment, except that the worker only discloses to the firm the wage he is willing to receive. Although the literature shows that such communication improves efficiency, we find that in both treatments, the worker's voice has negative effects on his/her reciprocal preferences, resulting in reducing the economic surplus in his/her labor contract. This finding suggests that pre-play communication does not always improve efficiency in a social dilemma.

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