Over the past 40 years, the George J. Stigler Center for the Study of the Economy and the State has focused on elucidating the interaction between politics and the economy through research and teaching on regulatory capture, subversion of competition by special interests, and the role of private markets and competition in promoting welfare. Since its founding in 1977 by Nobel laureate George J. Stigler as the Center for the Study of the Economy and the State at the University of Chicago, the research center has operated as a joint enterprise of economists and legal scholars at Chicago Booth, the Department of Economics, the Law School, and other areas of the university. The center was renamed in Stigler’s memory after his death in 1991.

To carry out its mission of promoting competitive markets, the Stigler Center has embarked on a program of outreach, education, and research. The center publishes a working paper series and a case study series, and disseminates its research via conferences and lectures. In addition, the center engages with the wider community through its blog ProMarket, its Journalists in Residence Program, its podcast Capitalisn’t (in collaboration with Chicago Booth Review), and outreach with students and alumni.

The Stigler Center is a significant contributor to the continuity and growth of Chicago Economics, which is known worldwide for four attributes:

- A view of economic theory as a powerful tool for understanding the world
- A deep appreciation for the role of private markets in promoting human welfare
- An understanding of the legal infrastructure that facilitates market performance
- Careful empirical testing of the predictions of economic theory
The academic year 2018–19 was a year of unprecedented visibility and activity for the Stigler Center. As the world grapples with issues of antitrust, privacy, global declining competition, and corruption, our work continues to grow in relevance and impact.

At the forefront of the center’s programming was the third annual Antitrust and Competition Conference, which focused on the initial conclusions from the Stigler Committee on Digital Platforms. Formed after my call to action in the 2018 conference, the committee worked throughout the year to address the impact of digital platforms on the economy, privacy and data protection, politics, and the media. Each subcommittee produced independent white papers on the platforms’ economic and societal impact, with tangible policy recommendations for the way forward. I am proud of the incredible strides the committee has made over this past year, and as the conversation on digital platforms and regulation intensifies, I look forward to seeing how the policy proposals of the committee inform and potentially influence the debate.

The Stigler Center lecture series expanded further, with more than a dozen events featuring renowned scholars and experts. The diversity of guests included short-only hedge fund chief Fahmi Quadir (nicknamed the “financial assassin” for her unparalleled skill and dedication in uncovering fraud) and former governor of the Reserve Bank of India and IMF chief economist, Booth professor Raghuram G. Rajan. Our campus partnerships were also strengthened as we collaborated with the Initiative on Global Markets, the Rustandy Center for Social Sector Innovation, the Institute of Politics at the University of Chicago, and the European Policy Hub at the Harris School of Public Policy, among others.

The Journalists in Residence program—now in its third year—continues to increase in popularity with a steady rise in applicants and the most diverse applicant pool yet. The eight fellows in the 2019 cohort hailed from seven countries and a variety of news outlets, including *The Australian*, the *Financial Times*, *Harvard Business Review*, and *L’Espresso*. It is remarkable to see the connections developed among the cohort and the global reach of the program, as well as their ongoing engagement with the Stigler Center.

Our ProMarket blog continues to educate the public about the many ways in which special interests subvert competition. This year was particularly noteworthy for ProMarket, which crossed one million unique page views. The blog also gave readers an exclusive look at the Committee on Digital Platforms’ executive summaries ahead of their official release in May. After a successful first year, *Capitalism’s*—the Stigler Center podcast—continues to gain acclaim and make new inroads on a popular new platform, with 25-plus additional episodes released.

As we head into a new academic year, I am looking forward to the stimulating diversity of events we have planned. I hope you will join us as we continue to question, research, discuss, and engage.

Sincerely yours,

Luigi Zingales
Faculty Director, Stigler Center
Robert C. McCormack Distinguished Service Professor of Entrepreneurship and Finance, and Charles M. Harper Faculty Fellow
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impacting the World</strong></td>
<td>6</td>
</tr>
<tr>
<td>Stigler Center Lecture Series</td>
<td>7</td>
</tr>
<tr>
<td>Stigler Center Minicourses</td>
<td>20</td>
</tr>
<tr>
<td>Conferences</td>
<td>24</td>
</tr>
<tr>
<td>Capitalism</td>
<td>26</td>
</tr>
<tr>
<td>ProMarket</td>
<td>27</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>28</td>
</tr>
<tr>
<td>Courses</td>
<td>29</td>
</tr>
<tr>
<td>Case Studies</td>
<td>32</td>
</tr>
<tr>
<td>Journalists in Residence Program</td>
<td>36</td>
</tr>
<tr>
<td><strong>Innovative Research</strong></td>
<td>38</td>
</tr>
<tr>
<td>Working Papers</td>
<td>39</td>
</tr>
<tr>
<td>Faculty Research</td>
<td>46</td>
</tr>
<tr>
<td>PhD Awards</td>
<td>50</td>
</tr>
<tr>
<td>Visiting Scholar</td>
<td>51</td>
</tr>
<tr>
<td>Visiting Researcher</td>
<td>52</td>
</tr>
<tr>
<td><strong>Donor List</strong></td>
<td>53</td>
</tr>
<tr>
<td><strong>About George J. Stigler</strong></td>
<td>54</td>
</tr>
</tbody>
</table>
IMPACTING THE WORLD
Launched in 2016, the Stigler Center’s lecture series features thought leaders from academia, business, politics and policy, and the media—including experts in how incumbents can shape markets and political systems to their own ends. In 2018–19, the Stigler Center hosted 13 of these events, on topics ranging from the politics of finance to the rise in global populism, to the impact of digital platforms on democracy and markets. Videos of Stigler Center events can be found on the Stigler Center website and YouTube channel.
Capitalism’s cohosts Katherine Waldock and Luigi Zingales hosted a live episode taping with author Yascha Mounk to discuss his latest book *The People vs. Democracy: Why Our Freedom Is in Danger and How to Save It*.

Waldock and Zingales asked Mounk to elaborate on his use of the term “populist,” which he deploys with mainly negative connotations, particularly in regard to national leadership. “You seem to have this view that if you have a populist president, necessarily you drift into disaster, but if you look at the history of the US (and someone like Andrew Jackson who challenged the corrupt elite), then it seems to be pretty positive,” said Zingales. Mounk responded, “It’s not easy to destroy democracy. And there’s plenty of cases where populists failed to do that. But, on average, they do tremendous damage to democracies. A populist who is elected in democratic elections is removed from office through free and fair elections less than 50 percent of the time.”

The lively conversation concluded with a final sentiment from Mounk that “the best way to fight against [extremism] is to create a plausible vision of how we can have quite radical change, of how we can actually shake up our political system and reform some of the ways in which it’s not delivering for people. But without being ideologically extreme, without giving up on the basic founding values of our country and the basic founding ideals of liberal democracy.”
Not Your Typical Short Seller: A Conversation with Fahmi Quadir
November 12, 2018

The Stigler Center hosted a conversation between Fahmi Quadir and Stigler Center faculty director Luigi Zingales. Quadir’s short-only hedge fund is focused on fraud identification and deep forensic research, and she founded it in 2017 at the age of 26. In 2015, she was an equity analyst who, as a former math and biology major, recognized the unsustainable nature of Valeant Pharmaceuticals’ business model and pushed her then-employers to short the stock, causing it to fall more than 90 percent.

Zingales started out by acknowledging that shorting has gotten a bad reputation as being somehow “un-American” and morally repulsive, with short sellers often depicted as vultures profiting from turmoil. “You, on the other hand, are doing shorting with a social purpose. How did this happen?” Quadir responded that short sellers can perform crucial functions in exposing weaknesses, fraud, and illegal activities and, as such, halt or curtail otherwise catastrophic consequences for numerous consumers and investors alike: “Short selling is about asking questions nobody else wants to ask because usually the truth is the hardest thing to hear.”

In terms of her genesis story, Quadir said she is first and foremost a mathematician, with no formal accounting and investment training, who found herself “a natural short seller.” “This isn’t necessarily a profitable enterprise,” she continued, “but I’m compelled to do the work because I like to find what’s wrong with these companies, to put together pieces of evidence and ask the right questions.”
Since Donald Trump’s presidential election victory in 2016, “populism” has become a buzzword in political analysis. But what exactly does American populism look like? Is the average American much more economically liberal than previously assumed? How should 2020 presidential hopefuls position themselves to harness populist energy?

The Stigler Center and the Institute of Politics at the University of Chicago welcomed Pulitzer Prize–winning New York Times columnist David Leonhardt for a discussion with Stigler Center faculty director Luigi Zingales on populism in America. Leonhardt discussed the 2016 presidential election and how the term “populism” differs on the left and right.

Zingales began the conversation by asking Leonhardt to define populism, noting that the term “is very often used … almost as an insult, [whereas] in your articles, you are much more moderate,” referencing Leonhardt’s calls for a shift to more populist liberal politics. Populism “sets the people off from some other elite group,” Leonhardt responded. “It’s a tricky word as your question implies, because that can take either very, very bad forms, like the form that it is taking in Hungary … like the form that it took in the 1930s.”

Zingales then argued that populism in America differs from populism in Europe because the “tradition of populism in America … is not Marxist and is not, in my view, revolutionary … [American populists] want to rebalance the power, but they don’t want to subvert society.”
What happens when corporate interests are allowed to trump public safety? That question—and its potentially deadly consequences—is at the heart of award-winning investigative journalist Carey Gillam’s acclaimed 2017 book, *Whitewash: The Story of a Weed Killer, Cancer, and the Corruption of Science*. In it, Gillam describes how she uncovered one of the most controversial stories in the history of food and agriculture: Monsanto’s Roundup.

Gillam was hosted in conversation with fellow investigative journalist Bethany McLean. “What I’ve come to understand and be quite fearful about is how modern agricultural practices have been driven and perpetuated by a handful of very powerful corporations, which have left us with a pesticide-dependent food production system in which farmers have been trained to rely heavily on insecticides, fungicides, and, especially, herbicides, which have been used much more widely in the last 20 to 30 years.” Gillam said Roundup became widely used before any evidence began to surface of its links to non-Hodgkin’s lymphoma and other cancers—evidence Gillam says was squelched in a targeted campaign. “Today,” she said, “glyphosate is so ubiquitous it’s even found in rainfall and our own urine samples.”

Following a conversation about how she arrived at the conclusions laid out in her book, Gillam emphasized the need to read news critically and be aware of our information.
Italy and the Future of Transatlantic Relations: Ambassador of Italy to the United States
February 22, 2019

“Which Europe do we want? Which Europe do we need?” His Excellency Armando Varricchio spoke to these fundamental questions in an address hosted by the Stigler Center. Varricchio was well placed to speak on the issue of transatlantic relations, both because of his current credentials as well as his past tenure as head of the economic, trade, and scientific affairs section of the Italian Embassy (2002–06) and in several other high-ranking positions, both within the Italian government and abroad.

Ambassador Varricchio acknowledged that today’s Europe represents a new era, one in which member states can no longer “face global challenges alone.” Europeans need solidarity beyond their national boundaries, he said, to embrace their commitment to diversity of culture, history, and religion. He laid out a vision for “reviving the European project,” emphasizing that we must “make sure we make it not just viable but also make it speak to peoples’ hearts and minds. We must make sure this project is given new cohesion in order to enhance its sustainability and efficacy.”
In February, the Stigler Center hosted a conversation between big data and finance expert Wei Pan and Chicago Booth accounting professor Michael Minnis on the challenges and opportunities of artificial intelligence (AI) in finance, economics, and beyond. Pan is currently focused on a new methodology known as “reality hedging,” which tries to understand financial market dynamics and macroeconomics through social systems analysis including people, crowds, and more complex social systems.

Minnis and Pan discussed the type, quality, and volume of information currently being collected; the main players in this collection; and the benefits and costs of all of this “harvesting.” Pan argued that although there are legitimate privacy concerns, big data can help “measure the economy in objective terms, which is a noble goal … Privacy concerns should not cause us to simply shut down the whole enterprise of data collection; rather, it should drive us to develop a more tightly regulated market, one in which people trust the government and the companies it regulates to ensure their information is protected and put to good use.”

Minnis pointed to the European Union’s General Data Protection Regulation, which he believes could serve as a model for similar legislation in the United States because it helps to broadly establish privacy standards and sets out a regulatory framework for compliance. Although California, New Jersey, and Washington have crafted similar legislation already, Pan believes the federal government should harmonize these standards across the board.
Raghuram G. Rajan on How Markets and the State Leave the Community Behind
March 5, 2019

As a professor of finance at Chicago Booth, former chief economist at the International Monetary Fund, and a former governor of the Reserve Bank of India, Raghuram G. Rajan has an unparalleled vantage point into the social and economic consequences of globalization and their effect on politics. In a conversation moderated by Stigler Center faculty director Luigi Zingales, Rajan introduced his new book, *The Third Pillar: How Markets and the State Leave the Community Behind*, which offers a framework for understanding how these forces interact.

Rajan started out by asking the audience to consider why there is so much angst about capitalism these days. In his view, we need to acknowledge that “capitalism is a state of equilibrium among a variety of forces, not just about the market itself.” He added that when markets fail communities, you often see a rise in populist nationalism as “a cry for help” from communities left behind. He then asked the audience to consider why it is that every single successful capitalist country is also a democracy. “Is it capitalism that produces democracy or vice versa—democracy that produces successful capitalism? What are the forces that push democracy?”

In Rajan’s view, the most crucial factor is the strength of local community. “Community is the building block of preparing you for the market and supporting you when the market fails. It’s also the building block for democracy, which is vital in keeping the state and market separate and preventing it from falling into crony capitalism.”
In his widely acclaimed book, *Winners Take All: The Elite Charade of Changing the World*, former *New York Times* columnist Anand Giridharadas argues that the rich and powerful have rebranded themselves as society’s saviors, espousing progressivism while never truly challenging their own positions at the top of the social order. Why then, he asks, should our most pressing problems be solved by an “unelected upper crust”?

Moderated by Chicago Booth professor Marianne Bertrand, and cohosted by the Stigler Center, the Rustandy Center for Social Sector Innovation, and the Institute of Politics at the University of Chicago, the discussion focused on the implications of the rich and powerful fighting for equality and justice, and what that means for democracy. “We see how they rebrand themselves as saviors of the poor, how they lavishly reward ‘thought leaders’ who redefine ‘change’ in winner-friendly ways, and how they constantly seek to do more good but never less harm,” said Giridharadas. He suggested the situation requires a fairly comprehensive societal overhaul: “Yes, government is dysfunctional at present. But that is all the more reason to treat its repair as our foremost national priority. Pursuing workarounds of our troubled democracy makes democracy even more troubled.”

“What is at stake is whether the reform of our common life is led by governments elected by and accountable to the people, or rather by wealthy elites claiming to know our best interests,” he added.
Digital platforms have raised pressing policy questions concerning their market power, handling of personal data, and influence on global media and political systems. In the lead-up to the 2019 Antitrust and Competition Conference—Digital Platforms, Markets, and Democracy: A Path Forward—the Stigler Center co-organized a series of public discussions on the topics being addressed in the invitation-only conference.
In a conversation cohosted with the European Policy Hub at Harris, Stoller and Rolnik discussed the historical origins of America’s monopoly crisis. “Monopolization and concentration are at this point a systemic part of the American political economy,” said Stoller. “With everything from search engines to social media … what we see is an enormous consolidation, fewer choices, and with that, less political liberty.” He painted the post–World War II era as a “golden age” of antimonopoly and criticized the role the Democratic Party has played in enabling the monopolization of the US economy, citing their 1980s turn toward big business as a reversal of their Jeffersonian values. He concluded with a reflection: “A monopoly isn’t just controlling government; it is government. And that’s the dangerous place we find ourselves in today.”

In a panel cohosted with the Chicago Council on Global Affairs, the conversation analyzed monopolization in technology and its impacts on the press. Srinivasan discussed how constant tracking and monitoring have fundamentally altered publishing, competition, and consumer freedom, as well as the lack of interoperability among social platforms. Cagé used the Arab Spring as a case study, noting that in 2011, social media was viewed as intrinsic to the success of liberation movements across the Middle East—a sentiment that has largely disappeared: “Ten years ago, access to free information on Facebook seemed to be an equalizing force that made us feel better informed. Today, we no longer have local news sources, and we find ourselves less informed than ever before. The future of liberty depends on how well people want to be informed.”

Panelists in a discussion cohosted with the European Policy Hub at Harris grappled with the differences between the European and American approaches to competition policy. “The question is not whether the government should act to regulate but how it chooses to do so,” said Vaheesan. Durkin, who launched his career working on the United States v. Microsoft case in the 1990s, said that while he is “sympathetic to the idea that less concentration in Big Tech markets is more socially optimal,” he’s “concerned both by whether antitrust is the right tool for the job and whether legislating more government intervention will have a negative outcome in the long term.” Crémer offered a European perspective, saying that the EU’s GDPR was cause for cautious optimism, though it’s still too early to know if the European solution is the right one for the United States.
Finance, Technology, and Society: A Conversation with Anat R. Admati
May 28, 2019

Are big banks and big technology companies efficient and beneficial to consumers, or are they symptoms of underlying problems? Should policy support all small community banks and every tech startup? How can media be used as a tool to drive structural reforms in the economy?

The Stigler Center hosted an event with Stanford University Graduate School of Business professor Anat R. Admati, moderated by clinical associate professor of strategic management at Chicago Booth Guy Rolnik. The conversation focused on the ways and reasons that markets and policies may fail in these sectors and what should be done to address such failures.

During the discussion, Admati and Rolnik explored the complex interactions between business, law, and policy (what Admati termed the “politics of finance”) that determine whether and how well the private sector and governments serve society. Admati disclosed an early inclination toward exposing “the elephant in the room.” In regard to large financial institutions, which, she noted, have benefited from subsidies and bailouts since the 2008 financial crisis, Admati said that it is important to focus on “enablers” and not just “dangerous actors” when unpacking how public policy is shaped by and for large corporations. She also observed that “academic capture” contributes to biased policymaking, further prejudicing the market.
The Economy and the 2020 Election: What Happens Next?
May 29, 2019

Whether it’s trade wars, Medicare for all, or breaking up big technology companies, the 2020 election will have an impact on the global economy. But which of these ideas could actually happen, and what would they do to the economy?

In May, the Stigler Center cohosted an event centered on these questions with the Chicago Booth Government and Policy Club and the Harris School Center for Economic Policy. Featuring Booth professor and former Federal Reserve governor Randall S. Kroszner and Adam Creighton, economics editor at The Australian and a Stigler Center 2019 Journalist in Residence, the conversation touched on how the campaigns may play out, pressures on the Federal Reserve, and what to expect should President Trump win a second term. Other issues addressed were the current trade wars, modern monetary theory, antitrust and competition concerns related to big tech companies, and their potential effects on the US and the global economy.

Professor Kroszner touched on the general lack of concern about the US GDP and debt crisis, saying current borrowing rates are unsustainable and a sign for significant caution. He also noted that despite a growing sense of inequality in the world, median income in the United States is actually at a record high and continues to grow. When asked to speculate on the current direction of the economy, he predicted a global slowdown despite current signs of relative stability in interest rates and labor market numbers, suggesting that “there’s a disconnect; the fundamentals seem to be sound, but there’s reason to be cautious and take pause.”
In 2018–19, the Stigler Center continued its minicourse series. In this series, launched during the 2016–17 academic year and targeted to MBA and PhD students, the center invited leading scholars from other universities and experts from different fields to teach a series of stand-alone, interrelated seminars on cutting-edge ideas not incorporated into the standard curriculum. Three minicourses were held this year. Videos of the Stigler Center minicourses can be found on the Stigler Center website and YouTube channel.
Organizing Technological Change
October 15–17, 2018

How do organizations change as a result of digitization? How do organizational structure and change mediate productivity growth? How do organizations mediate changes in the structure and level of wages? And how are organizations impacted by the changing roles of managers in the knowledge economy, especially when they operate as “translators” within the organization?

On October 15–17, the Stigler Center hosted Luis Garicano, in three stand-alone, interrelated lunch seminars aimed at answering these questions. Professor Garicano approached the course curriculum from the perspective of a leading researcher on topics such as the impact of technology on economic growth, the organization of economic activity, and the future of work in the knowledge economy.

How Does Organization Mediate Changes in the Structure and Level of Wages?
In the first session, Garicano looked closely at the connection between technological innovations and changes in the nature of tasks, the organization of work and firms, and rising wage inequality globally. He explained how these connections affect routine tasks—particularly those that can be programmed by technology—differentially, which can lead to a loss in wages and occupations for the middle class.

The Changing Roles of Managers in the Knowledge Economy: Managers as Translators
In the second session, Garicano walked the audience through the changing roles of managers as the interface between different “languages” within the organization, exploring some of his more theoretical views and using consulting as a case study for deeper analysis. He explained that different knowledge bases among coworkers impact both coordination and motivation levels, so it is crucial that managers provide both the right knowledge base and motivation while also monitoring people effectively.

How Does Organization Mediate Productivity Growth and Economic Growth?
The minicourse concluded with a session on differential technology adoption in firms of different sizes and ownership structure, starting with the question, “Can slow IT adoption explain the productivity slowdown?” Professor Garicano explored recent evidence on the increasing gap between productivity growth in differently sized firms and different countries, resistance to change, and why some organizations refuse to adapt to the evolution of technology. He concluded that fierce competition, coupled with these noted differences—such as differences in “complementary investments in the software of the organization”—is widening the productivity gap on a global scale.
Public Sector Personnel Economics
May 7–9, 2019

How do politics, expertise, race, and gender affect the careers of US federal government civil servants, and what might this mean for the quality of civil servants and the US policies they generate? This central theme guided three stand-alone, interrelated lunch seminars taught by John M. de Figueiredo. De Figueiredo’s lecture series drew on his most recent study, which used raw data from a large cohort of US federal civil service employees from 1988 to 2011 to conduct a targeted examination of the careers of some six million employees. He sought to identify how factors such as ideology (as manifested through voting and responses to election outcomes) and wage discrepancies impact attitudes and participation in the public sector.

Elections, Ideology, and Turnover in the US Federal Government
In the first session, de Figueiredo elaborated by looking at how elections can and have influenced civil servants’ careers, and their influence over agency decisions and—as a consequence of both—US government policy outputs. He noted that particularly dramatic election results—for example, the election of Barack Obama or Donald Trump—can lead to mass turnovers in personnel, with implications for everything from loss of expertise to skewed impacts on policy outcomes.

Grade Inflation: The Changing Composition of Expertise in the Federal Government
In the second session, de Figueiredo looked at the rise in federal wages over the last quarter century to more closely study the source of these changes and the roles played by human capital (such as hiring expertise, promotion policies, etc.), concluding that federal wage increases largely mirrored trends in the private sector.

Are There Race and Gender Wage Gaps in the Government?
The final lecture analyzed the presence and sources of wage gaps in the federal government to draw conclusions about three particular categories: gender, race, and what de Figueiredo dubs the “terrorism wage gap”—which looks at wages in areas that are at high risk for, or have already been impacted by, terrorist attacks. He concluded by reiterating that public sector economics is a fascinating area of study right now, in part because it has been so underresearched in the past and—now that we have much data available—it can answer many more questions than before: “if we want to have a high-performing government, we have to have a strong understanding of public sector economics and how to improve it.”
Management Strategy and Beyond
May 22–24, 2019

What can big data teach us about variations in management practices across different markets and countries? Why does the quality of management vary across firms? How does management affect the performance of public sector organizations? Raffaella Sadun explored these questions in three stand-alone, interrelated lunch seminars with the Stigler Center.

Does Management Matter?
The first session provided an overview of several studies that documented variations in the adoption of management practices across firms and across countries, as well as their impact on firm performance. Asking why management practices should matter to economists, Professor Sadun noted that “efficiency is strongly related to wealth” and that large productivity differences correlate directly to wealth gaps between nations. However, these discrepancies are not only visible between countries but are widely visible within them as well, which she attributes to differences in management. 

Why Does Management Vary across Firms?
The second session looked closely at why the quality of management varies across firms, focusing on the role of “complements.” It started by looking at emerging evidence on the relationship between leadership behavior and management practices, addressing the basic question: “If these practices are really so easy, why is it so hard to adopt them?” Sadun went over what she sees as four key “managerial blind spots:” lack of awareness among managers; skill deficits, which sometimes make it impossible to put knowledge into practice; differences in competition and variations in ownership types; and, finally, organizational frictions around the ways in which workers understand their roles within the organization as “relational contracts.”

The Role of Management in the Public Sector
The minicourse concluded with a session exploring the role of management in the performance of public sector organizations, focusing particularly on healthcare.

“Efficiency varies across countries and firms,” said Sadun, “but how much of this variation is attributable to management practices? We have found that answer is up to 30 percent. How, then, do we close this gap to most positively impact performance, output, and even innovation?”
10th Anniversary of Financial Crisis Conference
September 13–14, 2018

In the 10 years since the collapse of Lehman Brothers, the 2008 financial crisis has reshaped economies, financial markets, and politics. Its causes, however, are still a matter of some debate among economists and policymakers. To mark the 10th anniversary of Lehman Brothers’ bankruptcy, the Stigler Center and the Initiative on Global Markets (IGM) organized a conference on the causes of the crisis, as well as the key players and mechanisms that played a part in it.

During the two-day conference, scholars presented new original research dealing with the roots of the crisis, its aftermath, and how best to avoid another one like it. Harvard University’s Andrei Shleifer presented a paper on the structure of price bubbles that built on earlier work he and his coauthors produced on diagnostic expectations, using a psychology-based model of belief formation to examine the mechanisms that drive “diagnostic bubbles.” Bo Becker of the Stockholm School of Economics presented new research in which he analyzed a large number of mutual fund prospectuses, revealing there has been no decrease in the use of credit ratings in investment mandates since the financial crisis. These findings, Becker argued, point to a lack of better alternatives and suggest that regulation seeking to curb their usage may not be optimal. University of Texas at Austin’s John M. Griffin, meanwhile, presented a paper that examined the rise and fall in house prices around the crisis and suggested that excess credit supply, particularly through subprime and dubious mortgage loans, stimulated housing demand and played a large role in the crisis.
2019 Antitrust and Competition Conference
Digital Platforms, Markets, and Democracy: A Path Forward
May 15–16, 2019

On May 15–16, the Stigler Center hosted its third annual Antitrust and Competition Conference. This year, the conference was dedicated to the topic of “Digital Platforms, Markets, and Democracy: A Path Forward.” The invitation-only event brought together economists, law scholars, journalists, venture capitalists, practitioners, and business people, including current and former employees of large digital platforms.

In recent years, digital platforms—most prominent among them Amazon, Apple, Facebook, and Google—have raised pressing policy questions concerning their market power; handling of personal data; and influence on the economy, media, and political systems. From the 2018 conference, a consensus emerged that the issues being raised by these platforms must be addressed and that independent experts should work together to study and recommend appropriate policy responses. Out of that concern, the Stigler Committee on Digital Platforms was formed and tasked with producing white papers by four specialized subcommittees.

The aim of the 2019 conference was to discuss the Committee’s initial conclusions. During the conference, participants addressed issues related to digital platforms’ impacts on the economy and market structure; the media; the political system; and data and privacy protection.

In a dinner keynote with Stigler Center faculty director Luigi Zingales, Facebook cofounder Chris Hughes argued that a lack of accountability was giving platforms like Facebook greater power than many nations, without any of the legal and political safeguards nations are held to, suggesting that we should not leave the task of fixing these issues up to the platforms themselves. During a fireside chat, Fiona Scott Morton of the Yale School of Management and the American Prospect’s David Dayen spoke with Google chief economist Hal Varian about the surveillance economy and privacy concerns—challenging his previous assertion that Google’s is a “tough business” that sacrifices profits in favor of responsible business practices.

At a panel discussion moderated by journalist Bethany McLean, George Mason University’s Tyler Cowen, and Tim Wu of Columbia Law School used each other’s most recent publications as the bases for debating larger questions about the value of antitrust enforcement and the role of regulation. Other panels discussed the overall landscape related to the economy and market structure, politics, privacy and data protection, and the news media industry.

The Stigler Center’s Zingales closed the conference with a call to action and a challenge for the year ahead: how to implement in a scientific way a different kind of antitrust.
CAPITALISN’T

Is capitalism the engine of prosperity? Does capitalism sow the seeds of its own demise? Could both premises be true? At the nexus of economics and politics, there is capitalism, and what Capitalisn’t cohosts Luigi Zingales and Kate Waldock want to know is how well it is—or isn’t—working.

The biweekly Stigler Center podcast, which launched in 2017, has been ranked in the top 5 percent of podcasts. According to Zingales, “the podcast was an experiment to reach a broader and younger public who is currently faced with huge economic problems but not always with the knowledge to cope with them.”

Pedagogical aims notwithstanding, in the recording studio, the buzz of their chatter over capitalism is infectious—“the sort of irreverent banter you’d hear between economists at a bar, if economists were capable of sarcasm and social enough to go out to bars,” as they describe the podcast on the Capitalisn’t website.

Covering everything from class warfare to the #MeToo movement to regulating Facebook and Google, Capitalisn’t shows that economics is so much more than most people think it is, relevant to all aspects of everyday life and politics, and certainly doesn’t have to be boring.

Recent episodes include:

**The Student Debt Crisis: There’s No Such Thing as a Free College**

With Democratic presidential candidates making the student debt crisis one of the central issues of the 2020 race, Waldock and Zingales give an in-depth economics look at the ideas of free college tuition and debt forgiveness, explain the history of how we got to into this student debt crisis, and debate some solutions for how to get out of it.

**Regulating Facebook and Google: A Three-part Series on Regulating Digital Platforms**

As digital platforms like Facebook and Google become globally powerful, some countries are investigating and even proposing legislation to regulate these companies. Building off the Stigler Center’s May 15–16 conference on these issues, Waldock and Zingales discuss with guest speakers like Fiona Scott Morton (Professor of Economics at Yale School of Management), Nolan McCarty (Susan Dod Brown Professor of Politics and Public Affairs at the Woodrow Wilson School at Princeton University), and Tyler Cowen (Professor of Economics at George Mason University) the impact of digital platforms on markets and beyond.

**Millennial Socialists**

Are millennials giving up on capitalism? A recent survey found a majority now prefer socialism. Zingales gets the scoop from our resident millennial, Waldock, who says most simply want European-style social welfare, student-loan debt relief, and campaign finance reform. Is that really so radical?

**Sex, Power, and the Ivory Tower**

Economists experience a major #MeToo moment. Waldock and Zingales explore the larger implications of a recent case involving a Columbia University professor who was found liable for retaliation against a female junior faculty member.

**The Reluctant Central Banker**

Do central bankers have too much power? Paul Tucker, an official at the Bank of England during the 2008 financial crisis and author of the new book Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State, explains to Waldock and Zingales how technocratic hubris can imperil democracy.
In its third year of operation, the Stigler Center’s political economy blog has continued to promote discussion on the core issues that have defined its coverage since it launched in 2016: the subversion of competition by special interests, barriers to entry, and regulation that protects incumbents and discourages competition.

The 2018–19 academic year has been a prolific one, as ProMarket crossed the one million unique page views mark for the first time. Led by its editor and writer, Asher Schechter, ProMarket has significantly expanded its array of guest writers, adding noted scholars, policymakers, and authors to its already-impressive list of contributors.

ProMarket has featured more original research done at the Stigler Center, such as Mikael Homanen’s “Depositors Disciplining Banks: The Impact of Scandals” and the work of the center’s Committee on Digital Platforms. The blog has also retained its mix of cutting-edge academic studies and op-eds, along with long-form interviews with influential scholars and thinkers from a variety of disciplines such as economics, law, and political science, as well as industry experts and former policymakers. With articles on such issues as inequality, globalization, and populism, ProMarket has done its best to promote the sort of vigorous, fact-based public debate so crucial for democracies and well-functioning market economies. Sir Angus Deaton’s recent speech at the launch of his review of rising inequalities in the United Kingdom, published in full by ProMarket, is a case in point. Two other examples are ProMarket’s series on the Federal Trade Commission’s competition hearings, as well as Matt Stoller’s series on the recent resurgence of antimonopoly politics.

As the dominance of digital platforms and its implications for markets and democracy entered the forefront of the political debate worldwide, ProMarket featured a range of opinion pieces and articles outlining the extent of the challenge and what can be done. Ahead of the Stigler Center’s annual Antitrust and Competition Conference—Digital Platforms, Markets, and Democracy: A Path Forward in May, the blog published the executive summaries from each of the four specialized subcommittees, which comprised its Digital Platforms project. Other notable contributions from Jonathan Baker, Sally Hubbard, Fiona Scott Morton, and Shoshana Zuboff explored the vast challenges posed by the market power of digital platforms and offered ways for antitrust enforcers to act.

ProMarket’s goal is to gather information on the nature and costs of subversion of competition and educate the public about the importance of competitive markets. In its third year, the blog has retained its commitment to a nonpartisan exploration of those issues and to the economic principle that competition enhances welfare.
EDUCATION
COURSES

As part of its focus on regulatory capture and distortions created by special interest groups, the Stigler Center develops courses for MBA and undergraduate students.
In 2018–19, Stigler Center faculty director and Robert C. McCormack Distinguished Service Professor of Entrepreneurship and Finance Luigi Zingales taught one section of Crony Capitalism, which is primarily aimed at university undergraduates. He also taught two sections of The FinTech Revolution, which was launched in 2017–18.

**Crony Capitalism**

The economic system prevailing in most of the world today differs greatly from the idealized version of free markets generally taught in economic classes. In his course, Zingales analyzes the biggest problems facing the global economy—slow growth, inequality, pollution, the eurozone crisis—and examines the role that corporate governance, wealth inequality, regulation, the media, and the political process in general play in producing these deviations from the free market ideal. Zingales explains why all of these problems can be traced back to some form of crony capitalism, such as excessive lobbying and rent-seeking, not enough competition, the political power of producers, or nepotism, and why the crony capitalism that prevails in much of the world today is becoming more entrenched in the United States.

**The FinTech Revolution**

Between the eleventh and the fourteenth centuries, three legal innovations changed the economic and financial history of the world: fiat money (eleventh-century China), double-entry accounting (fourteenth-century Italy), and limited liability corporations (eleventh-century Italy). Accounting, banking, financing, and monetary policy as we know them today were all the result of these innovations. Blockchain, virtual currencies, and smart contracts promise to trigger an equally important revolution in the twenty-first century. This course walks students through the challenges and opportunities this technology offers, as well as the regulatory problem it raises.
In the Autumn Quarter, Guy Rolnik, clinical associate professor of strategic management, taught two sections of his Reputation, Regulation, and Communications—How Media Influences Business course. In the Spring Quarter, he taught two sections of Storytelling and Narratives in Business, which teaches students how to tell effective stories in the business world.

**Reputation, Regulation, and Communications: How Media Influences Business**

All businesses face multiple stakeholders: shareholders, customers, employees, activists, nongovernmental organization (NGOs), politicians, and regulators. Businesses interact with all these stakeholders mainly through the media. The media shape their reputation vis-a-vis their stakeholders, the way they are regulated, their costs, and their opportunities. This course explains how media influences companies and industries and how companies can affect this interaction. It starts by analyzing the economics of media companies and how they work on the commercial and editorial sides. It continues by going deeper into the interplay between media, regulators, and companies and focuses in depth on media and financial markets, crisis communication management, and the role of the internet and social networks. Students will participate in a simulation on the influence of the media on the stakeholders of a company, including shareholders and potential investors, customers, employees, activists, NGOs, politicians, and regulators. The simulation gives students the opportunity to put into practice some of the skills and strategies they will learn during the course.

**Storytelling and Narratives in Business**

Whether interviewing for a job, advancing in your career, leading organizations, motivating people, creating strong brands, building and sustaining reputations, or working effectively with politicians, regulators, and the media—successful managers, entrepreneurs, and companies share a few common, potent skills. They appreciate the importance of stories; they develop and maintain coherent strategic narratives; and they know how to tell them. This course studies the critical role of stories in driving success in many real-life situations. It delivers an understanding of how our reality comprises stories, establishing a critical perspective on stories in the arenas of business, economics, and politics, and examining the characteristics of successful stories and storytellers. All the while, students practice and hone the telling of their own powerful, personal stories.
CASE STUDIES

The center continues to develop business case studies to enhance teaching on issues related to regulatory capture, lobbying, and the subversion of competition by special interest groups. In 2018–19, the Stigler Center published one business case and continued work on more.

COMPLETED CASE

The Entertainment Software Rating Board: Success after 20 Years?
What should the Entertainment Software Rating Board do in the face of new proposed legislation that may impact various parties in the video game industry?

In the video game industry, the discussion of self-regulation tends to be centered on the Entertainment Software Rating Board (ESRB), a legal requirement that prohibits manufacturers from selling games with certain ratings to minors. The case delves into the contemporary political environment, particularly the string of mass shootings and school shootings, which might explain the timing of the regulation, as well as more recent controversies regarding sexual and violent content in video games.

Suitable courses: The case appeals to courses on regulation and political economy, the relation between business and politics, and corporate social responsibility. The case works well in a nonmarket environment module where the discussion centers on decentralized self-regulation vis-à-vis centralized regulation by the government.

Bigger picture: The natural debate that emerges from the case is which is the entity that is most suitable to regulate: the government through public policy, firms themselves, or industry groups themselves?
CASES IN PROGRESS

Tally: How to Choose the Right Growth Path?
Less than a year after launching Tally, a fintech app that helps users manage and pay down their credit card debt, its founders had to make important decisions regarding financing and regulation.

In late 2015, Tally’s founders faced their most important decision: how best to finance the lines of credit Tally would extend to customers. Doing so profitably meant finding credit at a reasonable cost; but unlike banks, Tally had no deposits and—given its lack of history—would be subject to hard-to-predict payment streams. Unfortunately, financing was not the only problem for Tally. As this young California startup was poised to expand its offering nationwide, its founders had to decide how to navigate the treacherous waters of US interstate banking regulation.

Suitable courses: The case is appropriate for courses on entrepreneurial finance, fintech, and banking.

Bigger picture: Financing and regulation were key for the growth of Tally. If successful, Tally would have disrupted one of established banks’ more profitable markets, meaning that incumbent players would not be shy about pushing regulators to come after the startup. This, in turn, would increase Tally’s financing costs.
In September 2014, testimonials from the Federal Police’s “Operation Car Wash” brought to the surface a massive corruption scandal involving politicians, company executives, and major engineering companies in Brazil. The Car Wash operation began in March of that year and shook Brazil’s politics like never before. The largest corruption investigation in the world revealed the functioning, in the period between 2004 and 2014, of a new criminal organization—involving companies, contractors, shipyards, and other service providers—inside Petrobras, Brazil’s oil company. Among the crimes practiced: a cartel among the largest contractors that participate in state events, avoiding competitiveness. What started as a small targeted investigation led to the discovery of what was believed to be the biggest corruption scandal in the country’s history. The case is set in October 2014, when PricewaterhouseCoopers (PwC), Petrobras’ external auditor, refused to sign off on the company’s quarterly audited results. Statements of directors inside the company made PwC question its decision for this refusal. PwC had been the auditor of Petrobras since 2012, but the investigation was growing too big, and the external auditors alleged they had no means to properly assess asset values of certain refineries.

**Suitable courses:** The case is applicable for courses on corporate strategy with emphasis on global strategy, business ethics, general management, and strategic challenges in emerging markets. In an accounting course, the case fits well in a module of impairment of long-lived assets and the key differences in fair values between US GAAP and IFRS.

**Bigger picture:** The case illustrates the role of external auditors in detecting corporate fraud as well as their degree of involvement in detecting malfeasance of public officials. The case questions the role of external auditors in terms of the changing accounting interpretations vis-à-vis rules. The refusal to sign off on the audited financial statements prompted a set of negative events for Petrobras: triggering of bond covenants and cross-default clauses, and lack of access to capital markets. These set of events impacted the Brazilian economy. The case highlights how institutional voids, in this case, lack of infrastructure, intensifies to reveal systemic institutionalized corruption.

**Petrobras**

Placing the value of systematic and institutionalized corruption is a difficult task for prosecutors in emerging markets. The case assesses, in general, the role of external auditors in detecting corporate fraud in environments where corruption is both endemic and institutionalized.
Hewlett Packard and e-Waste Regulation
How can firms be effective in lobbying for progressive policy changes while benefiting their own bottom lines?

Early on, Hewlett Packard (HP) embraced several costly environmental initiatives around reducing the harmful impact of electronic waste (e-waste) resulting from their products at the end of their lives. Despite these well-intentioned efforts at environmental sustainability, through internalizing negative externalities, they were not financially sustainable for HP vis-à-vis competitors that did nothing to offset their harm. Policymakers in California attempted to address the broader problem of e-waste through legislation proposing to tax all manufacturers of products that resulted in toxic e-waste. This left HP in a challenging position of whether to support the taxation of manufacturers or to oppose it in favor of alternative legislation around electronic waste.

Suitable courses: The case appeals to courses on nonmarket strategy, corporate political strategy, business and public policy, business and society, corporate social responsibility, applied political economy, and regulation.

Bigger picture: This case illustrates how firms can use lobbying strategies to complement socially responsible activities that are cost centers and turn them into a competitive advantage by aligning business activities with public policies they craft that are more pro-market than some policymakers’ best efforts to create policy that reduces firms’ negative externalities—and allows politicians to claim a win with constituents.

TheMarker
Can a newspaper be a tribune of the people? Should it be?

The Israel-based business magazine-turned newspaper TheMarker adopted an agenda of fighting against economic and political concentration. The paper’s active, constant campaign led to unprecedented socioeconomic social protests, which were later translated into unprecedented legislation meant to reduce economic concentrations. But at what cost to the media company? And at what benefit to society? TheMarker and its “parent,” Haaretz, suffered from an advertising boycott as a result of their activism. And the real impact of the concentration reform remains to be seen: the reform may die slowly in its implementation stage without actually improving the economy. The change may be short-lived and simply a congruence of events rather than a seismic shift.

Suitable courses: The case is meant primarily for media-related courses. It can also appeal to macroeconomics and antitrust-related courses, as well as those on political economy and regulation.

Bigger picture: The case spotlights two types of big picture insights. One set of insights deals with what shapes regulation (public opinion and perception); the second deals with reputational concerns at the media level: can a media outlet create, maintain, and profit from having a reputation for representing the dispersed public?
One of the missions of the Stigler Center is to enrich the public debate on matters related to the interaction between politics and the economy. The media, by gathering and disseminating information on the behavior of different players in the market, plays a crucial part in the effort to create a more competitive market system. Launched in March 2017, the Journalists in Residence Program provides a transformative learning experience for print and broadcast journalists from around the world. It aims to shape the next generation of leaders in political economy reporting.

From a pool of more than 200 applicants from Europe, Africa, Asia, the Middle East, and the Americas, the selection committee for the 2019 Journalists in Residence (JIR) Program at the Stigler Center chose eight participants from some of the world’s most prestigious media outlets, including the Financial Times, Business Insider, The Australian, Harvard Business Review, and the BBC.

The program took place over approximately 12 weeks at the University of Chicago’s Hyde Park campus, during which selected participants audited classes, participated in Stigler Center events, collaborated with peers, and socialized with the university’s greatest scholars. Participants chose their own classes at Chicago Booth, including The Firm and the Non-Market Environment with professor Marianne Bertrand and Crony Capitalism with professor Luigi Zingales.
The third cohort of JIR program participants was drawn from seven countries, with candidates showing emerging investigative talent complemented by others with years of economic reporting experience. The participants were:

**Stephen Carroll, Ireland**


**Adam Creighton, Australia**

Adam Creighton is the economics editor at *The Australian*. An award-winning economics journalist with a special interest in tax and financial policy, he spent most of 2016 at the *Wall Street Journal* in Washington, DC. Creighton won the Citi Journalism Award for Excellence in 2015 and was runner-up in the internationally recognized Bastiat Prize for Journalism in 2014. He started his career at the Reserve Bank of Australia and studied economics at the University of Oxford, where he was a Commonwealth Scholar. In 2017, he was appointed to the National Archives of Australia Advisory Council.

**Saptarishi Dutta, India**

Saptarishi Dutta is a journalist with the BBC. He is interested in studying how large-scale data harvesting is changing the relationship between Big Tech and its users, and its consequent effects on our economy and society. In the past, Dutta has worked as a reporter with the *Wall Street Journal* and *Quartz*, where he covered technology businesses as well as aspects of India’s economic development and politics.

**Xinning Liu, China**

Xinning Liu is an associate reporter and researcher for the *Financial Times*. She specializes in issues related to the economy, international relations, and technology. Previously, Liu interned for Reuters.

**Rachel Premack, United States**

Rachel Premack is a transportation reporter for *Business Insider*. She writes about logistics, trucking, and air freight in the age of e-commerce. Previously, Premack worked as an independent journalist in Seoul, writing for the *Washington Post*, *Foreign Policy*, *Quartz*, *CityLab*, and other outlets.

**Gloria Riva, Italy**

Gloria Riva is a journalist at *L’Espresso* and an Italian member of the International Consortium of Investigative Journalists (ICIJ). She is part of the Pulitzer Prize–winning team of journalists that broke the story on the Panama Papers in 2016. She writes about Lux Leaks, Swiss Leaks (Lagarde’s List), Paradise Papers, Bahamas Leaks, Panama Papers 2, Implant Files, and more.

**Samuel Sanya, Uganda**

Samuel Sanya is a multi-award-winning business writer at the *New Vision*, the leading English newspaper in Uganda. He is the president of the Africa Media Union, an association for African business journalists. Sanya is also the chief editor of the *Banker’s Journal* and the *Trade Journal*.

**Nicole Torres, United States**

Nicole Torres is a senior associate editor at *Harvard Business Review*, where she leads digital coverage of new research and cohosts HBR’s award-winning podcast *Women at Work*. She has also worked as a freelance journalist, writing for publications including the *Boston Globe* and *Salon*, and she has been a speaker and moderator at conferences such as SXSW, Academy of Management, and Drucker Forum.
INNOVATIVE RESEARCH
The Cost of Convenience: Ridesharing and Traffic Fatalities

Ridesharing companies like Uber regularly tout the supposed environmental benefits of their services. Not only is ridesharing the most convenient model for consumers, they argue, but it also reduces car circulation, congestion, and pollution. In their Stigler Center working paper, John M. Barrios, Yael V. Hochberg, and Hanyi Yi cast doubt on the validity of those claims. Not only does the advent of ridesharing seem to not reduce congestion, it actually increases the number of car registrations by 3 percent. This increase in new car registrations, they find, is more substantial in cities with high ex ante use of public transportation, further strengthening the evidence for substitution away from public transport. Moreover, Barrios et al. find that the introduction of ridesharing in a metropolitan area leads to an economically meaningful increase in motor vehicle fatalities, causing an increase in the number of fatal accidents throughout the week, on weekends, at night, and on weekend nights, of 2–4 percent (in the aggregate, this is equivalent to 987 extra lives lost every year in the United States alone). This increase is consistent with acknowledged macro trends in motor vehicle accidents, which had been falling steeply in the United States over the period 1985 to 2010, when ridesharing launched, and has since reversed course and increased, from 32,885 in 2010—the lowest number since 1949—to 37,461 deaths in 2016.
Mergers, Aggregate Productivity, and Markups

As market concentration continues to rise, mergers and acquisitions play an increasingly prominent role in business today. Have mergers led to a rise in market power and markups, as many studies in recent years have found, or have they accelerated productivity growth and markups growth at the country-industry level? In his Stigler Center working paper, Peter Chen studies the aggregate impact of mergers on productivity and markups growth in 16 European economies and 28 broad sectors. By constructing an instrument that interacts changes in country-level merger policy and variation in the firm-size distributions across industries with staggered antitrust policy changes, such as merger policy changes, and predetermined firm-size distributions, Chen finds that a 3 percent increase in an industry’s merger rate causes a 1 percent increase in annual productivity growth. The effect on an industry’s markups growth, he argues, is statistically indistinguishable from zero. Using deal-level data to explore the firm-level mechanism, he finds that relative to peer firms, an acquired firm experiences faster Hicks-neutral productivity growth and rising market share, suggesting the quantitatively important channel is scale economies. While markups growth is also higher among acquired firms, he finds that the impact is offset in the aggregate by decreases in peer-firm markups growth, results that suggest that scale economies can serve as a quantitatively important channel for efficiency gains.

The Revolving Door and Regulatory Enforcement: Firm-Level Evidence on Tax Rates and IRS Audits

Legislators leaving office for lucrative employment in the private sector are a common feature of modern political life everywhere in the Western hemisphere, and the United States is no exception, as members of Congress constantly leave office and go into jobs with obvious lobbying components. In his Stigler Center working paper, Benjamin C.K. Egerod examines how tax rates change when firms hire former members of Congress. To investigate this question, he constructs a dataset of publicly listed companies, collecting data on firm-level taxes and the Internal Revenue Service’s enforcement activities, as well as data on the careers of members of Congress after they left office during the period of 2004–15. Focusing on the relation between the firms that hire former members and the IRS, his study delves into how tax rates change when firms hire former legislators. What Egerod finds is that companies’ tax bills and the probability of their being audited by the IRS decrease markedly when they hire a former legislator. The effect, he finds, is strongest when firms hire the best-connected former members, those who served on committees responsible for oversight of the IRS. Additional tests find no evidence that the changes in tax rates are driven by other forms of political activities, such as general rule changes to the tax code or lobbying activities, indicating that rules are enforced differently against politically connected firms.
Do depositors react to negative nonfinancial information about their banks? In his Stigler Center working paper, Mikael Homanen attempts to answer that question by focusing on the protests against the Dakota Access Pipeline (DAPL), which began in April 2016. The pipeline sparked controversy among environmental activists as well as Native Americans, as it was intended to cross the Missouri and Mississippi rivers as well as ancient burial grounds. What was exceptional about this incident was not just the sheer scale of the on-site protests but also the rather immense financial coordination among activists. By February 2017, more than 700,000 people had signed one of six petitions addressed to banks financing the DAPL. By using branch-level data for the United States, Homanen shows that banks that financed the highly controversial DAPL experienced significant decreases in deposit growth, especially in branches located closest to the pipeline. These effects were greater for branches located in environmentally or socially conscious counties, and data suggests that savings banks were among the main beneficiaries of this depositor movement. Using a global hand-collected dataset on tax evasion, corruption, and environmental scandals related to banks, he shows that negative deposit growth as a reaction to scandals is a widespread phenomenon. Homanen’s paper is the first to test depositor reactions to bank scandals. As such, it is the first thorough attempt at examining whether depositors discipline banks based on other sources of information rather than just financial health.
Terrorism Financing, Recruitment and Attacks: Evidence from a Natural Experiment

While financial counterterrorism and money laundering regulations have come under scrutiny in recent years, there is a limited amount of quantitative research that seeks to understand how the financing and recruitment of terrorist organizations work. As a result, it is unclear whether “following the money” actually works. In his Stigler Center working paper, Nicola Limodio presents empirical evidence showing that terrorism financing and recruitment promote terrorist attacks, and that financial counterterrorism can lower the number and severity of attacks. His research relies on a specific natural experiment in Pakistan, which offers exogenous variation in the amount, timing, and location of terrorism financing across more than 1,500 Pakistani cities and over 20 years. The results of this research show that the timing and the location of terrorism financing correspond to the timing and the location of terrorist attacks. Beyond identifying the quantitative effect of terrorism financing on attacks, the paper finds that when terrorist organizations receive more financing and are able to recruit more aggressively, then the effect of finance is twice as large as in other periods. This finding verifies the existence of a complementarity between finance and labor in producing terrorist attacks. Finally, in order to measure the potential gains of empowering financial counterterrorism, Limodio estimates that a doubling of terrorism financing leads to a 25 percent increase in attacks and casualties. These results suggest that financial counterterrorism can reduce terrorist attacks and casualties by “following the money,” particularly in periods of intense recruitment and radicalization.
Does Fiscal Monitoring Make Better Governments? Evidence from US Municipalities

Local governments play an important role in the economy and society by providing essential services such as infrastructure, public safety, and education. Although the quality of municipal governance over these resources can have a significant economic and societal impact, it remains largely unexplored. In her Stigler Center working paper, Anya Nakhmurina studies the effect of state fiscal monitoring on municipal governance. Focusing on governance outcomes related to financial reporting quality, local corruption, political entrenchment, and the financial soundness of municipalities, she studies how state-level monitoring affects the governance of cities, towns, villages, and counties by exploiting the staggered adoption of fiscal monitoring policies, which entail a regular review of municipal financial reporting for signs of fiscal distress. She finds that upon the adoption of fiscal monitoring, several measures of municipal reporting quality significantly improve, such as an increase in proxies for reporting quality. Consistent with municipal reporting quality mattering for how municipalities are governed, Nakhmurina finds that local officials are less likely to be convicted for corruption. This finding suggests that fiscal oversight by the state deters malfeasance by increasing the difficulty of hiding the consumption of private benefits. Moreover, she finds that incumbent politicians’ reelection chances decrease and that this result is stronger in the local governments with historically poor reporting. Nakhmurina’s findings are consistent with the theory that says state fiscal monitoring improves several important aspects of municipal governance.
Disclosure Regulation, Corruption, and Investment: Evidence from Natural Resource Extraction

Multinational corporations from developed countries play an important economic role in developing countries, yet many foreign firms also pursue aggressive and often illegal strategies to reduce their payments to host countries with weak political institutions and low technical capacity. With this in mind, several governments in Europe and in Canada have imposed disclosure regulations on multinational firms in recent years that oblige extractive firms to publicly disclose their payments to foreign host governments in granular reports on their corporate websites. The intent of these regulations is to increase payment transparency and reducing illicit financial outflows from developing countries by mitigating fiscal revenue evasion due to the bribery of public officials or other illicit business practices. In his Stigler Center paper, Thomas Rauter examines how these disclosure regulations affect fiscal revenue contributions and investments by multinational firms in less developed countries. Using data on firms’ extractive activities abroad and exploiting the staggered adoption of extraction payment reports across developed countries, he finds that disclosing companies increase their payments to host governments and that public officials book a higher fraction of these payments into government ledgers, particularly in corrupt countries. However, the higher government revenue comes at a cost—disclosing firms decrease and reallocate investments relative to nondisclosing competitors. Rauter also finds that the increased threat of public shaming and legal enforcement are the two important mechanisms through which disclosure regulations generate real effects. Overall, his evidence suggests that extraction payment disclosures improve fiscal revenue collection but have unintended investment consequences for multinational firms.

In the 1980s, Chinese regulators were quick to impose tough restrictions on the import of blood products into China when HIV/AIDS first came to light in industrialized countries. This regulatory move did not prevent the spread of HIV/AIDS in China, however. Instead, the imposition of tough restrictions on the import of foreign blood products was accompanied by a massive drive to take advantage of China’s “clean” blood to develop a blood products industry within China, but without implementation of China’s own regulations on blood collection and processing. This combination resulted in a massive tragedy, helping HIV/AIDS spread with deadly efficiency, especially in Henan Province. In his study, Dali L. Yang examines the evolution of China’s blood safety regulatory regime in the age of market-oriented reforms and HIV/AIDS. By dissecting the politics of China’s efforts to remake its blood safety regulatory regime, he offers a unique lens for better understanding China’s struggles to reform the economy and build a regulatory state.
Justice for Some? Public Defenders in Dysfunctional Criminal Justice Systems

In the past decade, scholars have argued that the criminal justice system, understood as the set of institutions that both determine who has engaged in criminal behavior and punish them if guilty, often reproduces and even exacerbate existing inequalities because vulnerable populations do not have access to adequate legal representation. This immediately raises concerns about the capacity of liberal democracies to embrace and enforce the democratic ideal of equality before the law and equal protection of rights. In her research, Milena Ang builds directly on a research paper coauthored with Yuna Blajer and analyzes the workings of the offices of public defenders in Mexico, institutions whose goal is to provide adequate legal defense to vulnerable populations in a country characterized by its dysfunctional judicial system. Specifically, she argues that offices that are created to fulfill patronage promises hinder the legal representation of those most vulnerable via two mechanisms: offices are staffed with inefficient workers, and workers lack oversight (which entices shirking) and long-term career prospects (which entices petty corruption). Ang gathers data on the career paths of state attorneys and public defenders and conducts interviews and observations in three public defender offices (PDOs) to show that patronage-based PDOs are costlier not only for taxpayers but also for vulnerable populations facing a criminal trial.
In this project, Hans B. Christensen and Mark G. Maffett examine whether trust in regulators can substitute for firm reputation in gaining market access. Do regulators help facilitate competition and reduce barriers to entry for firms? Conceptually, there are reasons to believe that trust in regulators and a firm’s reputation could both be instrumental for product market access. On the regulator side, the regulator could earn consumers’ trust through establishing a regulatory infrastructure that protects consumers, promotes competition, and controls egregious risk-taking (Rajan and Zingales 2003); and enforcing leveling the playing field to create the conditions for more entry and competition in the market (Acemoglu and Robinson 2012). The resulting trust in regulators makes the market system more efficient, which facilitates entry and leads to lower profits for incumbent firms. In their project, Christensen and Maffett exploit a quasi-experiment setting in which trust in a specific regulator is suddenly reduced: the 2008 Chinese milk powder (aka “baby formula”) scandal, which affected 300,000 babies and led to reduced trust in CFDA, the Chinese equivalent of the US Food and Drug Administration. They then examine if companies within the regulator’s jurisdiction are affected differently with respect to their reputation, in order to empirically test the substitution between trust in regulators and firm reputation in gaining product market access. Their research provides evidence on one important role of regulators that helps facilitate the market access and promote market competition.
Partisan Trade Bureaucrats? Evidence from Trade Adjustment Assistance

Institutional explanations for trade policymaking often treat executive agencies as unified, technocratic, and apolitical. However, in presidential systems like the United States, control of the bureaucracy is contested by other branches of government, particularly the legislature, as well as special interests via lobbying. This research project by Robert Gulotty aims to quantitatively verify the systematic relationship between partisan trade preferences of presidents and trade bureaucrats by examining how bureaucrats respond to political incentives. Gulotty argues that bureaucrats use their administrative discretion in conformity with the partisan preferences of the president and that this discretion reflects both career incentives that change over the course of a bureaucrat’s career. Although bureaucrats have long been identified as political actors, extant research has not examined the dynamics of their political behavior. Are bureaucrats born partisan, selected for their partisan alignment with their employer, or are they shaped by their environment once employed? Gulotty uses unique data on bureaucratic decision-making across time, namely, the universe of Trade Adjustment Assistance (TAA) petitions and outcomes, the longest-standing trade policy targeted on individuals underpinning sustainability of free trade. Using these data, he tests how bureaucratic decision-making over the certification of TAA petitions and delay in the approval of workers for federal assistance are affected by partisanship.
Bank Capitalization in the Repo Market:
Evidence from German Financial Institutions

“Window-dressing” refers to the phenomenon in which “financial institutions adjust their activity around an anticipated period of oversight or public disclosure to appear safer or more profitable to outside monitors” (Munyan 2015). For this project, Anil Kashyap investigates whether there is evidence of window-dressing of repos among German banks in the European bilateral repo market, with the aim of exploring how financial regulation can produce institutional distortions, propping up banks through hidden subsidies that are generated by the persistence of arbitrage opportunities. The total European repo market size is €5.5 trillion (2014), indicating that the economic implications of any financial regulation are enormous (ICMA 2017). Kashyap identifies a key capital regulation from the Basel III regulatory framework, inducing quarter-end deleveraging. Moreover, he studies the cross section of banks and identifies which bank characteristics and collateral features are correlated with greater window-dressing. This project is at the intersection of financial regulation and public policy. The end goal of this project is to illuminate the risks and inefficiencies that exist in the European repo market in order to inform better policy.
Seven PhD students were selected for the Stigler PhD Award and received the designation of Bradley Fellows. The students were selected for their academic excellence and rigorous research on topics relating to the political, economic, and cultural obstacles to better working markets. The seven recipients, a diverse group from six nations, represent four departments at UChicago and two from universities abroad.

BRADLEY FELLOWS

- **Siying Cao**  
  Economics, University of Chicago

- **Peter Chen**  
  Finance, University of Chicago Booth  
  School of Business

- **Benjamin Carl Egerod**  
  Political Science, University of  
  Copenhagen

- **Mikael Homanen**  
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