George J. Stigler Center for the Study of the Economy and the State

2019–20 Annual Report
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
LETTER FROM THE FACULTY DIRECTOR

The academic year 2019–20 is a year we will not soon forget, as the world grapples with the coronavirus pandemic, social unrest, and economic uncertainty. In spite of these challenges, I am proud that the Stigler Center adapted quickly to meet the new normal and continue to carry out our mission. In fact, in light of these events, our work on political economy, antitrust, and the state of capitalism, continues to grow in relevance and impact.

As the university transitioned to remote learning in the Spring Quarter, the Stigler Center speaker series likewise adapted online with the creation of three new webinar series to meet the high demand for reliable and trustworthy information. At the forefront of the Center’s online programming was the Political Economy of COVID-19 series. Created to explore the economic implications of the COVID-19 pandemic with leading academics and experts, the series featured such notable speakers as Angus Deaton, Thomas Piketty, Wendell Potter, Julia Cagé, Steven N. Kaplan, Robert Topel, Julia Angwin, and more.

As the Stigler Center’s in-person 2020 Antitrust and Competition Conference was postponed due to COVID-19, we created the Monopolies and Politics Workshop series to explore some of the conference topics, including the extent to which firms may leverage their market power to capture governmental policy. This topic is particularly relevant when bailouts and stimulus programs around the world are disbursing trillions of dollars of taxpayer money in an attempt to help mitigate the economic consequences of the COVID-19 epidemic.

Our ProMarket publication continues to educate the public about the many ways in which special interests subvert competition. This year was particularly noteworthy for ProMarket, which crossed the 1.2 million mark for unique visitors, and debuted a more modern new layout. The publication was able to provide readers with clear, concise, and trustworthy economic analysis on the effects of COVID-19 crisis. Capitalism’s—the Stigler Center podcast—continued to grow and will soon start a new chapter, following the departure of co-host Katherine Waldock. Kate will be missed, and Capitalism’s wouldn’t be where it is today without her, but we look forward to the exciting next chapter.

As we head into a new academic year—one in which we are all still learning to adapt—I look forward to the stimulating diversity of events we have planned. I hope you will join us as we continue to research, question, 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
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IMPACTING THE WORLD
Launched in 2016, the Stigler Center’s speaker 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 2019–20, the Stigler Center hosted 14 of these events, on topics ranging from crony capitalism in Russia and the role of economists in the world 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.
Building a Capitalism for All in Southeastern Europe
October 10, 2019

The Stigler Center hosted a lecture by Dragan Tevdovski on building a capitalism that works for all in southeastern Europe. Tevdovski lays out his vision for a “new variety of capitalism for central and eastern Europe,” which emphasizes the needs for greater investments in human capital, for digitizing and automating processes, and for streamlining professional administration in order to maximize state efficiency.

DRAGAN TEVDOVSKI
Associate Professor of Economics, Ss. Cyril and Methodius University in Skopje; Former Minister of Finance, Republic of North Macedonia
How Putin and the Russian Oligarchs Are Corrupting the World
November 8, 2019

The Stigler Center welcomed Bill Browder for a conversation with Luigi Zingales on crony capitalism in Russia, its domestic and international implications, and what could be done to prevent Putin and the Russian oligarchs from corrupting the world.

Browder explains how he became ‘Putin’s enemy number one.’ He details his years as the largest foreign investor in Russia and his eventual forced exile upon uncovering corruption, which led to his hiring of Sergei Magnitsky. He discusses the tragic events that followed, which led to the creation of the Global Magnitsky Justice Campaign.
Capital is the defining feature of modern economies, yet most people have no idea where it actually comes from. What is it, exactly, that transforms mere wealth into an asset that automatically creates more wealth? The Stigler Center welcomed Katharina Pistor to discuss her new book, *The Code of Capital*, which addresses these questions (and more) with a historical lens.

Pistor’s lecture includes stories about the value of assets throughout history as well as an exploration of capital’s defining characteristic: its ability to generate wealth over time. She uses the Lehman Brothers collapse as a case study to extrapolate broader lessons about risk, debt, and how to prevent similar events in the future.
Super Pumped: The Battle for Uber
November 18, 2019

The Stigler Center and the Harry L. Davis Center for Leadership welcomed Mike Isaac and John Paul Rollert for a conversation on Isaac’s book, *Super Pumped: The Battle for Uber*. According to Isaac, Uber promised to revolutionize the way people and goods move through the world, backed by billions in venture capital and led by a brash and ambitious founder. For Isaac, what followed would become a corporate cautionary tale about the perils of startup culture and a vivid example of how blind worship of startup founders can go wrong.
The Future of Corporate Governance: Proxy Voting Rules and Beyond
January 13, 2020

The US Securities and Exchange Commission (SEC) proposed new rules for proxy filing and advising, in an effort to “improve accuracy and transparency of proxy voting advice.” The Stigler Center welcomed Steven Kaplan and Nell Minow for a discussion on the proposed SEC rules, their potential impact, and the future of corporate governance. The discussion was moderated by Luigi Zingales. Overall, Kaplan favors more transparency from proxy firms, while Minow largely rejects the new proposed rules.

Saez believes tax progressivity in the United States ended in the 1980s and that inequality has increased significantly as a result. He proposes instating a wealth tax to stem rising inequality. Kaplan notes that a wealth tax could stunt innovation and productivity, and enforcement would also be problematic.
How Economists Reshaped the World
January 28, 2020


According to Appelbaum, as the post–World War II boom began to sputter, economists gained influence and power. In the book, he traces the rise of the economists, first in the United States and then around the globe, as their ideas reshaped the modern world. Among others, Hurst notes the lack of significant evidence for Applebaum’s narrative that pro-market economists causally affected lower growth and higher inequality. He also observes that there are instances of correlations where Applebaum seems to nudge readers to causation.
The Stigler Center welcomed Thomas Philippon and Chad Syverson for a conversation on Philippon’s new book, *The Great Reversal: How America Gave Up on Free Markets*. The conversation was moderated by Guy Rolnik and also addresses the impact of COVID-19 on economic concentration.

According to Philippon, the United States has seen an increase in economic concentration after the early 2000s, due to an increase in corporate lobbying, a decrease in antitrust, and more barriers to entry. Meanwhile, Europe has experienced an increase in competition after the integration of the single market in the 1990s was accompanied by more robust regulations. Syverson, however, believes the evidence in Philippon’s book makes the case for a convergence rather than a reversal. He notes that while European markets may have indeed become more competitive based on the information in Philippon’s book, it is much less clear that they have become more competitive than US markets.
Deaths of Despair, Deaths from the Virus, and the US Healthcare System

Political Economy Of COVID-19 Series
April 9, 2020

The Stigler Center welcomed Nobel laureate Angus Deaton to discuss his new book, co-written with Anne Case, *Deaths of Despair and the Future of Capitalism;* the COVID-19 crisis; and the US healthcare system. The conversation was moderated by Luigi Zingales.

The term ‘deaths of despair’ refers to death by suicide, drug overdose, and alcoholic liver disease. Deaton illustrates the correlation between poverty, education, and deaths of despair that stems from a slow disintegration of working-class lives in the United States. According to Deaton, deaths of despair are not likely to increase due to the economic consequences of the coronavirus pandemic. Rather, he predicts COVID-19 will have a disproportionate effect on poorer, less-educated people, and, in particular, people of color.
Money in Politics, COVID-19, and the Future of Democracy

*Political Economy of COVID-19 Series*

April 28, 2020


Cagé believes there is a crisis of representation linked to the capture of the democratic process by private interests—particularly by private money, through the funding of elections and political parties. To solve this problem, she offers two solutions to be implemented in tandem: limit private donations to political movements, and equalize all citizens through the introduction of voucher-based political donation system. Prat likened the capture of democracy by private interests to the capture of the media—noting that both tend to favor elite agendas.
COVID-19 and the US Healthcare System

*Political Economy of COVID-19 Series*
May 4, 2020

The Stigler Center hosted a conversation with Wendell Potter and Neale Mahoney, moderated by Guy Rolnik, on the impact of the COVID-19 crisis and its implications for the future of healthcare in America.

According to Potter, the 2010 Affordable Care Act did little to curtail health insurers’ profit maximization techniques, such as high deductible plans, increases in prior authorizations, and the narrowing of networks. The speakers also note that healthcare in the United States is relatively expensive and of relatively lower quality compared to other countries. Mahoney adds that some healthcare providers, hospitals, and others, have interests that, when reflected in policies, could lead to higher costs and lower quality of healthcare in some circumstances.
COVID-19: Surveillance and the Future of Privacy

Political Economy of COVID-19 Series
May 11, 2020

As the COVID-19 epidemic grips the world, new questions arise about the use of surveillance to combat the disease—and the implications for privacy. In a conversation with Julia Angwin and Lior Strahilevitz, moderated by Betsy Reed, the focus shifts to what the future may hold for surveillance and privacy due to the COVID-19 pandemic.

Angwin draws similarities between the development of public health technology to help combat the COVID-19 pandemic and the post-9/11 federal government surveillance programs. In terms of the capacity of existing legal and policy frameworks to govern COVID-19 contact tracing programs, Strahilevitz notes that in the United States there are no substantial impediments to the narrowed and focused use of surveilled data when used for public health purposes.
The Stigler Center welcomed Thomas Piketty and Robert Topel for a conversation on Piketty’s new book, *Capital and Ideology;* inequality; and the impact of the COVID-19 crisis on capitalism. The conversation was moderated by Edward Luce.

*Capital and Ideology* covers the history of inequality over time and across societies. The key message of the book, as explained by Piketty, is that the label and structure of inequality in a given society is primarily determined by political and ideological choices. Topel notes that increases in inequality are often driven by technology and market forces that favor highly skilled people relative to less skilled, rather than political and ideological choices.
COVID-19 and Amazon’s Future

Political Economy of COVID-19 Series
May 26, 2020

The COVID-19 crisis has exposed the pivotal role played by Amazon in the economy and society. To discuss the impact of the COVID-19 crisis and its aftermath on Amazon and its competitors, the Stigler Center welcomed Stacy Mitchell and Steven Kaplan for a conversation moderated by Jacob Schlesinger.

According to Mitchell, Amazon’s consolidated structural power, magnified by the COVID-19 pandemic, drives inequality, stifles innovation, and threatens democracy. As a solution, Mitchell proposes breaking up Amazon. Kaplan notes that breaking up Amazon could lead to less innovation and lower infrastructure investment.
In 2019–20, the Stigler Center continued its minicourse series. In this series, first 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 standalone, interrelated seminars on cutting edge ideas not incorporated into the standard curriculum. Four minicourses were held this year. Videos of the Stigler Center minicourses can be found on the Stigler Center website and YouTube Channel.
The Political Economy of the Revolving Door
September 23–24, 2019

The movement of public officials into the private sector is a pervasive feature of modern politics. By walking through the so-called revolving door between business and politics, former legislators, staffers, and bureaucrats can earn large salaries. But why are firms willing to make these large investments? Which incentives does the revolving door create for public servants who are about to leave office? To explore these issues, the Stigler Center hosted two interrelated lunch lectures with Benjamin C.K. Egerod, a researcher at the University of Copenhagen’s Department of Political Science, and 2018–19 Bradley Fellow at the Stigler Center.

Which Incentives Does the Revolving Door Create and Who Reacts to Them?
The first session examined “supply-side behavior” by looking at: the type of public official that chooses to walk through the revolving door, what those officials stand to gain, and how this opportunity shapes their behavior while they still hold public office. Egerod starts with a brief history of the revolving door, noting that it started to become a visible phenomenon in the early 1980s and developed into a high-volume trend in the late 1980s, lasting until today. He also examines the incentive effects of the revolving door for individuals still in office, discovering ideological patterns in voting and legislative efforts. He finds that legislative bills tend to become more pro-business and more aligned with the needs of those who might become future employers.

Why Do Firms Hire People with a Background in Politics?
The second session focused on “business-side behavior”—in other words, how firms can benefit. Having a background in politics is obviously an asset; individuals bring not only their expertise and information, but also, crucially, all of their social connections. The question that interests Egerod is whether firms can benefit financially from these connections. He demonstrated how the revolving door affects a firm’s tax payments, showing that tax rates remain relatively stable over time until a legislator is hired, with rates then lowering dramatically. Firms could thus save money in taxes by hiring a ‘revolver.’ Moreover, as the level of ‘revolver’ connectedness increases, the firm’s level of tax liability decreases.
When Things Go Wrong—Practical Examples of Managing Lending Risk, with Roselyne Renel
October 14, 15, and 17, 2019

According to Roselyne Renel, the major causes of banking problems, in both developed and developing countries, have been historically generally directly related to lax credit standards, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances. However, the relationship between an entity’s financial ability to honor its debts and understanding other interrelated risks affecting the probability of default of a counterparty or an instrument is a critical part of lending risks.

To discuss these topics and more, the Stigler Center hosted three interrelated lunch seminars with Renel, a seasoned financial services executive with deep domain expertise managing risk across a broad range of asset classes, products, and client segments. Her talks focused on discussing practical examples of managing risks, and examining what can go wrong in transactions, using actual situations.

Lending Risks in Emerging Markets
The first session looked at preparing for the “known unknowns”—weaknesses in the individual underlying transactions or clients—using several case studies from emerging markets/developing countries meant to represent extreme cases. Renel ran through several real-world cases to identify examples of where things went wrong, factors that could have mitigated the losses, and lessons learned.

Lending Risks with Corporate Borrowers
Day two was devoted to looking at lending risks with corporate borrowers (specifically retail bankers), aiming to identify avoidable, easy-to-predict events at the macro level, focusing on risks and weaknesses that arise from the market environment and as a result of macro prudential regulation. Again, Renel employed case studies to help the audience think through what went wrong and how future risks could be mitigated.

The Financial Risks of Climate Change
The final session looked at lending risks in the context of potentially cataclysmic future events, anticipating that the impact of climate change would result in substantial structural adjustments to the global economy, which would in turn inevitably impact the balance sheets and operations of banks, bringing risks as well as opportunities. Renel explained the need to integrate climate risk within strategy and apply a long-term lens beyond standard planning horizons.
Since June 2019, Hong Kong has been facing social unrest on a scale and with a tenacity never seen before in the city’s history, according to Professor Bernard Yeung. The protests, sometimes violent, are damaging Hong Kong’s economy, causing deep divisions in its society, and casting a serious gloom over Hong Kong’s future. Hong Kong has survived large-scale social unrest before, in 1956 and in 1967. In both cases, Hong Kong rebounded and became more consolidated and determined to generate strong economic growth. How different is this time, and what can we learn? The Stigler Center hosted two interrelated lunch seminars led by Yeung to explore these issues.

The first session traced the multiple years of political rallies in Hong Kong, the trigger events, and the trajectory of the social unrest up to date. These are linked to (i) the politics before and around the formation of Hong Kong’s Basic Law (1984–1990), (ii) the British political reforms in Hong Kong before the 1997 Handover (1985–1997), and (iii) the Hong Kong government’s internally inconsistent policies since 1997. The outcomes include the development of a coalition of groups deeply distrusting of China, a change in Hong Kong’s social atmosphere, a deepening of social injustice, and decades of frustration among Hong Kong’s youth. Triggered by a bill amendment, these effects came together to fuel a large-scale and intensive unrest with long lasting effects.

The second lecture explored the similarities and dissimilarities in Hong Kong before 1997 and during the decades after. According to Yeung, these comparisons reveal that economic factors are not the sole drivers of Hong Kong unrest. The unrest could reflect other fundamental and interactive changes in Hong Kong’s social attitudes, political setting, geopolitical environment, communication environment (mass media and social media), and cultural identity over the past three decades. Hong Kong’s evolution shows the complexity of interactions between the market, governance, society, and cultural identity, especially in a fast-changing world. Hong Kong’s unrest is an intensified and condensed version of what many other countries also experience. Yeung believes that we all can benefit from understanding what is occurring in Hong Kong.
A Lobby for the Public with Linor Deutsch
February 17–18, 2020

How do corporate interests impact politics? How are regulations used to benefit private over public interests? How can civil society organize to balance corporate lobbies? The Stigler Center and the Rustandy Center for Social Sector Innovation hosted two interrelated lunch seminars on these themes, led by Lobby99 CEO Linor Deutsch. Deutsch presented her organization’s innovative model, and explained how crowdfunding can be harnessed to become a substantial force against corporate lobbies. Deutsch presented multiple case studies based on her personal experience in the Israeli parliament (Knesset), where she debated corporate lobbies on issues such as corruption and stagnation in the banking sector, natural resource misuse, and antitrust and anti-corruption legislation.

How Corporations and Special Interest Groups Corrupt the Political and Legislative Process
In the first session, attendees learned about the work of lobbyists and how private interest groups use lobbyists to promote or prevent regulations for their benefit and against the public interest. Deutsch explains how Lobby99 effectively represents the public interest, thwarting corporate lobbyists’ efforts, as well as actively promoting legislation and regulation that serves the common good. Deutsch explained how the lobbying system works and, through case studies, provided several examples of the work of lobbyists in Israel while comparing their role to that of lobbyists in the United States. She also recounted how she arrived at Lobby99 and led the organization’s successful pilot project: increasing the transparency of lobbyists’ activity in the Israeli parliament.

Lobby99: An Innovative Model of How Crowdfunding Can Be Harnessed to Promote the Public Interest
On day two, Deutsch explained the development of Lobby99’s model and principles, and how the organization became the first and largest 100 percent subscription-based, crowdfunded initiative in Israel. She presented some of the main challenges that arise when operating in the context of such a model (the “price” of democracy): member retention, creating and maintaining consensus regarding priorities, and the need to maintain public relations. Finally, Deutsch presented Lobby99’s vision for the future, and how this model could be replicated to balance the interests of corporate and private lobbies with those of the general public.
Political Economy of Finance Conference
October 3–4, 2019

In the past 20 years, political considerations have become important in financial economics. From political connections in firms to the effects of political uncertainty on investments, and from the design of the rules that make financial markets viable to the politically motivated changes in bankruptcy law, politics is playing a greater role in finance research. Yet, no other conference has been dedicated to this topic. For this reason, the Stigler Center hosted its third annual Political Economy of Finance conference.

During the two-day conference, scholars presented new original research on a wide variety of topics, including: political polarization and credit ratings, the revolving door in US politics, terrorism financing, and the perils of fake news. Booth’s Elisabeth Kempf launched the conference with a paper looking at whether political alignment with the president affects credit ratings. She argues that partisan perceptions have real and measurable effects on credit analysts, especially in times of stronger political polarization. Bocconi University’s Alberto Manconi offers similar conclusions in his paper on the impacts that perceptions of bias in the media may have on financial markets. His colleague, Nicola Limodio, presents a unique analysis of terrorism financing based on his research in Pakistan that “followed the money,” linking attacks to different forms of financial support (including charitable giving during holy months) and exposing the “internal capital market of a terrorist organization” with the aim of stemming future flows and reducing attacks. Stanford Professor Anat Admati’s keynote speech addresses the importance of the political economy of finance.

Benjamin Egerod’s presentation on the “revolving door” in US politics, which opened day two of the conference, uses tax audit data to investigate whether firms that hire former legislators end up paying lower tax rates. Discussant Mara Faccio of Purdue University notes that the documented leniency by IRS officials is a novel and valuable contribution to the field.

The University of Texas at Austin’s Brian Richter presents his research on the value of political geography to firms, looking at “shocks to political maps that occur around constitutionally mandated redistricting cycles in the United States, which keep some firms in congressional districts… largely unchanged at one extreme and move firms to entirely new districts… at the other extreme.”
The fourth annual Theory of the Firm conference was dedicated to the topic of “Academic Lobbying” and was held at Columbia University. The conference was cosponsored by the Stigler Center, Columbia Business School, the Center on Global Economic Governance at the Columbia School of International and Public Affairs, and the Millstein Center for Global Markets and Corporate Ownership at Columbia Law School.

This year, the conference turned its attention to an oft-forgotten dimension of corporate political activity: academic lobbying. If lobbying is the use of money by firms or individuals to influence political/regulatory outcomes, to what extent can corporate and individual donations to fund research be seen as a form of lobbying? To what extent do they help underwrite an unbiased information production process, versus one skewed to the advantage of funders?

The organizers of the conference posited that academics partake in lobbying in two ways: as recipients and as actors. Academics are recipients of corporate funding to do research. Much (but not all) of this money is channeled through institutions that try to maintain a separation between sponsors and content providers, similar to the ones that exist in the newsrooms. In spite of these Chinese walls, research has shown that newspapers are affected in their reporting by advertisers. Does the same contamination exist in research? How large is it? How does it differ across academic fields? What are its welfare costs?

Scholars can also become active lobbyists, as a result of their academic aspirations, political ambitions, or commercial interests. Think tanks affiliate with academics to promote their ideas and in so doing they also promote the visibility of the faculty they hire, fostering their academic and political ambitions. Academic success can also lead to lucrative employment as consultant, expert witness, or advocate of a product or service. While these aspirations are both legal and legitimate, they can be exploited by firms to further their interest. More importantly, this process can compromise the integrity of research. Once again, how large is this contamination? How does it differ across academic fields? What are its welfare costs?
2020 Antitrust and Competition Conference / Monopolies and Politics Workshop Webinar Series

With the 2020 Antitrust and Competition Conference postponed in May 2020 due to the COVID-19 pandemic, the Stigler Center created a preconference Monopolies and Politics Workshop Webinar Series to explore some of the conference topics in greater detail.

**Industrial Policy, Economic Concentration, and Governmental Capture: The South Korean Case**

April 16, 2020

The Stigler Center hosted Sangin Park in conversation with Guy Rolnik on the role of industrial policy in South Korea’s economic development; the extent to which national champions such as the Samsung and Hyundai conglomerates have amassed political power; and the types of reforms that could help mitigate problems arising from this situation.

According to Park, large, industrial, family-led conglomerates (chaebols) are heavily embedded in the South Korean government. Their growth has led to increasing economic concentration, consolidation, and monopsony. The solution to this problem, states Park, is chaebol reform. However, this is difficult due to serious government, media, and judicial capture.

**SANGIN PARK**

Professor of Economics, Graduate School of Public Administration, and Executive Director, Research Center for Market and Government, Seoul National University
The Stigler Center welcomed Daniel Crane and Liza Lovdahl Gormsen for a conversation on industrial cartels’ role in facilitating the rise of Nazism in Germany, the subsequent attempts to reorganize the German industrial base, and historical evidence that might inform antitrust reform in the 21st century. The conversation was moderated by Stigler Center Fellow and University of Chicago Law School JSD Candidate Filippo Lancieri. Crane shares evidence that the concentrated structure of the Weimar economy was a contributing factor to the rise of Nazism in Germany. Gormsen likens the concentration of Big Tech today to that of the Weimer economy. She explains the roots of ordoliberalism in Germany and suggests that an ordoliberal lens may be useful when attempting to harness the power of Big Tech.
Regulating Conglomerates: From Imperial Japan to Modern Israel
May 14, 2020

The Stigler Center welcomed Yishay Yafeh to discuss the successes and failures of regulatory initiatives to control the power of large conglomerates: from the dissolution of zaibatsus after the fall of Imperial Japan to current reforms in modern-day Israel. The conversation was moderated by ProMarket Senior Editor and Stigler Center Senior Associate Director Stefano Feltri.

Using examples from the United States, Japan, Korea, and Israel, Yafeh shares what he believes to be the most effective solutions to mitigating corporate concentration: long-term policy consistency, a mixture of market and regulatory tools, and political support of these tools.
The Stigler Center hosted a webinar with Stephen Haber and Richard John on whether America was exceptional in its relationship to monopolies, and—if so—whether that is still the case today. The conversation was moderated by Luigi Zingales.

Haber and John explain the historical conceptualization of monopolies in the United States and discuss various modern-day monopoly concerns. Haber notes that the United States political and economic system is reflective of American colonists’ opposition to centralized power. John adds that the United States was born of an anti-monopoly movement against British interests. Haber observes that the existence of multiple Big Tech platforms today allows for substitutes, while John counters that tech platforms may distort the circulation of public affairs information.
Latin American countries have shifted dramatically over the past half-century, with many nations transitioning from right-wing military dictatorships to democracies, populist governments, or even left-wing dictatorships. To examine the role played by concentrated economic power in the rise and fall of Latin America’s various governing structures, the Stigler Center hosted a webinar with Aldo Musacchio and Ben Ross Schneider, moderated by Stigler Center Fellow Filippo Lancieri.

Schneider offers a brief review of the historical relationship between business and politics in Latin America. He notes that this relationship has remained deeply intertwined even after the introduction of antitrust laws in the late 1990s. Musacchio adds that Latin American firms have discovered ways to navigate through the various political coalitions by using techniques such as the strategic utilization of board members, the professionalization of family businesses, and decisive exit strategies.
Anti-Monopoly Pressure Groups in the United States: Past, Present, and Future
June 25, 2020

The Stigler Center welcomed Mehrsa Baradaran and Eli Cook for a conversation on the composition, strengths, and weaknesses of different US pressure groups, and on what the past can teach about the present and future of such movements in the country. The conversation was moderated by Luigi Zingales.

Cook uses a corporate liberal lens to expose the problems of the Progressive Era. Baradaran speaks on the political coalitions that contributed to the success of the Progressive Era, stating that class and race were inextricably tied to the way the coalitions were built.
Is capitalism the engine of prosperity? Does capitalism sow the seeds of its own demise? Could both be true? At the nexus of both our economy and our politics there is capitalism, and what cohosts Luigi Zingales, Stigler Center faculty director, and Kate Waldock, economist at Georgetown McDonough School of Business, want to know is how well it is—or isn’t—working.

The biweekly podcast, which launched in 2017 to critical acclaim, has proved to be a hit, initially ranking in the top 5 percent of podcasts. According to cofounder 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 it on the Capitalisn’t website.

Covering everything from what it takes to win the Nobel Prize in Economics to the gig economy to defunding the police, 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 does not have to be boring.

Select episodes include:

*The Capitalisn’t of Corona*
Waldock and Zingales give an economist’s view of the coronavirus outbreak. How should we think about the economic trade-offs of interventionist quarantine measures? Could this virus change the way we work? Should you or should you not be buying up stocks?

*Silicon Valley’s Corporate Culture Problem*
Does Silicon Valley have a capitalism problem or does capitalism have a Silicon Valley problem? Waldock and Zingales sit down with Mike Isaac, New York Times technology reporter and author of *Super Pumped: The Battle for Uber*, to find out if these tech startups have a toxic corporate culture issue.

*College Admission (In)Justice: Harvard and Beyond*
Getting into the right college is arguably more important than ever, which has put the justice or injustice of admissions processes in the spotlight. Waldock and Zingales give a fresh perspective on a recent admissions trial involving Harvard, explain its implications for college admissions in general, and ask whether the way elite universities choose their students is an example of capitalism working or failing.
In its fourth year of operation, the Stigler Center’s political economy publication has continued to promote discussions 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 regulatory capture that protects incumbents and discourages competition, among others. Key topics covered this year include the congressional investigation into the dominance of digital platforms and the political economy issues raised by COVID-19.

The 2019–20 academic year was one of unprecedented growth for ProMarket, crossing the 1.2 million mark for unique visitors and achieving double-digit growth across all metrics. Led by its managing editor, Stefano Feltri, and editor and writer, Asher Schechter, ProMarket significantly expanded its array of guest writers, adding noted scholars, policymakers, and authors to its already impressive list of contributors. ProMarket featured more original research done at the Stigler Center, such as Guy Rolnik, Sara Bagagli, and Stefano Feltri’s case study exploring the link between Italy’s Morandi Bridge disaster and crony capitalism. ProMarket 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 stimulus policies, the impact of social distancing laws, and police reform, ProMarket has done its best to promote the sort of vigorous, fact-based public debate crucial for democracies and well-functioning market economies. Our impact has been attested by the large number of citations of ProMarket pieces in academic papers and high-profile books (both academic and popular), as well as referrals to ProMarket articles in media outlets like Bloomberg and the Financial Times.

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. Stigler Center Fellow Filippo Maria Lancieri, for instance, published a six-part series of articles on the status of competition in search, social media, and digital advertising markets.

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. It has retained its commitment to a nonpartisan exploration of those issues and to the economic principle that competition enhances welfare.
EDUCATION
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 2019–20, Stigler Center Faculty Director 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 first launched in 2017–18.

**Crony Capitalism**

The economic system prevailing in most of the world today differs greatly from the idealist version of free markets generally taught in economic classes. In this course, Luigi Zingales analyzes the role played by corporate governance, wealth inequality, regulation, the media, and the political process in general in producing these deviations. The course helps explain why 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 11th and the 14th centuries, three legal innovations changed the economic and financial history of the world: fiat money (11th-century China), double-entry accounting (14th-century Italy), and limited liability corporations (11th-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 21st century. This course walks students through the challenges and opportunities this technology offers, as well as the regulatory problem it raises.
In 2019–20, Guy Rolnik taught four sections of Storytelling and Narratives in Business, which teaches students how to tell effective stories in the business world. He also taught one section of his Reputation, Regulation and Communications—How Media Influences Business course, with an additional lab section of the same course for a more hands-on experience.

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

This course aims to provide students, as future decision-makers, with a set of tools to engage and deal with the media, and to develop communications and non-market strategies in a complicated world with multiple stakeholders. Students will become sophisticated consumers of media, specifically, of financial and business news media, and will develop an awareness of the far-reaching influence of the news media on what they “know,” what they think is important, and the perspective they take on issues, as well as the drivers that influence the for-profit news media. This course explores the relationship between business, regulators, and the media. All businesses face multiple stakeholders: shareholders, customers, employees, activists, NGOs, politicians, and regulators. Their interaction with stakeholders is conducted mainly through the media. Media has a major role in shaping corporate reputation vis-a-vis their stakeholders, regulators, and potential business partners.

**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 is comprised of 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.
Text Analysis Course for Booth Research Professionals

In the spring 2020 quarter, the Stigler Center offered an online text analysis course taught by CEU Professor Arieda Muço, specifically designed for Booth Research Professionals.

The four-part course was a deep introduction to extracting meaningful data and information from text. The course introduced the basics of text manipulation and mining and covered the most commonly used tools for retrieval of information and use of text as data for analysis and visualization.

The course was held in a series of four sessions (May 22; May 29; June 5; and June 12) and was limited to 40 registrants to allow for maximum participant discussion and interaction.
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 2019–20, the Stigler Center published two business cases, and continued work on more.

Case Study Coordinator

JOSE LIBERTI
Joseph Jr. and Carole Levy Chair in Entrepreneurship,
Clinical Professor of Finance,
Kellogg School of Management,
Northwestern University;
William M. Scholl Professor of Finance,
Kellstadt Graduate School of Business, DePaul University
COMPLETED CASES

Atlantia
How the collapse of the Genoa Bridge in August 2018 ignited a media crisis and political storm

During a torrential rainstorm on August 14, 2018, a 210-metre (690 foot) section of the Ponte Morandi bridge collapsed. The Ponte Morandi, also known as the Genoa Bridge, forms a critical artery of European route E80 linking Italy and France. In the collapse, between 30 to 35 cars and three trucks were reported to have fallen from the bridge. The disaster caused a major political controversy about the poor state of infrastructure in Italy and the privatization of Italy’s highways. The Genoa Bridge was part of a motorway system operated by Autostrade, a subsidiary of the Atlantia holding company controlled by the Benetton Family, one of the most powerful family business dynasties in Italy. The media crisis and political storm that followed threatened the concession under which Autostrade operated the motorways in Italy.

Suitable Courses: Regulation, public policy, privatization, political economy of regulation, the media, media crisis communication

Bigger Picture: The Atlantia case study addresses the political economy of regulation and the media in a democratic market economy. The case highlights a media crisis faced by a large Italian company that happens to be controlled by one of the wealthiest and most famous families in the country. A media crisis presents a rare opportunity to understand the dynamics between big businesses, politicians, regulatory agencies, and the news media. The Italian media and politicians intensely scrutinized the collapse of a bridge on an Italian highway operated by Autostrade, ultimately shedding light on the concession terms through which the company operated a large part of the highway network in the country.

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 who 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 or not to support the tax of manufacturers or to oppose it in favor of alternative legislation around electronic waste.

Suitable Courses: Non-market strategy, corporate political strategy, business and public policy, business and society, corporate social responsibility, applied political economy, 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 which 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.
In September 2014, testimonials from Federal Police’s Operation “Car-Wash” brought to surface a massive corruption scandal involving politicians, company’s 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 uncovered in the investigation: a cartel in the largest contractor that participated in state events, disrupting 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 occurred in October 2014, when 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 getting too big and, the external auditors alleged they had no means to properly assess asset values of certain refineries.

Suitable Courses: 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.
Tally: How to Choose the Right Growth Path?
Less than a year since 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: Entrepreneurial finance, fintech, 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.

Piraeus
How banking regulators benefit banks

In the middle of the Cyprus solvency crisis the Greek bank of Piraeus received a large windfall in the form of Greek branches of a Cypriot bank. A tour behind the scenes reveals just how much thought and resources were invested in assuring that the public would finance this gift to Piraeus: advertising, charitable contributions, and personal connections.

Suitable Courses: Finance/banking, macroeconomics, media
Bigger Picture: Fleshes out EU politics, and general “soft capture” dynamics: advertising as lobbying, corporate philanthropy as co-optation, and so forth.
The fourth cohort of JIRs was drawn from seven countries, with candidates showing emerging investigative talent complemented by others with years of economic reporting experience. The participants were:

**Kate Allen, United Kingdom**
Kate Allen is the *Financial Times*’ international economy news editor. She previously covered capital markets, Westminster politics, and international real estate for the *FT* as a correspondent. Before joining the *FT* in 2012, she edited a specialist journal on UK housing finance.

**Gabriel Baldocchi, Brazil**
Gabriel Baldocchi, assistant editor for *Valor Econômico*, has been working as a financial journalist for 10 years for the main national newspapers and magazines in Brazil. He was a World Press Institute Fellow in the United States.

**Joe Bavier, United States (Reporting from South Africa)**
Born in Tasmania but raised in Memphis, Tennessee, Joe Bavier landed in Africa in 2005. He started working for *Reuters* in Kinshasa two years later amid Congo’s first democratic polls in four decades. Bavier has reported from 17 African countries on everything from gold smuggling in West Africa to the hunt for infamous rebel leader Joseph Kony in the forests of Central African Republic. His interest in the impact of global business in Africa has led to stories on the torture of cocoa farmers by forestry agents in Ivory Coast and Monsanto’s failed foray into Burkina Faso’s cotton sector. In 2018, Bavier became *Reuters*’ Africa business correspondent, filling a newly created role that sees him covering emerging trends in business on the continent, reporting on trade, and investigating corporate malfeasance in developing economies.
Anca Gurzu, Romania (Reporting from Belgium)
Anca Gurzu has been covering energy and climate issues for POLITICO Europe in Brussels since 2015. Her reporting focuses on the intricate workings of European Union institutions and the impact that rules decided in Brussels have on member countries. Her core beats include energy security, electricity markets, renewable energy, and gas pipelines, which she enriched by traveling throughout Europe for local angles. In 2019, Gurzu was one of the several energy journalists from around the world selected to participate in the Energy Journalism Initiative at Columbia University’s Center on Global Energy Policy in New York City. Before moving to Brussels in 2013, Gurzu covered Canadian external relations in Ottawa for Embassy News (now The Hill Times), a foreign policy publication. Her reporting focused on trade and immigration.

Nian Liu, China
Nian Liu is an associate reporter and researcher for the Financial Times. She covers a variety of topics on China’s tech industry, following and breaking news on tech giants, unicorns, startups, US-China tech relations and tech policies. Previously, Liu covered China’s business and general news for Handelsblatt and the German Press Agency (dpa).

Olga Rudenko, Ukraine
Olga Rudenko is the deputy chief editor of the Kyiv Post, an English-language newspaper in Kyiv, Ukraine. She reports on various topics and leads a multicultural team of journalists. She started at the Kyiv Post in 2011 as a reporter. She contributed to the newspaper’s coverage of the Ukrainian revolution and Russian aggression that won the Kyiv Post the Missouri Honor Medal for Distinguished Service in Journalism in 2014. She cofounded Lustrum, an online magazine that pioneered explanatory journalism in Ukraine. She is a board member at the Media Development Foundation, a nonprofit organization strengthening local journalism in Ukraine.

Christopher Walljasper, United States
Christopher Walljasper is an investigative reporter based in Chicago, who grew up in a small town in southeast Iowa. He covers issues facing rural America and the agriculture industry for the Midwest Center for Investigative Reporting. His work has been published by New Food Economy, In These Times, Global Post, the Des Moines Register, the St. Louis Post-Dispatch, Science Friday, and more. Walljasper also does freelance audio production and has recorded for NPR, BBC, WNYC, APM and others. He graduated from Monmouth College in Monmouth, Illinois and received his master’s degree from the Medill School of Journalism at Northwestern University.

Xiao Xiao, China
Xiao Xiao is a journalist covering Chinese business and politics for the Wall Street Journal. Currently based in Beijing, he has traveled from mega cities to small villages to document a fast-changing China and its rise on the international stage. He started his journalism career as an intern at WSJ’s Beijing newsroom.

Blaž Zgaga, Slovenia
Blaž Zgaga is an investigative journalist from Slovenia, who writes for the Croatian weekly news magazine, Nacional. He began his career at Slovenian daily newspaper, Delo, and is an expert in national security, defense, corruption, tax evasion, and the business of sport. Zgaga is the coauthor of the investigative trilogy, In the Name of the State, which explores arms trafficking into the Balkans during the conflicts of the 1990s. He is a member of the International Consortium of Investigative Journalists (ICIJ) and works with European Investigative Collaborations (EIC). His articles have appeared in Der Spiegel, The Guardian, Mediapart, L’Espresso, and many other publications. Zgaga was named among Reporters without Borders’ 100 Information Heroes, in 2014, and shares the New York Press Club Award and the ScrippsHoward Award, among others.
The Employment Effects of Gender-Specific Minimum Wage

During the 1910s, 12 states passed and implemented the first minimum wage laws in the history of the United States. These laws applied to specific industries and to female employees only. In this paper, Riccardo Marchingiglio and Michael Poyker study the employment impact of these gender-specific minimum wage laws, using full count census data from 1880 to 1930. They apply a triple-difference strategy exploiting variation across states, industries, and time, to both the full sample of US counties and to the restricted group of contiguous county pairs. Marchingiglio and Poyker estimate separate models for male and female adults, and find that these laws lead to a decrease in female employment and an increase in the employment of adult men. Guided by a simple labor demand setting, they estimate the average elasticity of substitution between male and female labor, and show that the two inputs are, on average, gross substitutes. The evidence suggests a long-run impact of gender-specific minimum wage laws on female labor force participation, after the Fair Labor Standards Act.
The Value of Political Geography: Evidence from the Redistricting of Firms

In this paper, Joaquín Artés, Brian Kelleher Richter, and Jeffrey F. Timmons demonstrate that political geography has value for firms. Their study proceeds by exploiting shocks to political maps that occur around redistricting cycles in the United States. After a redistricting cycle, some firms will remain in congressional districts that are largely unchanged at one extreme, and other firms will be reassigned to entirely new sets of constituents at the other extreme. The main finding is that firms suffer from being reassigned into districts that are competitive across parties relative to safer districts. The effects are not trivial in magnitude. Moreover, they do not depend on whether a firm retains the same politician or actively makes campaign contributions.
In all modern bureaucracies, politicians retain some discretion in public employment decisions, which may lead to frictions in the selection process if political connections substitute for individual competence. Relying on detailed matched employer-employee data on the universe of public employees in Brazil during the years 1997–2014, and on a regression discontinuity design in close electoral races, Emanuele Colonnelli, Mounu Prem, and Edoardo Teso establish three main findings. First, political connections are a key and quantitatively large determinant of employment in public organizations, for both bureaucrats and frontline providers. Second, patronage is an important mechanism behind this result. Third, political considerations lead to the selection of less competent individuals.
EMANUELE COLONNELLI
Assistant Professor of Finance; Liew Family Junior Faculty Fellow and Fama Faculty Fellow, University of Chicago Booth School of Business

MOINU PREM
Adjunct Professor of Economics, Universidad del Rosario Department of Economics

Corruption and Firms

In this paper, Emanuele Colonneli and Mounu Prem estimate the causal real economic effects of a randomized anticorruption crackdown on local governments in Brazil over the period 2003–2014. After anti-corruption audits, municipalities experience an increase in economic activity concentrated in sectors most dependent on government relationships. These effects spill over to nearby municipalities and are larger when the audits are covered by the media. Back-of-the-envelope estimates suggest that $1 taken away from corruption generates more than $3 in local value added. Using administrative matched employer-employee and firm-level datasets and novel face-to-face firm surveys, Colonneli and Prem argue that corruption mostly acts as a barrier to entry, and that it does so by introducing costs and distortions on local government-dependent firms. The political misallocation of resources across firms plays a seemingly secondary role, indicating that at the local level most rents are captured by politicians and public officials rather than firms.
Kill Zone

In this paper, Sai Krishna Kamepalli, Raghuram Rajan, and Luigi Zingales study why high-priced acquisitions of entrants by an incumbent do not necessarily stimulate more innovation and entry in an industry (like that of digital platforms) where customers face switching costs and enjoy network externalities. The prospect of an acquisition by the incumbent platform undermines early adoption by customers, reducing prospective payoffs to new entrants. This creates a “kill zone” in the space of startups, as described by venture capitalists, where new ventures are not worth funding. Evidence from changes in investment in startups by venture capitalists after major acquisitions by Facebook and Google suggests this is more than a mere theoretical possibility.
Commercial policies are often only efficient insofar as those who are harmed can be compensated. In practice, compensatory measures fall far short of distributive harm. Minju Kim and Robert Gulotty rationalize the paucity of compensation as a strategic effort on the part of elected officials to withhold information about the effects of their policy initiatives. The authors develop a formal model in which citizens must infer the effects of a policy initiative as well as the politician’s commitments from the choice to offer compensation. They find that committed policymakers under-provide compensation to avoid electoral backlash. Using microdata from the US Trade Adjustment Assistance program, they replicate a research design that uses exogenous allocation of petitions for assistance across bureaucrats for causal identification. Kim and Gulotty find that a 10 percent increase in the TAA certification rate decreases support for Democratic candidates by 1.75 percent in areas hard hit by import competition. This electoral effect incentivizes pro-distributive politicians to under-provide economic assistance.
The Political Limits of Economics

Most economists accept—at least in theory—the idea that social preferences should be determined through a democratic process and that the role of an economist is simply to maximize the social welfare function derived from these preferences. In practice, many economists, both in theoretical work and in policy advising, seem to break this separation and take a more patronizing attitude, where economists claim (explicitly or not) that they know what is good for society more than its elected representatives do. Thus, rather than playing a mere advisory role, economists use their tools and expertise to impose their view. When they do so, however, they generally do not question the principles of democracy, but they identify a reason why the political system fails to represent the will of the majority. Thus, the substitution of their preferences in place of those of the majority’s becomes not only legitimate but also necessary to fix the political failure. It is a dangerous process, whose causes and remedies Zingales attempts to explore in this short essay.
Risk Perception Through the Lens of Politics in the Time of the COVID-19 Pandemic

Even when—objectively speaking—death is on the line, partisan bias still colors beliefs about facts. John M. Barrios and Yael V. Hochberg use data on internet searches as well as proprietary data on county-level average daily travel distance and visits to non-essential businesses from a large sample of US smartphones at the daily level. They show that the higher the percentage of Trump voters in a county, holding all else equal, the lower the perception of risk associated with the COVID-19 virus and the lower the level of social distancing behavior exhibited. As Trump vote share rises, individuals search less for information on the virus, they search less for information about unemployment benefits, and they exhibit lower reductions in both their daily distance traveled and their visits to non-essential businesses. Risk perceptions in areas with high Trump vote shares increase in these areas only after 3/9/20, when it was announced that COVID-19 had struck the Conservative Political Action Committee meetings and conservative politicians were self-quarantined, suggesting that their risk perceptions are affected not by changes in fundamental underlying risk, but rather by politically related interpretations of the risk. These patterns persist even in the face of state-level mandates to close schools and non-essential businesses and to “stay home—work safe,” and they reverse only after March 16, when the White House released federal social distancing guidelines. This differential is present even in the face of similar levels of ability to telework and in the presence of higher levels of older population at risk. Barrios and Hochberg’s results suggest that political partisanship may play a role in determining risk perceptions in a pandemic, with potentially significant externalities for public health outcomes. Relying solely on voluntary compliance with suggested measures in the presence of different political views on the crisis may have limited effectiveness; instead, enforcement may be required to successfully flatten the curve.
Assessing the Payroll Protection Program: A Framework and Preliminary Results

In this paper, John M. Barrios, Michael Minnis, William Minnis, and Joost Sijthoff develop a simple model to predict requests for the Payroll Protection Program (PPP) and compare these predictions to the actual allocations. The model suggests the amount of requested funds could total $750 billion, though this is likely a high-water mark, conditional on several assumptions. The model also generates expectations according to industry, state, and firm size, allowing us to assess model performance in the cross section. The model performs reasonably well. Through the May 1 funding, the state-level, cross-sectional model has an $R^2$ of 99.3 percent, and the average absolute prediction error across states is 6.4 percent. Interestingly, the prediction errors from the first funding round are significantly negatively correlated to the errors in the second funding round, revealing that the allocations were systematically different in the two rounds. Ultimately, the results suggest that the payroll-based model predicts PPP allocations well and that the funds were allocated as designed. One potential inference from these results is that critique about PPP allocations should be focused on program design rather than program execution. This analysis should be useful for subsequent studies assessing the performance of the PPP.
The success of non-pharmaceutical interventions to contain pandemics often depends greatly upon voluntary compliance with government guidelines. What explains variation in voluntary compliance? Using mobile phone and survey data, John M. Barrios, Efraim Benmelech, Yael V. Hochberg, Paola Sapienza, and Luigi Zingales show that, during the early phases of COVID-19, voluntary social distancing is higher wherever individuals exhibit a higher sense of civic duty. This observation is true for US individuals, US counties, and European regions. It is also the case that social distancing remains more prevalent in high civic capital counties even after US states begin reopening. This evidence points to the importance of civic capital in designing public policy responses to pandemics.
Quantifying the High-Frequency Trading “Arms Race”: A Simple New Methodology and Estimates

Matteo Aquilina, Eric Budish, and Peter O’Neill use stock exchange message data to quantify the negative aspect of high-frequency trading, known as “latency arbitrage.” The key difference between message data and widely familiar limit order book data is that, unlike book data, message data contain attempts to trade or cancel that fail. This allows the researcher to observe not only the winners in a race but also the losers. Aquilina, Budish, and O’Neill find that latency arbitrage races are very frequent (about one per minute per symbol for FTSE 100 stocks), are extremely fast (the modal race lasts 5–10 millionths of a second), and account for a large portion of overall trading volume (about 20 percent). Race participation is concentrated, with the top six firms accounting for over 80 percent of all race wins and losses. Most races (about 90 percent) are won by an aggressive order as opposed to a cancel attempt; market participants outside the top six firms disproportionately provide the liquidity that gets taken in races (about 60 percent). The authors’ estimates suggest that eliminating latency arbitrage would reduce the market’s cost of liquidity by 17 percent. They calculate that the total sums at stake are on the order of $5 billion annually in global equity markets.
A Theory of Stock Exchange Competition and Innovation: Will the Market Fix the Market?

This paper builds a new model of financial exchange competition, tailored to the institutional details of the modern US stock market. In equilibrium, exchange trading fees are competitive, and exchanges are able to earn economic profits from the sale of speed technology. Eric Budish, Robin S. Lee, and John J. Shim document stylized facts consistent with these results and use their model to analyze incentives for market design innovation. The novel tension between private and social innovation incentives is caused by incumbents’ rents from speed technology in the status quo. This creates a disincentive to adopt new market designs that would eliminate latency arbitrage and the high-frequency trading arms race.
FACULTY RESEARCH

Quantifying the High-Frequency Trading Arms Race: A Simple New Method and Estimates

Eric Budish’s project is a collaboration with the Financial Conduct Authority, which is the UK’s financial markets regulator. In collaboration with two PhD economists at the FCA, Matteo Aquilina and Peter O’Neill, Budish has obtained “message data” from the London Stock Exchange. Message data contains all messages sent by market participants to the exchange and all messages sent back by the exchange to participants. What is so exciting about message data for research is that this information enables a simple new measure of the extent and importance of speed-sensitive trading. In the event of a speed-sensitive trading opportunity, theory (and common sense) indicates that there will be both winners and losers. What has not been widely understood is that the losers’ activity does not manifest in traditional limit order book data; e.g., they might get a message that they were too late for the trade, or too late to cancel, but the fact that they wanted to act and were too late never shows up in order book data. However, an electronic message is always sent back to the participant indicating that their request failed; such messages are included in the data that Budish has now obtained. These data enable a simple, extremely direct measure of the frequency and economic magnitude of speed-sensitive trading.

The Economic Limits of Bitcoin and the Blockchain

This research paper makes a simple economic argument (three equations!) that the main computer science innovation behind Bitcoin—the ability to create anonymous, decentralized trust in a dataset—is intrinsically economically limited. The key insight that emerges from Eric Budish’s simple model is that the flow, or recurring, payment to the decentralized mass of computer power that maintains the Bitcoin data (“miners”) must be large relative to the value of attacking the system (a so-called “majority attack”). This suggests that if Bitcoin becomes a serious component of the global financial system (e.g., another store of value akin to gold), it will either (i) have to get extremely expensive to utilize (roughly, the expense of security would scale linearly with the value of attack), or (ii) will get attacked. The paper provides specific scenarios for Bitcoin’s collapse.
The Role of Litigation in Preventing (or Protecting) Monopolies

Jessica Jeffers, along with her coauthor Tania Babina of Columbia University Graduate School of Business, are putting together a novel dataset on litigation related to intellectual property, human capital, and antitrust concerns. Their goal is to make this dataset publicly available after publishing initial work. One question that Jeffers is exploring involves the trends and consequences of the enforcement of non-compete agreements over the past several decades, and in particular, the trade-off between non-competes and other protections of intellectual capital, such as trade secrets and patents. In addition, Jeffers explores the role of private firm antitrust litigation in shaping monopoly and monopsony forces. She finds that 97 percent of antitrust cases are brought by private companies against each other, yet little is known about this litigation. Jeffers examines whether this legal recourse helps to prevent monopolies, or instead protects them.
Local Economy and Public Opinion on Global Warming: Evidence from the Fracking Revolution

Scientists have reached a near consensus that climate change is real with the potential to affect important societal aspects including public health, labor productivity, and natural resources. Despite the strong scientific evidence, the American public remains split on climate change issues. How much of this divergence is driven by the energy industry? The energy industry contributes substantially to local and aggregate economies. Using the recent fracking boom as a natural experiment, Leonardo Bursztyn rigorously tests the hypothesis that those who stood to gain from the growth of the energy industry have become less likely to support actions on climate change. Further, using viewership of *FOX News*, he gathers evidence on whether this change arose from viewers’ active effort to transform their beliefs on the state of the world. This project will shed light on political consequences of expansion of the energy industry and on ways to improve our readiness to deal with climate change.
Economic Effects of Covid-19 Workshop
The Stigler Center developed the Economic Effects of COVID-19 Workshop series of webinars to explore and disseminate the latest research on the economic implications of COVID-19.

SPEAKERS INCLUDED:

April 30, 2020

- **Hunt Allcott** (New York University): “Polarization and Public Health: Partisan Differences in Social Distancing during the Coronavirus Pandemic” (joint with Levi Boxell, Jacob C. Conway, Matthew Gentzkow, Michael Thaler, and David Y. Yang)
- **John M. Barrios** (Chicago Booth): “Risk Perception Through the Lens of Politics in the Time of the COVID-19 Pandemic” (joint with Yael Hochberg)
  The discussion was moderated by Luigi Zingales (Chicago Booth).

May 7, 2020

- **Eric Budish** (Chicago Booth): “R < 1 as an Economic Constraint: Can We ‘Expand the Frontier’ in the Fight Against Covid-19?”
- **Luigi Zingales** (Chicago Booth): “COVID-19 Fatality Rate” (joint with Pietro Ramella)
  The discussion was moderated by Thomas Philippon (New York University Stern).

May 21, 2020

- **René M. Stulz** (Ohio State University): “How Valuable is Financial Flexibility When Revenue Stops? Evidence from the COVID-19 Crisis” (joint with Rüdiger Fahlenbrach and Kevin Rageth)
- **Jialan Wang** (University of Illinois): “Bankruptcy And The COVID-19 Crisis” (joint with Ben Iverson, Raymond Kluender, and Jeyul Yang)
  The discussion was moderated by Kate Waldock (Georgetown).

May 28, 2020

- **Michael Minnis** (Chicago Booth): “Assessing the Payroll Protection Program: A Framework and Preliminary Results” (joint with John Barrios, William Minnis, and Joost Sijthoff)
- **Eric Zwick** (Chicago Booth): “Did the Paycheck Protection Program Hit the Target?” (joint with Joao Granja, Christos Makridis, and Constantine Yannelis)
  The discussion was moderated by Luigi Zingales (Chicago Booth).

June 11, 2020

- **Fernando E. Alvarez** (University of Chicago): “A Simple Planning Problem for COVID-19 Lockdown” (joint with David Argente and Francesco Lippi)
  The discussion was moderated by Luigi Zingales (Chicago Booth).
Five 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 five recipients represent five departments at UChicago.

**BRADLEY FELLOWS**

- **Eliot Abrams**  
  Economics, Chicago Booth

- **Matthew Lowenstein**  
  History, University of Chicago

- **Lisa Yao Liu**  
  Accounting, Chicago Booth

- **Wan-Zi Lu**  
  Sociology, University of Chicago

- **Ana-Maria Tenekejdieva**  
  Finance, Chicago Booth
VISITING SCHOLAR

Professor Bernard Yeung was dean of NUS Business School from 2008 to 2019 and currently serves as the president of the Asian Bureau of Finance and Economics Research, as well as the Stephen Riady Distinguished Professor at NUS Business School. Before joining NUS in 2008, he was the Abraham Krasnoff Professor in Global Business, Economics and Management at New York University (NYU) Stern School of Business, and the director of the NYU China House. Prior to that, he had taught at the University of Michigan Ann Arbor and the University of Alberta. Yeung has been published widely in top academic journals on topics covering finance, economics, and strategy. He was a member of the Economic Strategies Committee in Singapore (2009), the Social Science Research Council (2016–18), and the Financial Research Council of the Monetary Authority of Singapore (2010–13). In 2018 he was awarded the Public Administration Silver Medal. Currently, Yeung sits on the advisory boards/councils of the Antai College of Economics and Management at Shanghai Jiao Tong University, the Economics and Management School of Wuhan University, the National Taiwan University Business School, and the Institute of Economics, Academia Sinica. He received his BA in economics and mathematics from the University of Western Ontario and his MBA and PhD degrees from the University of Chicago Booth School of Business.
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John C. Walton, ’74, and Jeanette D. Walton
Steven B. Gruber, ’81
George J. Stigler joined the faculty of the University of Chicago Booth School of Business and the Department of Economics at the University of Chicago in 1958. This event, and the arrival two years later of Merton Miller, is widely recognized in establishing Chicago Booth as a world leader in academic research, as well as making it a full partner in an extraordinarily fruitful cooperative research enterprise with the university’s Department of Economics and Law School.

Stigler was one of the great economists of the twentieth century. He made seminal contributions to the economic theory of information and oligopoly, as well as to the economic analysis of government regulation and the public sector. Stigler received the profession’s highest honors, including the presidency of the American Economic Association and a Nobel Memorial Prize in Economic Sciences. His 1982 Nobel Prize was the first awarded to an economist whose primary appointment was in a business school.
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