



Corporations, Persuasion, and the Rule of Law

Anat Admati

Stanford Graduate School of Business

Wilbur Cross Medal Lecture

Yale University | April 4, 2022





With Steve Ross, September 9, 2016
Stanford University (Conference in honor of David Kreps)



Steve Ross

My amazing mentor at Yale and a critical figure in my career

Thank you, John Geanakoplos!!

For your mentoring, brilliance, wisdom, cheer, and hospitality!



Wilbur Cross

(April 10, 1862 – October 5, 1948)

Yale English professor and
Dean of the Graduate School.
Connecticut Governor,
1931-1939.

Cross' favorite quote by Mark
Twain, "**Always do right. This
will gratify some people and
astonish the rest.**"



Capitalism, laws, and the need for trustworthy institutions

Anat R Admati

Oxford Review of Economic Policy, Volume 37, Issue 4, **Winter 2021**, 678-689,

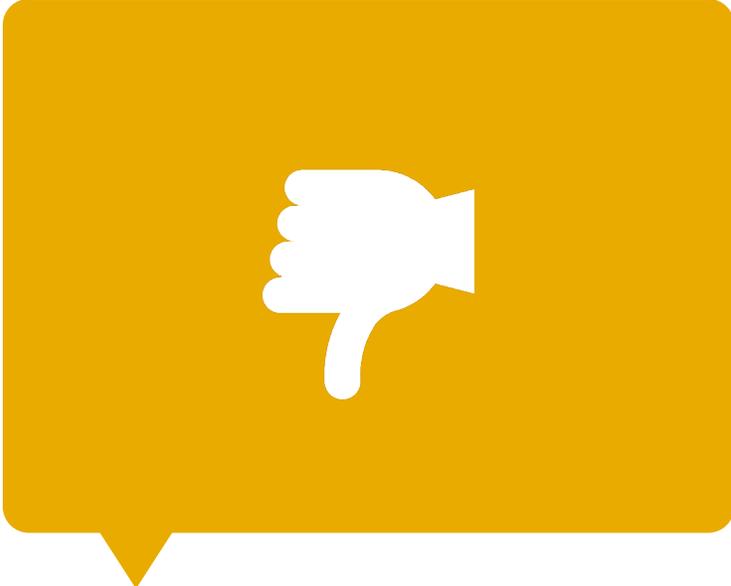
(Response (in 5.000 words) to “What has gone wrong with capitalism and how to fix it”)

In recent decades, the forces of ‘free-market capitalism’ have undermined and overwhelmed democratic institutions. Deception and the manipulation of beliefs often distort both markets and political systems.

False Choice, Muddled Debate



“Capitalism”



“Socialism”

False Choice, Muddled Debate



“Free” Market



“Big” Government

Power Resides in Institutions



Jensen and Meckling (1976): Only Contracts Matter

"Theory of the firm: Managerial behavior, agency costs and ownership structure," *Journal of Financial Economics*



"Most organizations are legal fictions that serve as a **nexus for a set of contracting relationships among individuals.**



Asking "what should the objective function of the firm be" is **seriously misleading.**



The "behavior" of the firm is like the **behavior of a market,**"



“Our financial markets have become **institutional markets** in that institutions are often the most significant traders and holders of active positions.... **Institutional markets and financial marketing are central** to understanding financial innovation **and are almost entirely unexplored.**”

Stephen A. Ross, “Institutional Markets, Financial Marketing, and Financial Innovation,” AFA presidential address, 1988

A Critical Governance Framework



Who makes decisions and acts for the institution?



What information and constraints do they, or should they, have?



What are, or should be, their motivations?

How does the outcome impact stakeholders?



“The social responsibility of managers is to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.”

“The Social Responsibility of Business is to Increase its Profits,”
Milton Friedman, *New York Times*, September 13, 1970

Standard View of **Corporate** Governance

Corporations are “owned” by shareholders

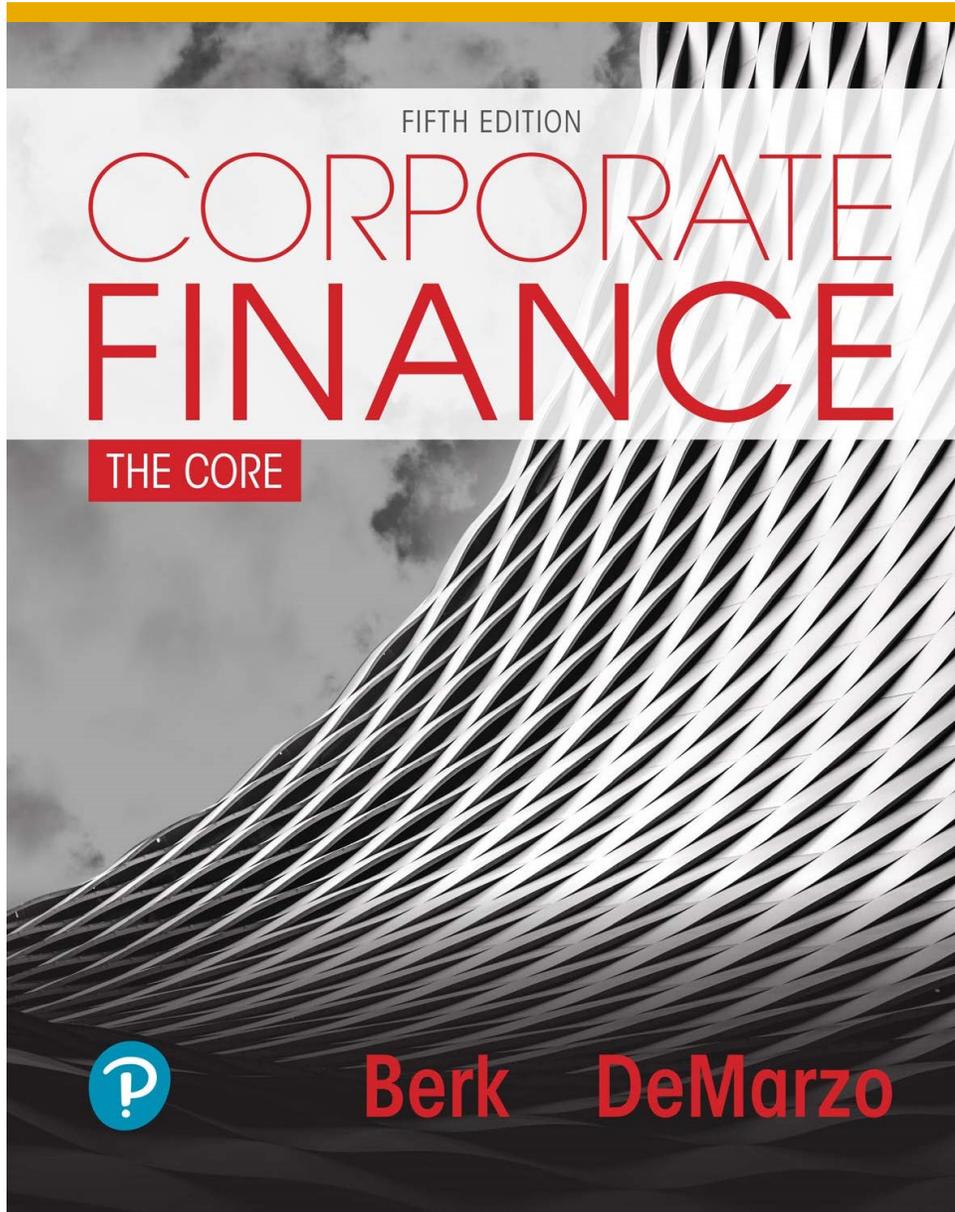


Main governance challenge:

Align managers with shareholders

Financialized compensation

- Accounting profits
- Stock value
- Return on Equity



In theory, the goal of the firm should be determined by **the firm's owners**.... Shareholders agree they are better off if managers maximize the value of their shares.

- Corporate Finance Textbook

Large Shareholder Activism, Risk Sharing, and Financial Market Equilibrium

Anat R Admati, Paul Pfleiderer, and Josef Zechner

Journal of Political Economy, 1994

We develop a model in which a large investor has access to a costly monitoring technology affecting securities' expected payoffs. Allocations of shares are determined through trading among risk-averse investors. Despite the free-rider problem associated with monitoring, risk-sharing considerations lead to equilibria in which monitoring takes place. Under certain conditions the equilibrium allocation is Pareto efficient and all agents hold the market portfolio of risky assets independent of the specific monitoring technology. Otherwise, distortions in risk sharing may occur, and monitoring activities that reduce the expected payoff on the market portfolio may be undertaken.

The “Wall Street Walk” and Shareholder Activism: Exit as a Form of Voice

Anat R Admati, Paul Pfleiderer

Review of Financial Studies, 2009

We examine whether a large shareholder can alleviate conflicts of interest between manager and shareholders through the credible threat of exit on the basis of private information. In our model, the threat of exit often reduces agency costs, but additional private information need not enhance the effectiveness of the mechanism. Moreover, the threat of exit can produce quite different effects depending on whether the agency problem involves desirable or undesirable actions from shareholders' perspective.

I fell into a rabbit hole...
...and a toxic mix of
confusion and politics



CURIOUSER
AND
CURIOUSER!

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THE WALL STREET JOURNAL.

DOUGONLINE
A NEWS CORPORATION COMPANY

TUESDAY, SEPTEMBER 16, 2008 - VOL. CCLII NO. 65

★★★★ \$2.00

DJIA 10917.51 ▼ 504.48 -4.6% NASDAQ 2579.91 ▼ 3.6% NIKKEI Closed (12234.7%) DJ STOCK 50 2744.81 ▼ 4.0% 10-YR TREAS ▲ 2 3/32, yield 3.482% OIL \$95.71 ▼ \$5.47 GOLD \$713.50 ▲ \$22.00 EURO \$1.4110 YEN 104.00

AIG, Lehman Shock Hits World Markets

Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit

The convulsions in the U.S. financial system sent markets across the globe tumbling, as two of Wall Street's biggest firms looked set to exit the scene and insurance titan American In-

*By Suzanne Craig,
Jeffrey McCracken,
Jon Blitzer and
Deborah Solomon*

ternational Group Inc. turned to the Federal Reserve and the state of New York for assistance.

The U.S. stock market suffered its worst daily point plunge since the first day of trading after the Sept. 11, 2001, terrorist attacks. Financial markets were rattled by the rushed sale Sunday of Merrill Lynch & Co. and the bankruptcy-court filing of Lehman Brothers Holdings Inc., which scrambled Monday to sell its most prized businesses before too many employees and customers walk out the door. (Please see related article on Page C1.)

All day Monday, top Lehman officials were huddled in Manhattan at their Seventh Avenue

ing. For much of the day, the major U.S. market indexes were down 2%, which, while a good-sized decline, was smaller than many had thought would be the case. But in the final hour of trading, a wave of selling hit, driven by concerns about the fate of AIG. The Dow Jones Industrial Average ended down 504.48 points on Monday, off 4.4%, at its daily low of 10917.51, down 18% on the year. Of the Dow Industrials' 30 components, all but one—Coca-Cola Co.—fell, led by a 60.8% plunge in AIG.

In Europe, London's FTSE 100 index dropped 3.6%. Several Asian markets, including Japan and China, were closed Monday due to holiday. By Tuesday, Tokyo shares were down 5.1% in early trading, and Hong Kong's Hang Seng index was down 6.1%.

Monday's action was the latest fallout in a widening financial crisis that began a year ago with the fall of American housing prices and is now reverberating the U.S. financial system. Steps unveiled by the Federal Reserve to expand its emergency lend-



AIG Faces Cash Crisis As Stock Dives 61%

**By MATTHEW KARNITSCHENKO,
LIAM FLEVEN
AND SERENA NG**

American International Group Inc. was facing a severe cash crunch last night as ratings agencies cut the firm's credit ratings, forcing the giant insurer to raise \$14.5 billion to cover its obligations.

With AIG now tottering, a crisis that began with falling home prices and went on to engulf Wall Street has reached one of the world's largest insurance companies, threatening to intensify the financial storm and greatly complicate the government's efforts

THE WALL STREET JOURNAL.

DOW JONES
A S&P COMPANY

WEDNESDAY, SEPTEMBER 17, 2008 - VOL. CCLII NO. 66

★★★★ \$2.54
Published in London

DJIA 11599.82 ▲341.51 1.3% NASDAQ 2200.90 ▲1.1% NIKKEI 11609.72 ▼5.0% DJ STOXX 50 2658.77 ▼1.1% 10-YR TREAS ▼1/32, yield 3.49% OIL \$91.15 ▼\$4.56 GOLD \$776.50 ▼\$4.60 EURO \$1.4140 YEN 105.92

U.S. to Take Over AIG in \$85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up

Emergency Loan Effectively Gives Government Control of Insurer; Historic Move Would Cap 10 Days That Reshaped U.S. Finance

By MATTHEW KARNITZSCHING,
DEBORAH SOLOMON
AND LIAM FLEVIN

The U.S. government seized control of American International Group Inc.—one of the world's biggest insurers—in an \$85 billion deal that signaled the intensity of its concerns about the danger a collapse could pose to the financial system.

The step marks a dramatic turnaround for the federal government, which had been strongly resisting overtures from AIG for an emergency loan or some intervention that would prevent the insurer from falling into bankruptcy. Just last weekend, the government essentially pulled the plug on Lehman Brothers Holdings Inc., allowing the big investment bank to go under instead of giving it financial support. This time, the government decided AIG would have to be bailed out

insurance businesses, giving the Fed some protection even if markets continue to sink. And if AIG rebounds, taxpayers could reap a big profit through the government's equity stake.

"This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy," the Fed said in a statement.

It puts the government in control of a private insurer—a historic development, particularly considering that AIG isn't directly regulated by the federal government. The Fed took the highly unusual step using legal authority granted in the Federal Reserve Act, which allows it to lend to non-banks under "unusual and exigent" circumstances, something it invoked when Bear Stearns Cos. was rescued in March.

As part of the deal, Treasury Secretary Henry Paulson Jr.

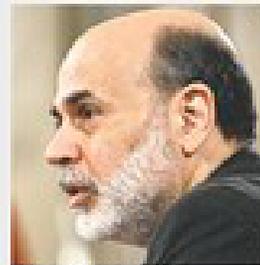
since industries, while Wall Street has watched two of its last four big independent brokerage firms exit the scene.

The U.S. on Sept. 8 took over mortgage-lending giants Fannie Mae and Freddie Mac as they tumbled near collapse. This Sunday, the U.S. refused to bail out Wall Street pillar Lehman Brothers, which filed for bankruptcy-court protection and is now being sold off in pieces. That same day, another struggling Wall Street titan, Merrill Lynch & Co., agreed to sell itself to Bank of America Corp.

The AIG deal followed a day of high drama in Washington. The Treasury's Mr. Paulson and Federal Reserve Chairman Ben Bernanke convened in the early evening an unexpected meeting of top congressional leaders. Late in the trading day Tuesday, anticipation that the government might assist the insurer helped propel the Dow Jones In-

Urgent Mission

Plunging shares, soaring credit costs push the government to step in.



Fed chief Ben Bernanke



Lending Among Banks Freezes

By CAROL MOLENKAMP,
MARK WHITHOUSE
AND NEIL SHAH

Banks abruptly stopped lending to each other or charged exorbitantly high rates Tuesday, threatening to spread the troubles of American International Group Inc. and Lehman Brothers Holdings Inc. to a broad range of financial institutions and the global economy.

The breakdown came despite efforts by central bankers to keep money flowing. Central banks in the U.S., Europe and

Narratives Inform Policy and Persuade Policymakers

Was the 2007-2009 Financial Crisis a Natural Disaster?

A Sudden “Shock?” A “100-year flood?” or something else?





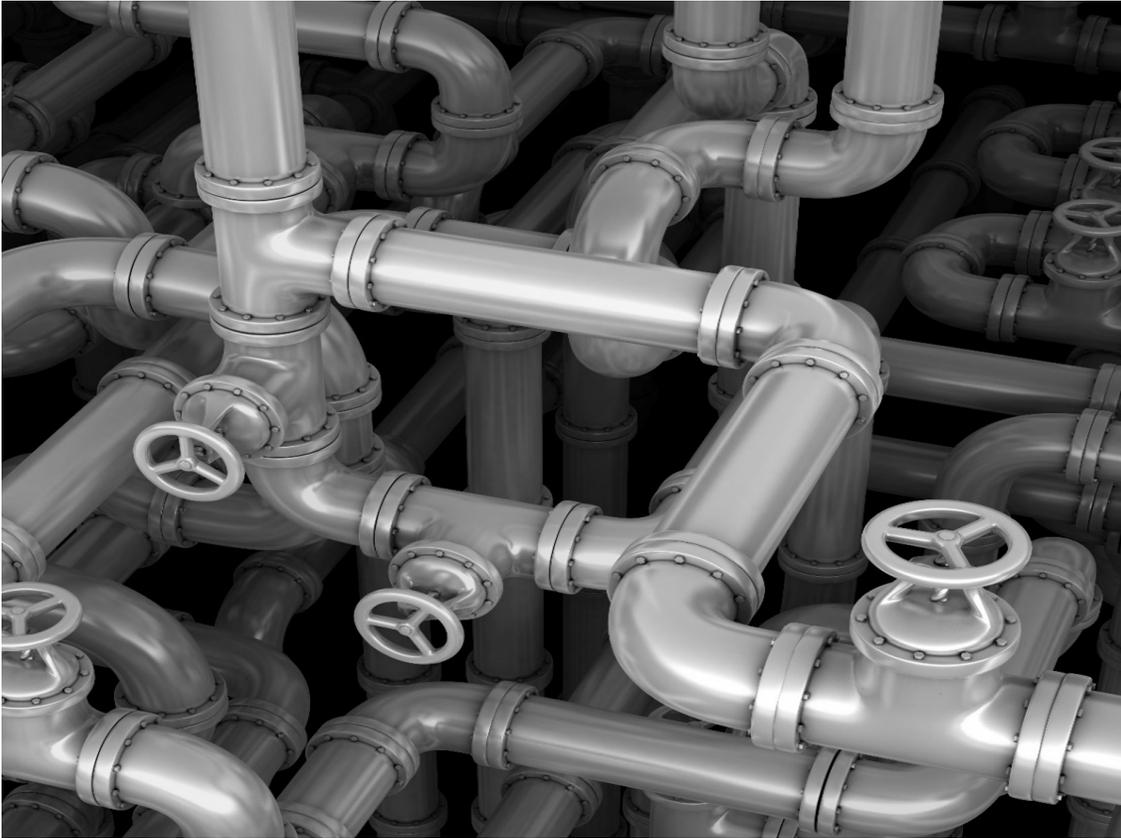




My daughter came home from school one day and said, ‘daddy, what’s a financial crisis?’

And without trying to be funny, I said, ‘it’s the type of thing that happens every five, seven, ten years.’

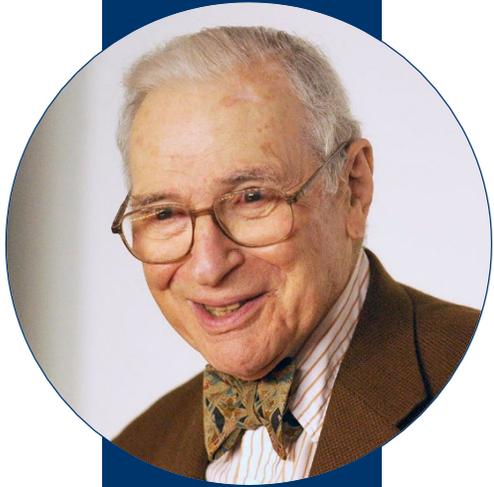
Jamie Dimon, January 2010
(to Financial Crisis Inquiry Commission)



A Liquidity Problem?



“A Classic Bank Run?”



“[These events] present a challenge to standard economic theory.... policies to prevent future financial crises will depend on a deeper understanding of the processes at work.

Asymmetric information is key, precisely in the complex securities that [the standard theory] called for.”

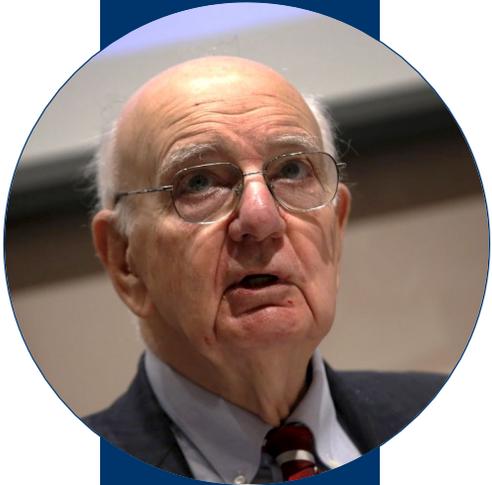
Kenneth Arrow (1921-2017)

“Risky business,” *Guardian*, October 15, 2008



“Banks are still the most **powerful** lobby on Capitol Hill. And they frankly **own the place.**”

Senator Richard Durbin (D-III), 2009



“Just about whatever anyone proposes... the banks will claim that it will restrict credit and harm the economy.... **It’s all bullshit.**”

Paul Volcker (1927-2019), January 2010

(From *The Payoff: Why Wall Street Always Wins*, Jeff Connaughton, 2012)

Dodd Frank Act, July 21, 2010

NO MORE BAILOUTS!!!

(2 minutes applause)

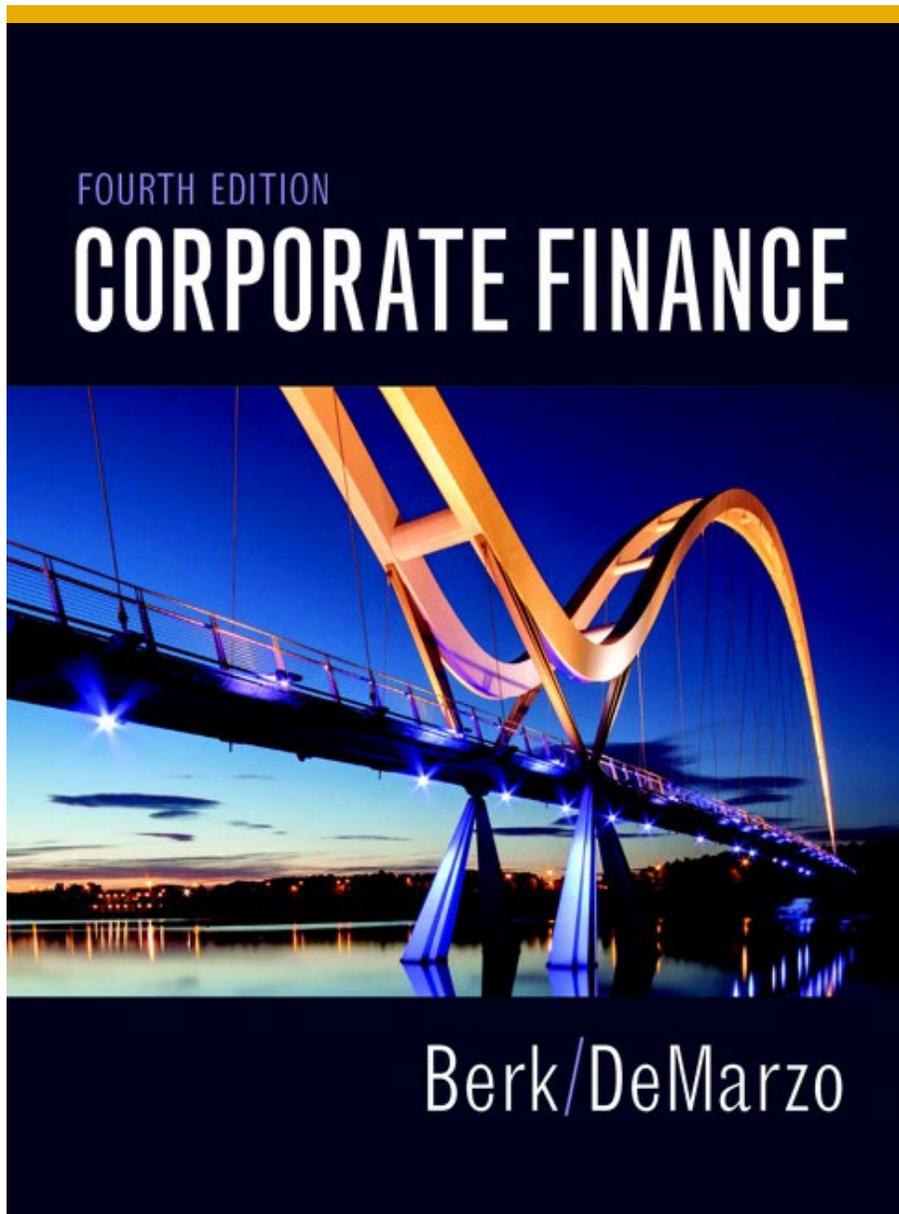




The Lobbyists' Perspective

“When the President signed the financial reform law, that was half time.”

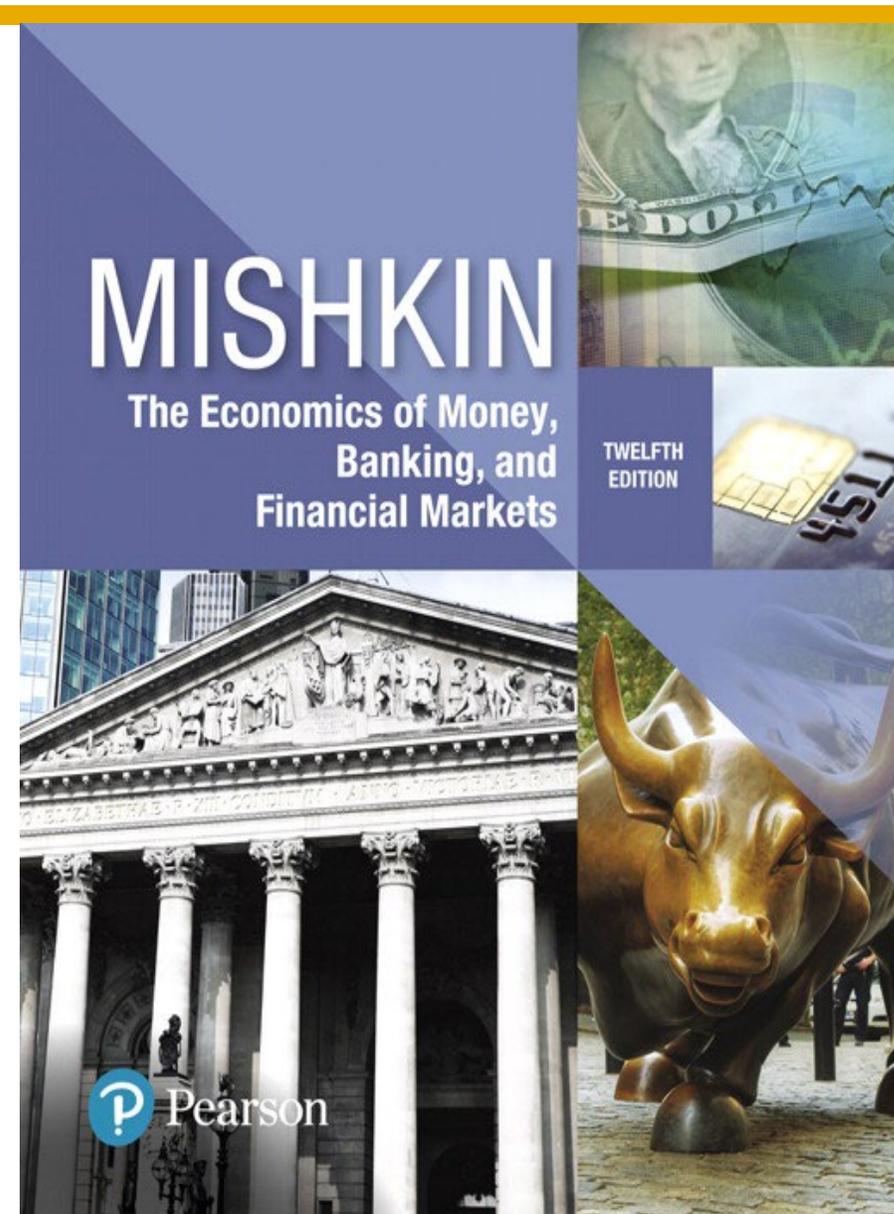
Scott Talbott, Chief Lobbyist
Financial Services Roundtable



**These books
contradict**

each other on
basic concepts
taught in basic
finance
courses.

Mishkin's books
contain
fallacious
statements
made routinely
in banking
context



Fallacies, Irrelevant Facts and Myths in the Discussion of Capital Regulations: Why Bank Equity is *Not* Socially Expensive

August 2010

(revised 2013)

Anat Admati, Peter DeMarzo, Martin Hellwig and Paul Pfleiderer

Some Visible Persuasion Efforts

Healthy banking system is the goal, not profitable banks

NOVEMBER 9 2010

(Letter) From Prof Anat Admati and others

Franklin Allen, Richard Brealey, Michael Brennan, Markus Brunnermeier, Arnoud Boot, John Cochrane, Peter DeMarzo, Eugene Fama, Michael Fishman, Charles Goodhart, Martin Hellwig, Hayne Leland, Stewart Myers, Paul Pfleiderer, Jean Charles Rochet, Stephen Ross, William Sharpe, Chester Spatt, Anjan Thakor

We must rethink Basel, or growth will suffer

Vikram Pandit | **NOVEMBER 10 2010**

G20 leaders have an opportunity to fix what is still broken, writes Vikram Pandit

Hiking capital and liquidity requirements further could have significant negative impact on the banking system, on consumers and on the economy.

The writer is Citigroup chief executive

Sunday, December 5, 2010,
Dimon's profile, Admati's response

The New York Times Magazine

Jamie Dimon: America's Least-Hated Banker



By Roger Lowenstein



HUFFPOST

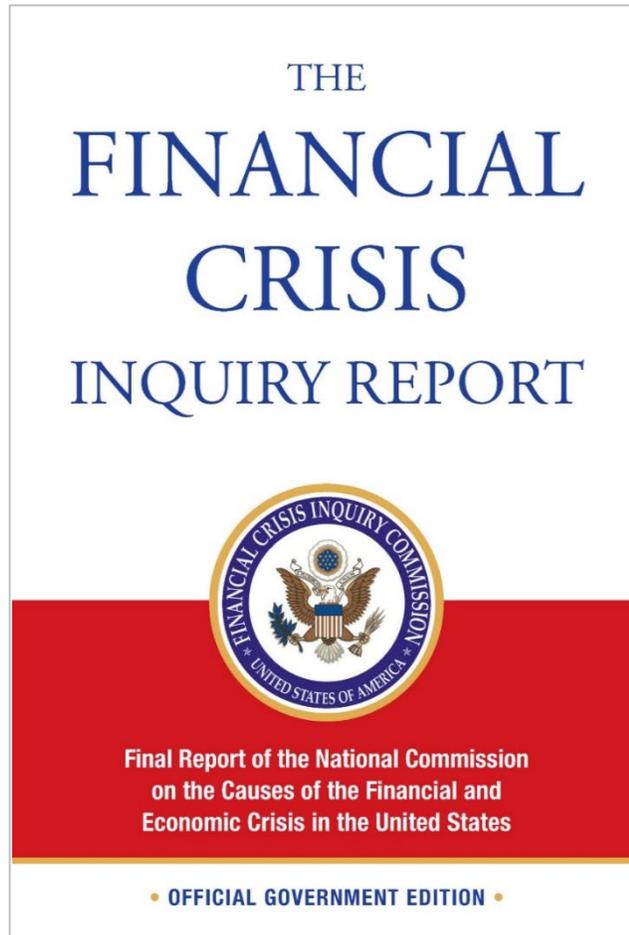
BUSINESS

What Jamie Dimon Won't Tell You

Baseline Scenario

12/04/2010 11:14pm EST | Updated May 14, 2012





Delivered January 27, 2011

The financial crisis was avoidable
Widespread failures in financial regulation
Breakdown in corporate governance
Explosive and excessive borrowing.
Lack of transparency
Government was ill-prepared and responded inconsistently

Widespread breaches in accountability at all levels.

The crisis reflected distorted incentives and failure of rules and governance

Jan 19 2011

Dividends can wait until banks are stronger

Corrupting subsidies associated with guarantees are best handled by high equity needs, writes Anat Admati

[The FT.com link vanished; restored April, 2020]

Feb 9 2011

Banks should be allowed to pay out dividends

We cannot eliminate risk from the financial system writes William Issac

The writer is chairman of LECG Global Financial services and a former chairman of the FDIC

May 28, 2010 - Fifth Third names William Isaac board chairman

Isaac's bank chair position was not mentioned in the byline of his op-ed

Feb 16 2011

Only recapitalized banks should pay dividends

From Prof Anat R Admati and others

[16 academic signatories; No longer on ft.com]

Feb 24 2011

Fed runs scared with boost to bank dividends: Anat R. Admati

Bloomberg View

Jun 14 2011

An open letter to JPMorgan Chase Board of Directors

Reuters, Huffington Post

The overriding policy in the United States must be a stable and healthy financial system that supports the American economy without imposing unnecessary risks and costs on its citizens.

Mar 14 2012

Why the bank dividends are a bad idea

Reuters

“Jamie Dimon, the outspoken CEO of JPMorgan Chase, rails relentlessly against requirements that banks use more equity. He and others make self-interested and empty threats.

Dimon said in March 2011 that higher capital requirements would be “a nail in the coffin of big American banks.” He later called Basel III “anti-American.” Dimon falsely equates what is good for American bankers and what is good for America.”



(July 2011-December 2012)

In the bunker to write
an accessible book
explaining corporate
finance, banking and
related policy issues
and politics



THE BANKERS' NEW CLOTHES



What's Wrong with Banking and What to Do about It

— With a new preface by the authors —

**ANAT ADMATI &
MARTIN HELLWIG**



“...free of technical jargon and widely accessible to all...conveys a deep understanding and stands in opposition to the self-interested forces of obscurity.”

Kenneth Arrow



“...the most important book about banking in a very long time.”

Kenneth Rogoff



“explaining complex concepts in a very straightforward fashion...has much to offer everyone, from novices to experts.”

Stephen Ross



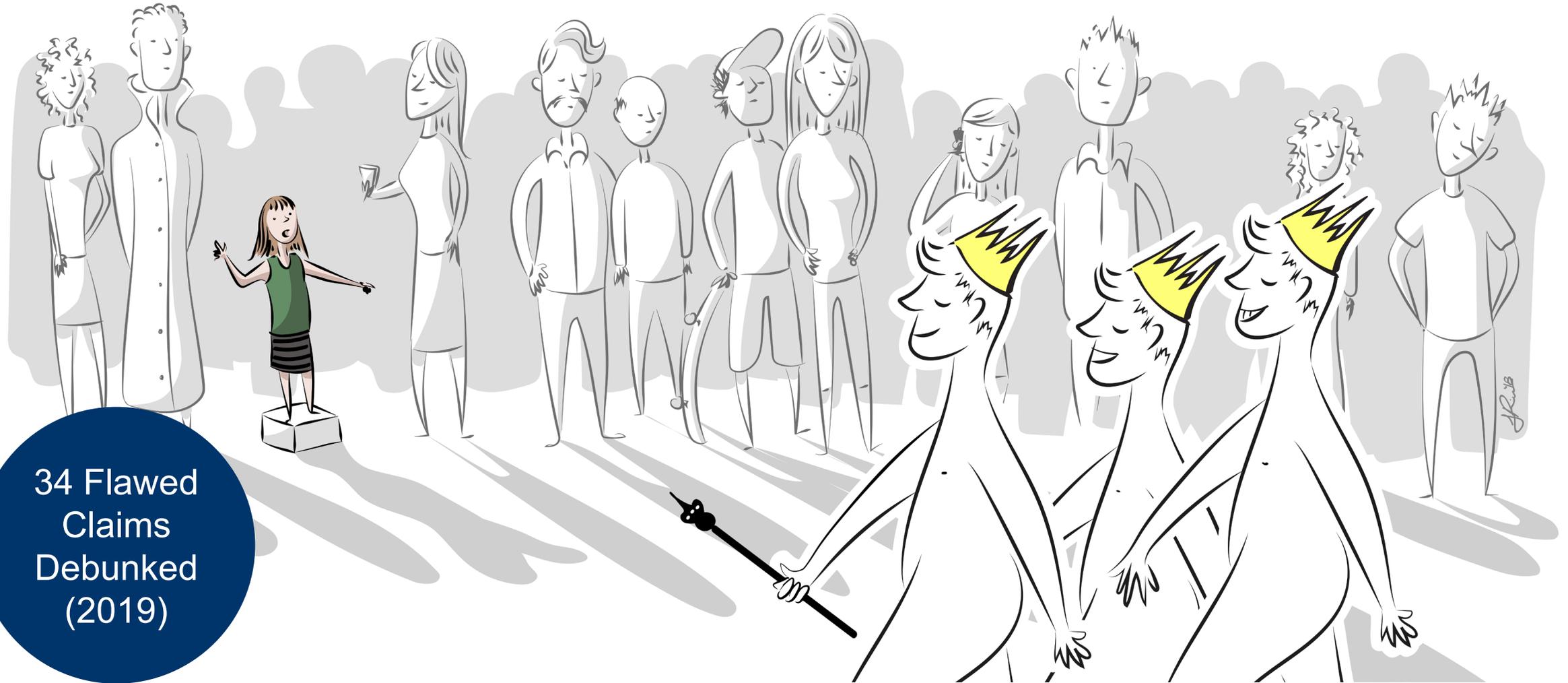
“...should be studied and memorized by lawmakers and regulators so they won't be duped by false claims in the future.”

Eugene Fama

Feb. 2013 (Paperback 2014)

<http://bankersnewclothes.com/>

Sadly, the Parade Continues...



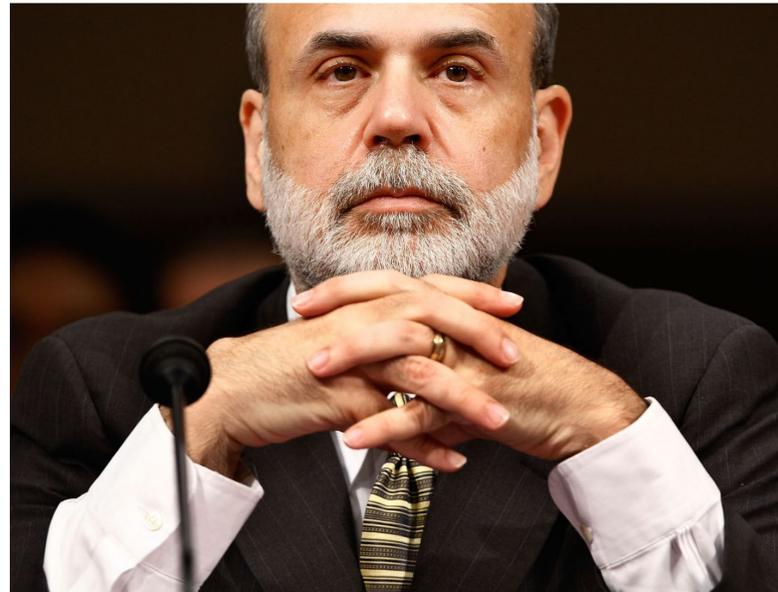
34 Flawed
Claims
Debunked
(2019)

Where's the Courage to Act on Banks?

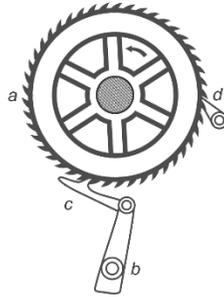
Ben Bernanke and the Fed seem to have missed a key lesson of the financial crisis.

By Anat R. Admati

October 12, 2015, 4:00 AM PDT



The Leverage Ratchet Effect



Journal of Finance, 2018

Anat Admati, Peter DeMarzo, Martin Hellwig and Paul Pfleiderer

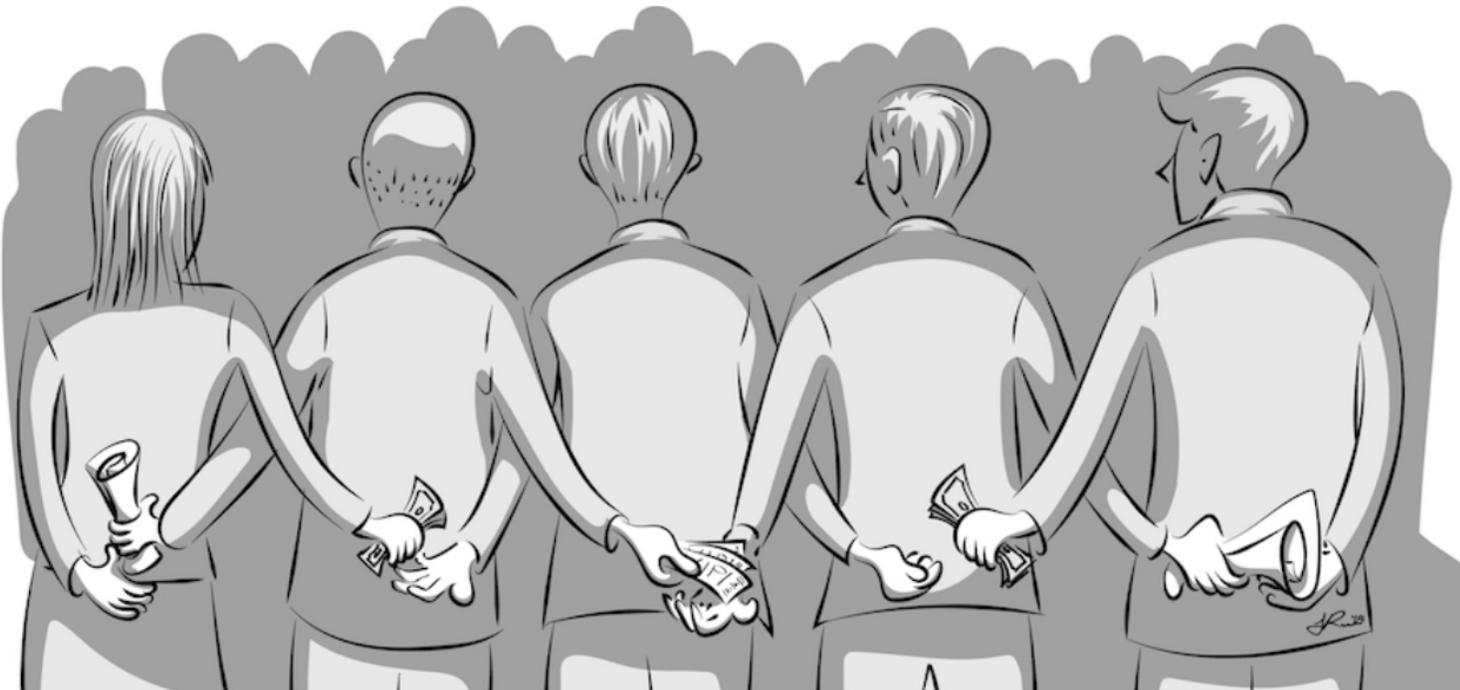
Borrowing begets more borrowing and gets “addictive”
Inability to commit is key

Advocacy

 Follow @anatadmati

Advocacy by Type

- Policy Papers and Presentations
- Opinion Pieces
- Interviews and Profiles
- Media Coverage
- News Commentary



It Takes a Village to Maintain Distortions in Finance

Many Enablers; Distorted Incentives; Willful Blindness; Moral Disengagement



Bankers and other financial sector employees

Institutional investors

Executives and boards of financial firms

Auditors and rating agencies

Supervisors and regulators

Central bankers

The media

Politicians

Others, **including academics**

“

With such friends [as academics],
who needs lobbyists?

Risk manager in a major systemic institution, 2016

”

Risk

USA 2015

New York Marriott Marquis,
October 20-23

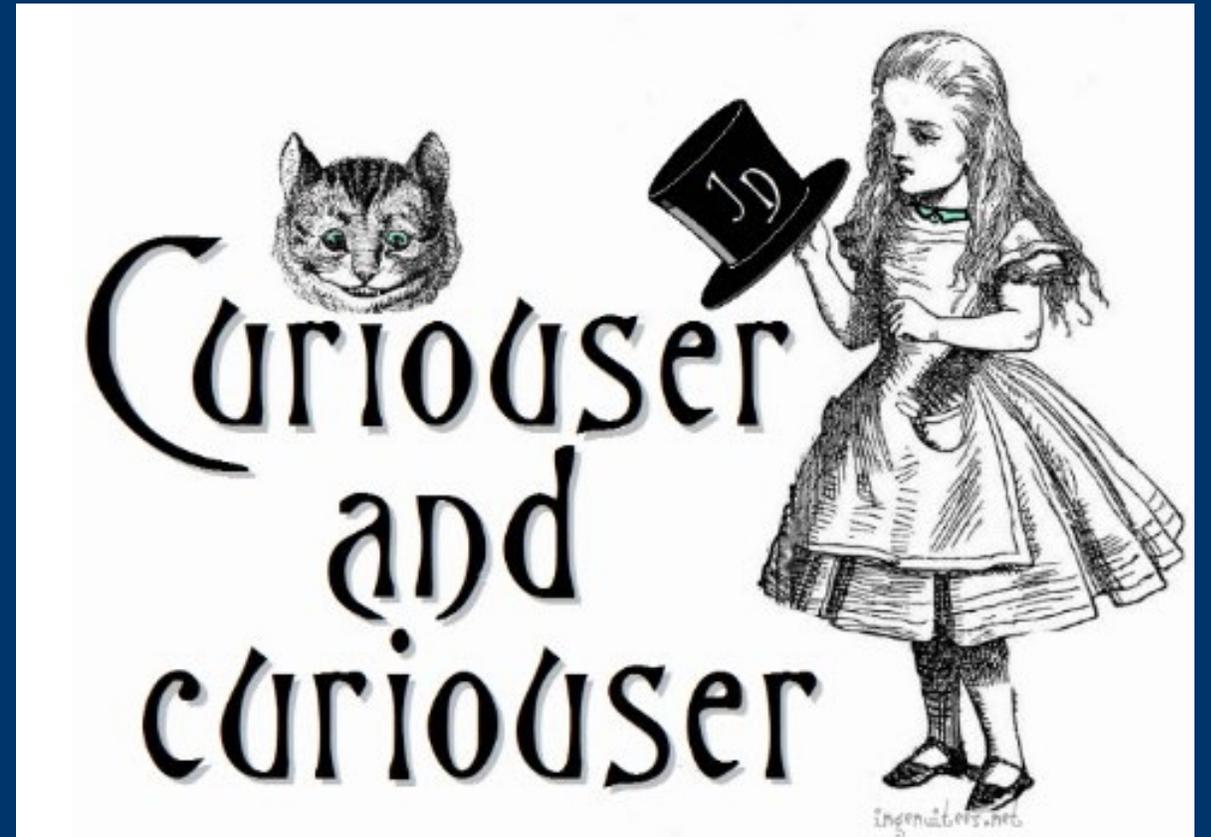


Three major banks considered “systemic”

Dropped out of a top Finance PhD Program (ABD)

Spoke without permission to endorse *Bankers New Clothes* in a 2015 conference
Citigroup Compliance department would not allow visit to my MBA class

In banking, flawed claims, bad models, bloated and distorted system, and poorly designed rules, persist.





Back to **Corporate Governance**

Shareholders-managers conflicts are often **NOT** the main source of distortions!

Corporations: Some History



17th -18th centuries
Dutch East India (VOC) (inc.
1602), English East India,
French Mississippi Company

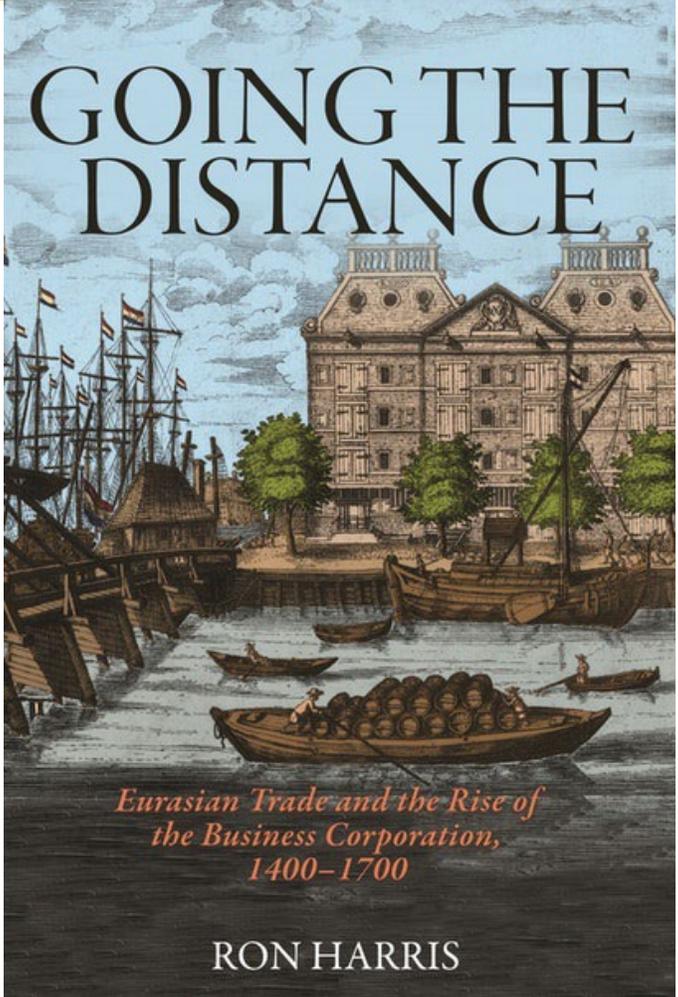
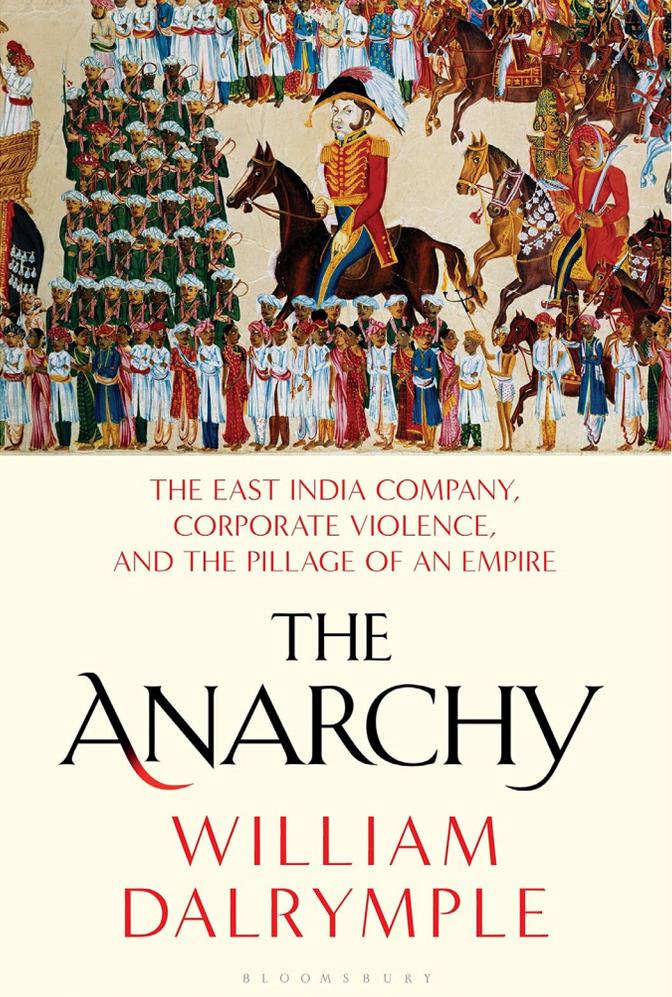
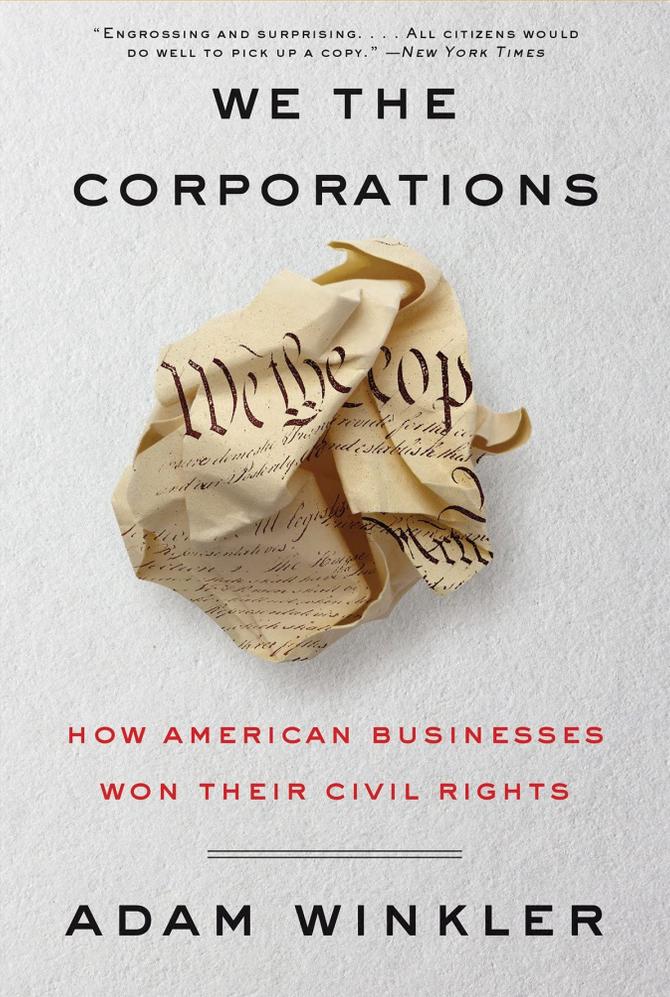


End of
19th century US
Infrastructure projects in US



Incorporation is now
“free” for any legal
purpose

Three recent books about corporations (2018-2020)



How Delaware Thrives as a Corporate Tax Haven

By LESLIE WAYNE JUNE 30, 2012



Corporations: **Key Features**



Abstract legal entities

Separate from all stakeholders

Created in the U.S. under state law (often Delaware)

Governed by laws and charter

Derive existence and rights from governments and legal systems

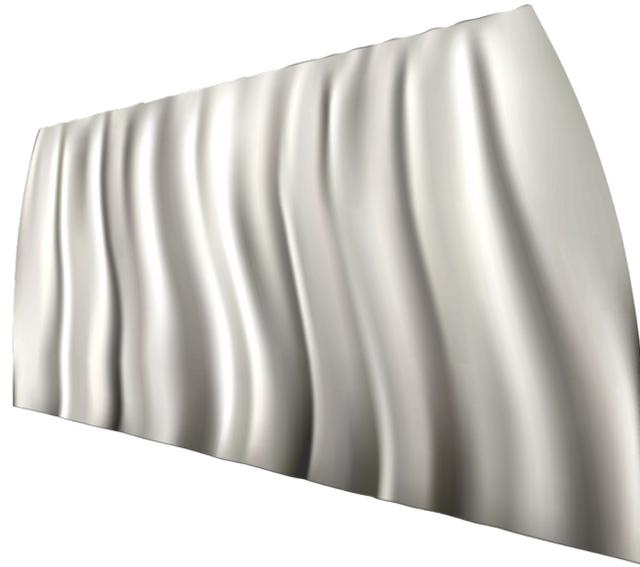
- Property rights
- Locked shareholder funds
- Limited liability
- Political speech rights (?)
- Religious rights (?)

A “veil” separates corporations and their stakeholders from each others’ debts

The Corporation is Distinct from All Individuals



Corporation



Corporate Veil



Employees, Customers, Suppliers,
Banks, Bondholders,
Shareholders, Others

Governance is about...

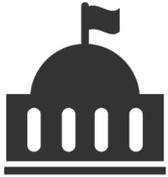


Effective Governance Requires...



How do these attributes come about?

Effective Rules Can Help Build Trust



Governments write

Laws
Regulations
Acts
Guidelines
Directives
Executive Orders



Private sector entities write (under the law)

Bylaws, Mission Statements	Terms of Service
Corporate Policies	Privacy Policies
Corporate Ethics Codes	Community Standards
The Honor Code	Licensing Agreements
Contracts	Accounting standards
Employment Terms	Auditing standards

All rules need enforcement, which adds layers of governance issues



“Regulatory Arbitrage” (or “Innovation?”)



“These new rules will fundamentally change the way we get around them”

Money Laundering



Money from criminal activity enters the legitimate financial and economic system, often through financial intermediaries and chains of corporate owners that are difficult or impossible to trace to individuals.



JPMorgan Admits Violation of the Bank Secrecy Act for Failed Madoff Oversight; Fined \$461 Million by FinCEN

January 07, 2014

Bloomberg

Deutsche, JPMorgan Top Banks Flagged in Fraud Report: Highlights

By Silla Brush

September 21, 2020

About 90 financial institutions appear in the leaked documents

The report analyzed more than **\$2 trillion in transfers**

Focus on “Shareholder Value” is Questioned



“Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders.”



Business Round Table Statement on the Purpose of the Corporation

Aug. 2019, Signed by 181 CEOs of Large US Corporations,

“
=
=
”

We commit to:

- Delivering value to our **customers....**
 - Investing in our **employees...**
 - Dealing fairly and ethically with our **suppliers.**
 - Supporting the **communities** in which we work.
 - Generating long-term value for **shareholders**
- ... for the future success of our companies, our communities and our country.

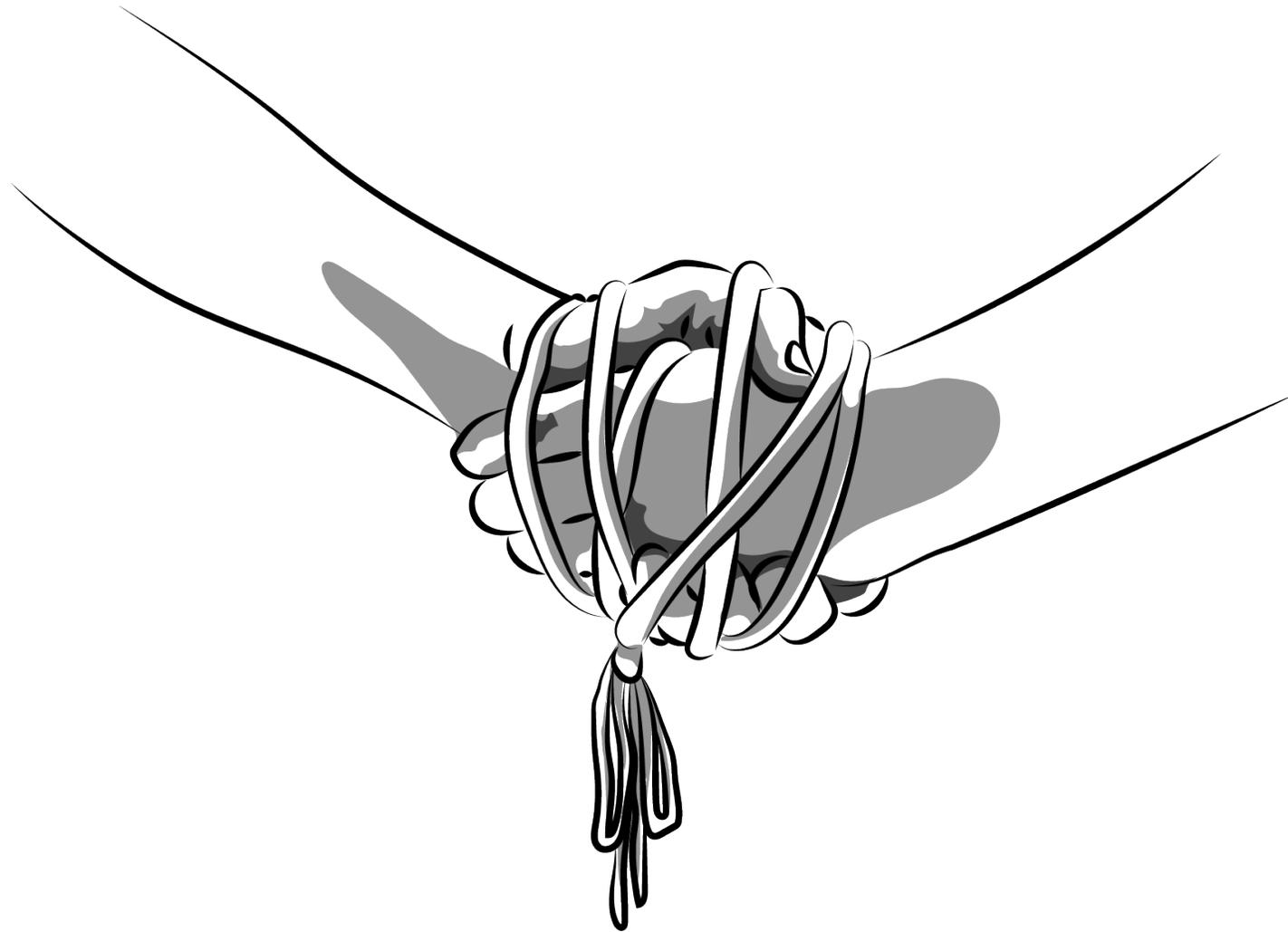
Davos Manifesto 2020

The Universal Purpose of a Company in the Fourth Industrial Revolution



“The purpose of a company is to engage all its stakeholders in shared and sustained value creation.”

Talk is Cheap



Blackrock's former sustainable investing chief now thinks ESG is a 'dangerous placebo'

AUG 24 2021

Blackrock's tells oil regulator: ignore our CEO's climate pledges

MARCH 9 2022

BlackRock joins several major banks – including Barclays, Citigroup and Wells Fargo – that have quietly downplayed their environmental commitments so they can keep doing business with deep-pocketed US states.

How important is deception of various types?

It's mostly lying

Unpacking Friedman's Dictum

The claim would be valid if...

Shareholders agree that managers should focus on maximizing stock price

Markets are “free and competitive”

Managers don't engage in deception and fraud

The “rules of society” protect everyone impacted by managerial decisions, including

- Employees
- Customers
- Creditors
- The public



But what if instead...

Shareholders have other identities and preferences (e.g., as customers or citizens)?

Governments fail to write and enforce proper rules to ensure competition and protect stakeholders?

Corporations impact the writing and enforcement of laws?

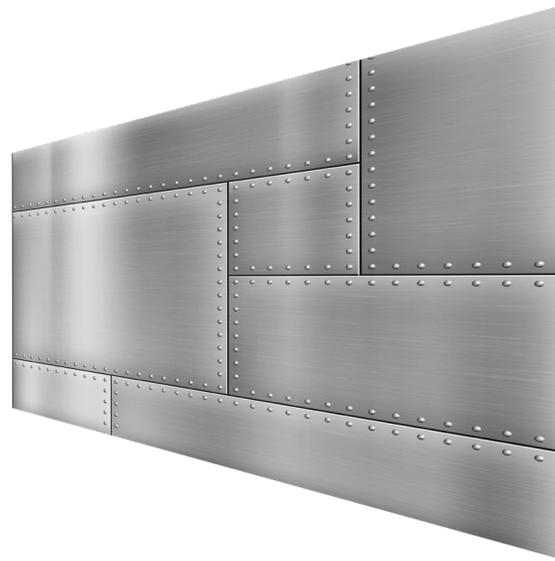
Corporations cause harm to many with minimal consequences for managers?

Do Corporations Actually Obey the “Rules of Society?”

Do contracts, law and ethics protect stakeholders properly?



Corporation



Corporate Veil



Employees, Customers, Suppliers,
Banks, Bondholders,
Shareholders, Others

PAIN KILLER

AN EMPIRE OF DECEIT
AND THE ORIGIN
OF AMERICA'S
OPIOID EPIDEMIC

BARRY MEIER

EXPANDED AND UPDATED EDITION



2003, 2nd edition 2018

**How did Purdue
executives and the
Sacklers get
away with it?**

Persuasion strategy:
aggressive and deceptive
marketing to doctors and
FDA, shift blame to doctors
and victims; public relations
and charitable donations;
legal strategies.

Many enablers:
distributors, pharmacies,
regulators, nonprofits, top
lawyers

EMPIRE *of* PAIN

*The Secret History
of the Sackler Dynasty*

PATRICK
RADDEN KEEFE

Author of Say Nothing



2021



PG&E Probation for San Bruno Blast Ending Amid Ongoing Safety Worries Due to Wildfires

January 24, 2022

Pacific Gas & Electric is poised to emerge from five years of criminal probation.

“In these five years, PG&E has gone on a crime spree and will emerge from probation as a continuing menace to California,” U.S. District Judge William Alsup wrote in a report reviewing his oversight of the utility. “We have tried hard to rehabilitate PG&E. As the supervising district judge, however, I must acknowledge failure.”

“We know there is more to do,” PG&E’s lawyers told Alsup in their final probationary report. “These are not just words on a page or a poster, they are a commitment to make it right and make Californians safe.”

Lawful (but awful) Corporate Conduct

How Chemical Companies Avoid Paying for Pollution

DuPont factories pumped dangerous substances into the environment. The company and its offspring have gone to great lengths to dodge responsibility.

October 21, 2021

Leading chemical companies like Chemours, DuPont and 3M have deployed a potent mix of tactics, including public charm offenses, complex corporate transactions to shield themselves from liability, and scantily tested alternatives just as dangerous.

Senate Report Faults FAA and Boeing for Failures in Review of 737 Max

December 19, 2020





CHRISTIAN
BALE
STEVE
CARELL
RYAN
GOSLING
BRAD
PITT

AN ADAM MCKAY FILM
**THE
BIG
SHORT**
THIS IS A TRUE STORY

FROM THE AUTHOR OF
'MONEYBALL'
AND
'THE BLIND SIDE'

“That's not stupidity, that's fraud.”

“Tell me the difference between stupid and illegal and I'll have my wife's brother arrested”

Much of what is described in “The Big Short” was legal

The movie (but not the book) end by asking why no banker went to jail.

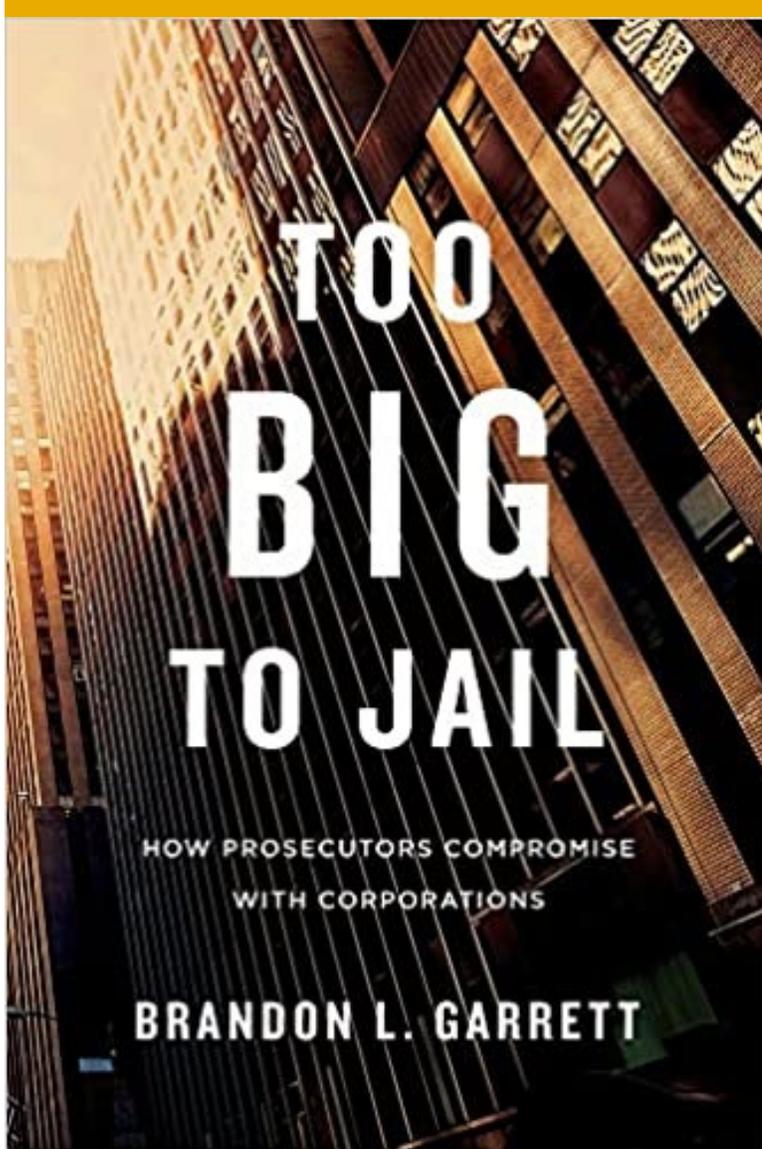
**Banks have paid \$321 billion in fines since the crisis
(but they've made almost \$1 trillion)**

CNBC, March 17, 2017



I WILL NOT SELL UNNECESSARY INSURANCE POLICIES
I WILL NOT SELL UNNECESSARY INSURANCE POLICIES





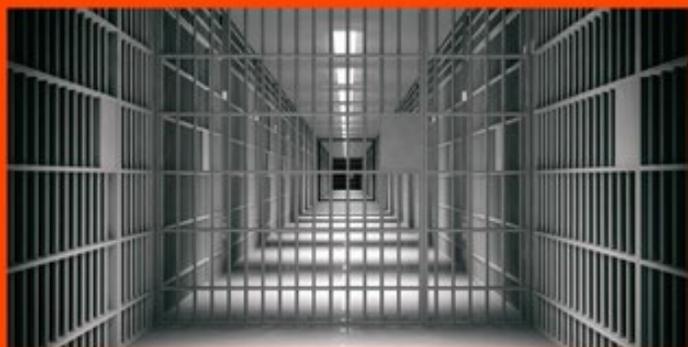
May 2016

“Federal prosecutors benefit from expansive statutes that allow an entire firm to be held liable for a crime by a single employee. But when prosecutors target the Goliaths of the corporate world, they find themselves at a huge disadvantage. Settlements may require structural reforms. However, those reforms are vaguely defined.

While companies must cooperate in the investigations, high-level employees tend to get off scot-free.”

WHY THE INNOCENT PLEAD GUILTY AND THE GUILTY GO FREE

AND OTHER PARADOXES OF
OUR BROKEN LEGAL SYSTEM



JED S. RAKOFF

February 2021

“...in the US we imprison thousands of poor Black men for relatively modest crimes but almost never prosecute rich, white, high-level executives who commit crimes having far greater impact.

The system too frequently convicts innocent people on the basis of dubious science and shaky testimony. In stark contrast, business executives appear increasingly exempt from criminal prosecution.

For too long, too many judges have been too quiet about an evil of which we are a part. If we don't speak out, how can we call ourselves instrument of justice?”

Which Corporate Victim Receives Justice?

(Ongoing empirical research on “corporate Justice” with Greg Buchak, Stanford)



- || When corporations cause harm, does the legal system provide proper remedies to all stakeholders?
- || How do the outcomes of corporate harms (including who is held accountable and how) depend on type of victim (customer, employees, government, shareholders, public) and harm (physical, financial)?
- || Do changes in laws and enforcement mechanisms affect the outcomes for corporate victims?
- || Preliminary results: shareholders and governments do significantly better than other corporate victims

Making the Rule of Law Work Better



More resources for white collar and corporate law enforcement (DoJ division?)



Use Willful blindness doctrine to prosecute executives (Rakoff)



Lower the bar of criminal liability for “responsible officers”



Improve corporate disclosures, auditing, and whistleblower policies



Avoid jurisdictional race to the bottom and distortive corporate subsidies



What is the role of academics and universities in ensuring that institutions serve society and holding power to account?



“We are storytellers, operating much of the time in worlds of make believe... it is the only way we have found to think seriously about reality.”

Robert Lucas, “What Economists Do,” 1988

“Does Debt Discipline Bankers? An Academic Myth about Bank Indebtedness”

Anat Admati and Martin Hellwig

(From preface to paperback of Bankers New Clothes)

Readers of preliminary drafts told us that the idea that depositors and other creditors monitor and “discipline” bank managers was too far from the real world to be worth discussing in the book. The omitted chapter is posted online.

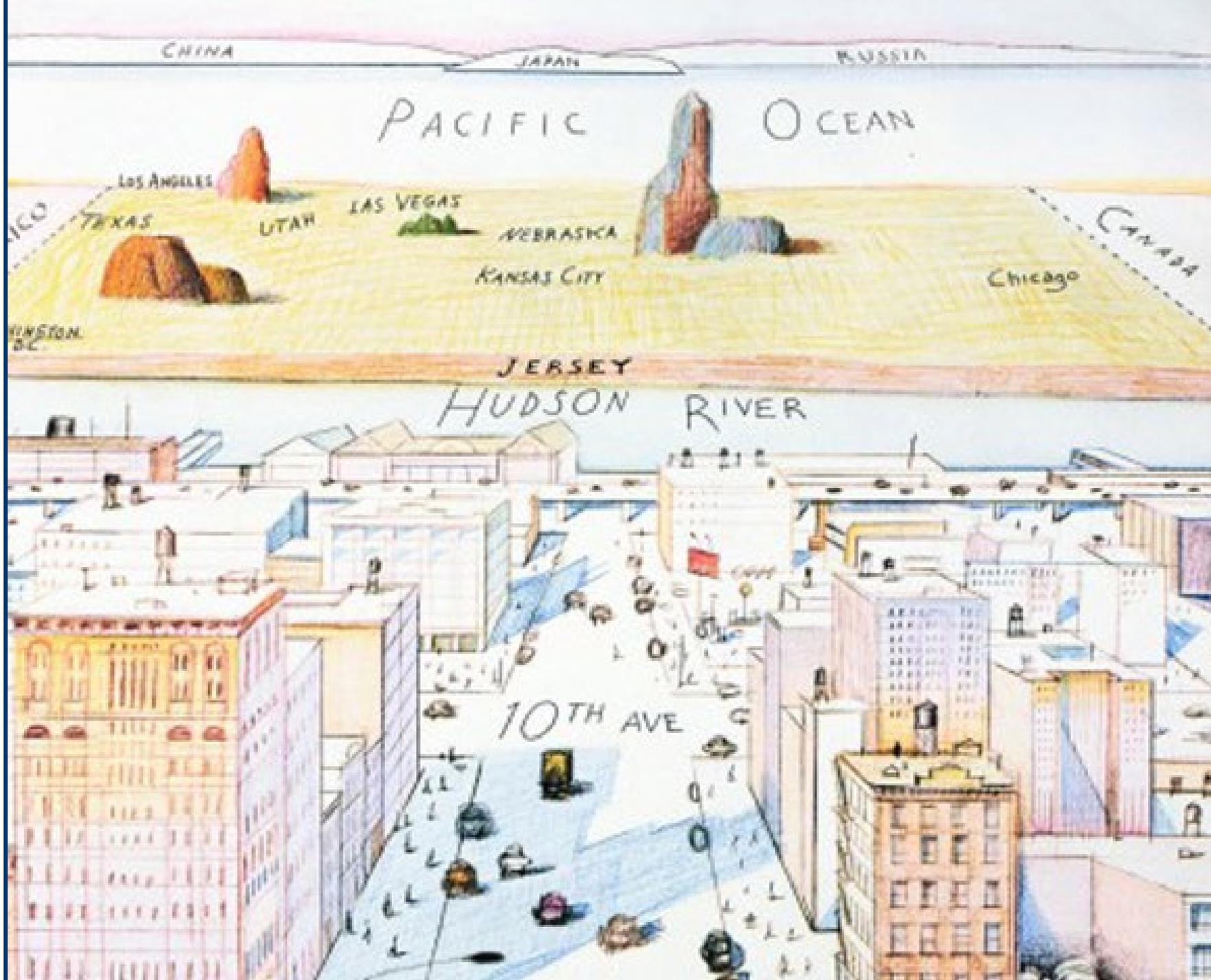
Some academic research consists of myths, theoretical constructions claiming to “explain” observations while ignoring parts of reality that suggest entirely different explanations. An analogue would be a theory that “explains” why people smoke cigarettes by claiming that it is good for their health.

“Chameleons: The Misuse of Theoretical Models in Finance and Economics”

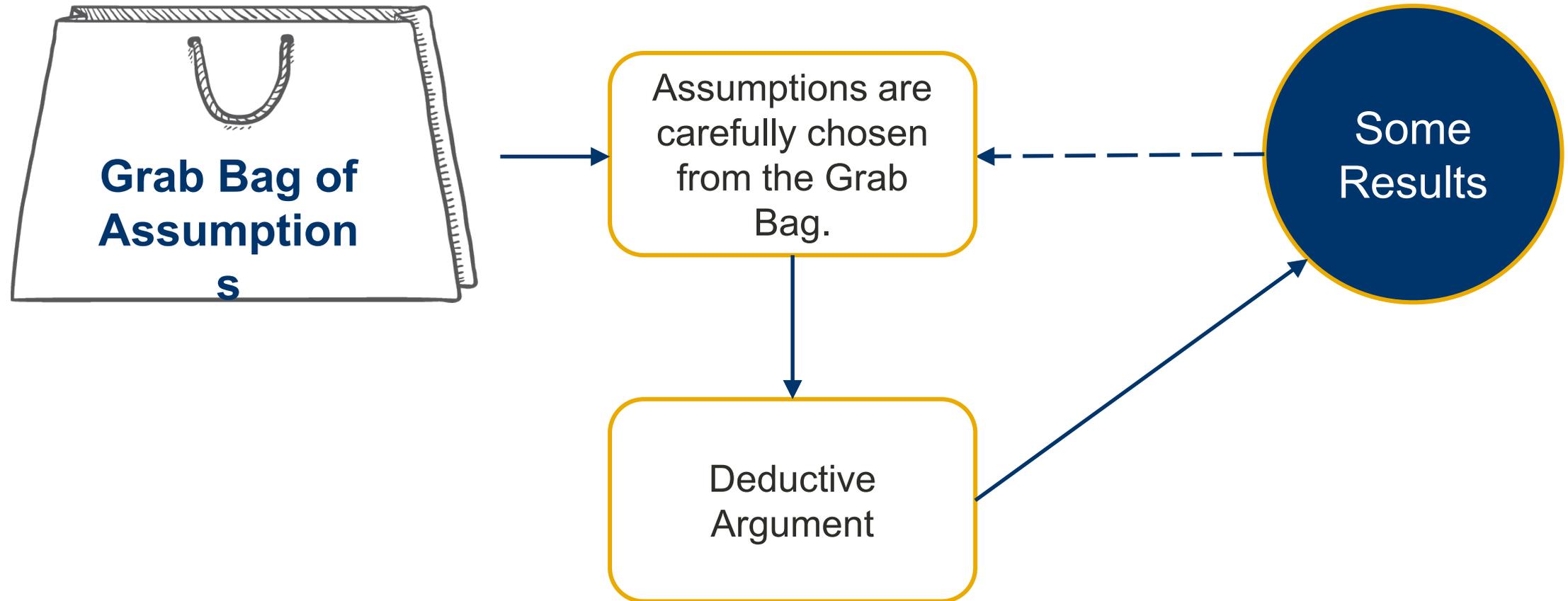
Paul Pfleiderer, *Economica* 2018



“The map of the world as seen from NYC, 9th Ave” should not be used to guide travel.



Reverse Engineered Models



Calibration also does not prove validity or relevance!!



Assumption 1



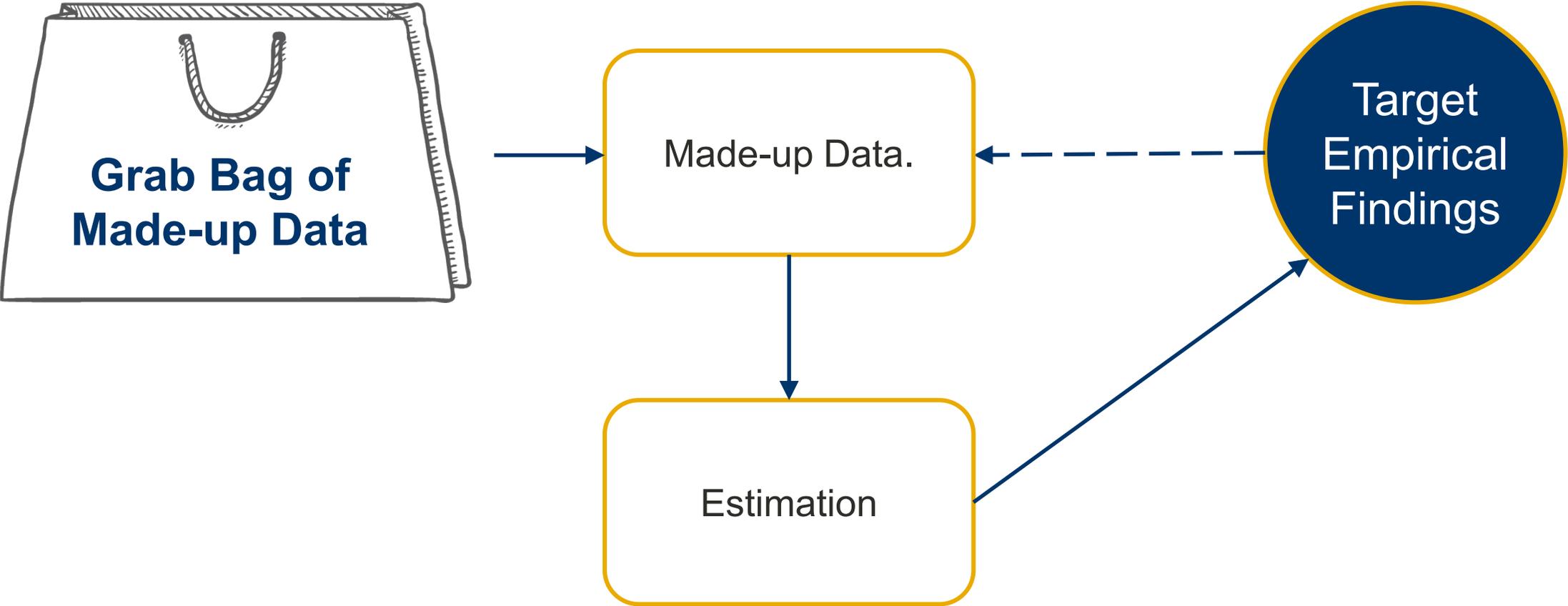
Assumption 2



Assumption 3

Assumption 4

The Analogue for Empirical Research



“Applying inadequate economic models to policy in the real world is akin to building bridges using flawed engineering models. Serious harm may follow.”



sickening



HOW BIG PHARMA

BROKE AMERICAN HEALTH CARE

AND HOW WE CAN REPAIR IT

John Abramson, MD, MSc

*Author of **Overdosed America***

February, 2022

“Because drug companies fund most of the research about their own drugs and control the resulting data, they can (and do) mislead physicians in order to increase sales. The primary tool used by the industry is the manipulation of medical “knowledge.”

In 2001 the editors of 12 of the world’s most influential medical journals published a joint statement warning that the validity of clinical trials reports was threatened by commercial influence.

In return for prestige and career advancement.. Academic researchers were signing away their names and relinquishing control over what was attributed to them.”



“The solution isn’t something we need to do economic research on. We need to figure out a political way to...stop this regulatory capture.”

- Fiona Scott Morton, Yale University
at Stanford, May 9, 2018



**Are we part of the
problem?**

Journal of Economic Perspectives

A Skeptical View of Financialized
Corporate Governance, 2017

**Harvard
Business
Review**

How Business Schools Can Help
Restore Trust in Capitalism, 2019



**How can we be part
of the solution?**

ecnfip
Economists for Inclusive Prosperity

Towards a Better Financial System, 2019

Pro-Market **CHICAGO BOOTH** Stigler Center
for the Study of the Economy and the State

Political Economy, Blind Spots, and a Challenge
to Academics, 2019

Milton Friedman and the Need for Justice, 2020
George Stigler and the Challenge of Democracy,
2021



Look out the window

Challenge assumptions



Look under Rocks

You will be amazed and find rich opportunities

The Devil is in the Details



Teaching: Break Disciplinary Silos; Explore “Forest and Trees”

Happy to share materials

ECON 143, POLITICAL SCIENCE 127, PUBLIC POLICY 143, etc...

Finance, Corporations and Society

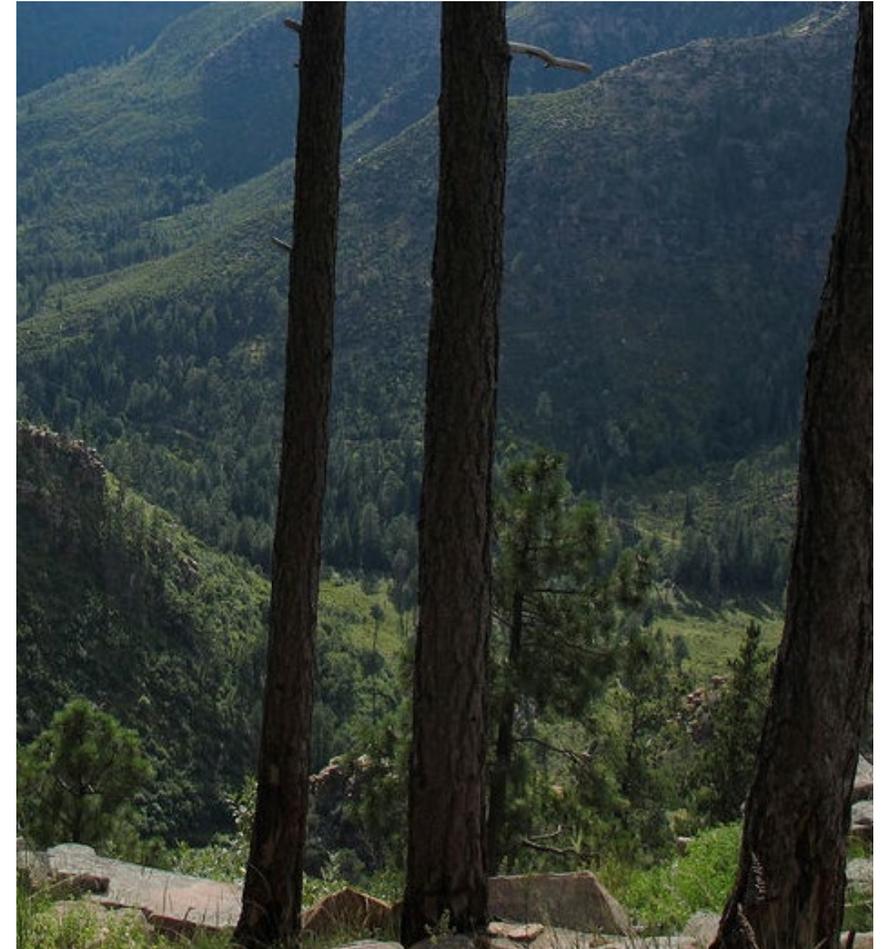
GSBGEN 538 (MBA)

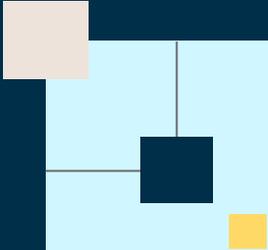
Power in Finance

GSBGEN 593 (MBA)

Business and Government:

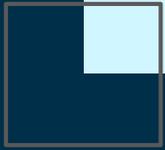
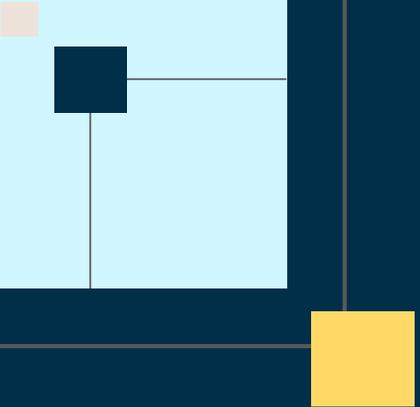
Power and Engagement in the 21st Century World





Energy Deregulation and the 2021 Texas Power Crisis

(A final project for “Finance, Corporations and Society,” March 2022)



A Family Company?

Exposing Johnson and Johnson's Negligence in their Talcum Powder Liabilities

(A final project for "Finance, Corporations and Society," March 2022)

Thank You!

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