

Senior Research Scholar at the SEC

The Transition from Academia to Government

It was a Clemson connection which resulted in my job at the U.S. Securities & Exchange Commission (SEC) after completing my Ph.D. in Economics. Professor Robert McCormick, one of my favorite professors and a member of my dissertation committee, returned to Clemson in 1982 after spending a few years on the faculty at University of Rochester business school. While at Rochester, McCormick overlapped with another young professor, Gregg Jarrell, who had joined Rochester at about the same time. In 1984, Jarrell became the Chief Economist at the SEC. By coincidence, I bumped into Jarrell near Clemson at a country club one Saturday night in the fall of 1986; I was there for a wedding rehearsal dinner and Jarrell was there with McCormick with respect to a dinner as part of an academic conference at Clemson. McCormick made the introductions and we chatted for a minute or two. A few days later, McCormick asked if I had any inclination to work in the Office of the Chief Economist for Jarrell and I immediately said of course. It sounded like a fantastic place to have my first job after graduate school. In so many ways it was my dream entry-level job as it would involve working in an office not only with other economists but also with a finance emphasis, given the mandate of the SEC, that is to focus on securities and on stock exchanges. Shortly afterwards, Jarrell reached out to me telephonically and convened a preliminary offer to join his small team of SEC economists.

Looking back, while in graduate school at Clemson I gave virtually no thought to life after graduate school. I was fully engrossed in attempting to master economics and was also greatly enjoying myself at Clemson, wanting to make the most of my time there.¹ It wasn't merely a

¹ The notion of enjoying myself as a Ph.D. student at Clemson is perhaps a bit of revisionist history. Obtaining a Ph.D. in Economics is an enormous challenge on many dimensions, not just intellectual. In fact, the intellectual challenge of obtaining good grades and passing the various qualifying exams might be the least challenging obstacle. It is the ability to come up with creative ideas for research papers and then to relentlessly work non-stop and sacrifice nearly everything else to bring those creative idea to fruition. That is the primary challenge. And on top of the graduate-level courses, the qualifying exams, and the research, you also are usually required to teach undergraduate level courses or at least be a teaching assistant for undergraduate courses.

matter of living for the moment, rather more of the mindsight of making the most out of the experience and not being fixated on the next stage of my career. But then timing is everything. Had I not bumped into Professor McCormick and Gregg Jarrell at the country club that evening, I could have gone in a far different direction. I had no sincere desire to test the academic job market as I was informed enough to know that it would be difficult, if not impossible, to land at a top-tier university. Indeed, a newly minted Ph.D. looking to stay in academia doesn't simply have an opportunity to upgrade to a higher quality institution, but the odds are also very much that a hire by a similar quality university is also uncommon. And I had no desire, at least during the moment, of taking an academic position at a lower-tiered status than Clemson. Indeed, when I made the decision three years prior to enroll in the Ph.D. program after obtaining my M.A., it was not with the view that I would become a professor, rather the view that a Ph.D. in Economics would open doors to a lot of opportunities, and I would bid my time to maximize the value of my options.

In January 1987, only two months after Jarrell telephonically conveyed the job offer to join his group at the SEC, he unexpectedly resigned as Chief Economist at the SEC to return to the University of Rochester. Suddenly I wondered if Jarrell's job offer still stood since I did not have a formal offer in writing. Thankfully, soon after Jarrell resigned, Annette Poulsen, who was the Acting Chief Economist, reached out to me to convey that the job offer stood and thus a big sigh of relief on my part. Poulsen had been the Deputy Chief Economist under Jarrell and was also departing the SEC for a position on the finance faculty at the University of Georgia but not until the end of summer. A few months later in May 1987, John Shad, the Chairman of the SEC announced the new chief economist, Kenneth Lehn, whom was on the economics faculty at Washington University. Lehn had a prior affiliation at the SEC, serving as Deputy Chief Economist for a year prior to Poulsen's appointment in that position. I was a bit familiar with Lehn's academic research as he had co-authored an influential paper on corporate governance with Harold Demsetz, an economist at UCLA; we covered in Professor Lindsay's class at Clemson. Recall from my Clemson experiences that Lindsay was previously a tenured professor at UCLA and a close colleague of Demsetz, one of the most deserving persons who did not win a Nobel Prize in economics. Lindsay expressed the view that Lehn would be a great person to work for at

the SEC and thus I was excited about going to work for Lehn, having been concerned about Jarrell and Poulsen's departures and having no idea whom I would be working for.

I started work in the Office of the Chief Economist at the SEC in mid-August 1987. The transition experience from Clemson to the SEC was similar to that from ULM to Clemson. That is, I had zero down time. In the case of ULM, I graduated on a Saturday night and started graduate school at Clemson the following Monday morning. In this case, I finished grading exams on a Friday evening for the last class I taught at Clemson as a graduate student, packed up my apartment on a Saturday, then drove to Washington, D.C. the next day to report for work on Monday. Packing was a breeze as I had no real possessions other than clothes and a car, but I did have to clear out of my apartment.

The SEC at the time was located at 450 5th Street NW, just three blocks off the National Mall, seven blocks from the U.S. Capitol, and nine blocks from the White House. Being near all the famous buildings and monuments, it was a superb location to work at and there was this incredible feel of hustle and bustle in the vicinity of the office. Obviously, it was also a far stretch from the small college town of Clemson, SC, and from my hometown in Louisiana.

A bit of history about the origins of the Office of the Chief Economist is helpful with respect to describing my role there. For decades prior, economic analysis, then largely the collection of data and of policy analysis on rule making, was provided by the Directorate of Policy and Economic Analysis (DEPA). But the economists in the DEPA group had virtually no say or standing at the SEC, rather, lawyers made all the decisions. When the Reagan Administration came into power in 1981, one of Reagan's first appointments was John Shad as Chairman of the SEC. Unlike the prior chairmen at the SEC which largely came from the legal profession, John Shad was an investment banker from Wall Street. While Shad was a proponent of tight adherence to rules and regulators and in strong enforcement actions, he also thought the SEC was run by way too many lawyers and could benefit from the economic analysis of decisions to ensure that the United States remained the choice of stock exchanges around the world.

Like President Reagan, Chairman Shad believed in limited government and held the view that free enterprise generally tended to yield optimal solutions for society. And they both held a high

regard for Milton Friedman which certainly resonated with me. Shad created the Office of the Chief Economist in early 1982 and hired Charles Cox, an economics professor at Texas A&M as the first SEC Chief Economist. Cox received his Ph.D. in Economics at the University of Chicago and had the blessing of his Ph.D. advisor, George Stigler who later received the Nobel Prize that year. Stigler was widely known for developing the economic theory of regulation in which special interest groups use the regulatory powers of government to benefit them. It was no accident that the Reagan Administration wanted their first SEC Chief Economist to have the strong backing of Stigler as it was Stigler who had forcefully shown in his award-winning research that industry leaders had largely captured the SEC which did its bidding. Hence, Shad and the Reagan Administration preferred to shift the SEC in favor of more market solutions than an agency run by lawyers designing policies on behalf of the captains of industry. And again, there is the Friedman connection, as Stigler went through the Ph.D. Program at Chicago with Friedman and they were subsequently long-term colleagues and friends as Chicago professors.

To the dismay of many of the lawyers at the SEC, Chairman Shad wanted Cox to report directly to him and also to put the staff of the Office of the Chief Economist on the same 6th floor as Shad and as the other four SEC Commissioners.² Shad and Cox were very like-minded in their free-market approach to markets in general and to corporate takeovers specifically and in 1983 when a seat opened on the commission, Shad pushed for Cox to transition from the Chief Economist to a SEC Commissioner, the first economist to serve as such, again to the chagrin of the legal staff. And for Cox's replacement, Shad went back to the University of Chicago again and picked another George Stigler Ph.D. student, Gregg Jarrell, who had the good sense to hire me!

Jarrell took the helm as SEC Chief Economist in 1984 and was influential early on, especially with respect to promoting that corporate takeovers were good for not only shareholders of target firms, but also good for the overall economy, if not society, in general. Gregg was young and certainly a bit of a maverick. His research at the SEC started to capture considerable attention

² I suspect the combination of creating the Office of the Chief Economist and then putting it on the same floor as the SEC Commissions also did not sit well with the civil-servant economists in the Directorate of Economics and Policy Analysis.

and the famous corporate raider from Texas, T. Boone Pickens, befriended Jarrell and would even go so far to pick Jarrell up at SEC headquarters in his limousine to go play racquetball at a nearby club. Obviously, the legal minds and the bureaucratic staffers were more than a bit annoyed by Jarrell's behavior especially since Pickens had recently been under investigation by the SEC.

During Jarrell's tenure, the Office of the Chief Economist churned out a handful of research studies which supported corporate takeovers, even hostile takeovers, and that restrictions against such takeovers were often detrimental to shareholders. These studies tend to be treated as confidential until they were approved by the compliance officials at the SEC, just like at any other government agency or department. Then, they are released for public dissemination and are often mentioned by the business press. Apparently, that process took too long for Jarrell and thus he would frequently leak the studies to outlets such as *The Wall Street Journal* which would infuriate the SEC staff and drive Shad bonkers. But Shad liked Jarrell so much and moreover agreed with a lot of the research findings which were leaked. But in any event, even though Jarrell was long gone when I started working at the Office of the Chief Economist, there was still the strong perception that the SEC economists were often off the reservation which had ramifications for my research and work as discussed below.

As indicated above, I packed up on a Saturday, drove to Washington, D.C. the next day, and started work first thing that Monday morning in the middle of August. I was hired as a fellow as opposed to a civil servant position.³ The fellow position was generally a one or two-year term, extended to a maximum of roughly four years and there were only a handful of these positions available each year. It came with benefits not available as a regular civil-servant employee of the U.S. Government. First, the compensation was substantially higher as the compensation for fellows were more in line with market compensation. Second, I could come and go as I pleased, without being on a formal time clock, having specified vacation days, etc. This flexibility was a huge plus. Otherwise, I was viewed the same as any of the civil servant SEC employees.

³ My official title was Senior Research Scholar. The "Senior" phrase in my official title was due to my having earned a Ph.D., otherwise, I was young, inexperienced, and naïve.

As mentioned earlier, Ken Lehn, was Jarrell's replacement as the Chief Economist. His Deputy Chief Economist was David Malmquist who had been at the SEC as an economist since 1982, having been hired by Charles Cox, the first SEC Chief Economist. Jeffry Netter was a Senior Research Scholar in the office since 1986 and had received a Ph.D. in Economics from Ohio State University and a Law Degree from Emory University. Thus, we had at least one legal mind in the office to counter all the legions of lawyers at the SEC, and a supersmart one at that. In addition to the three senior economists, there were three relatively new economists. Two of them, Dean Furbush and Darrell Williams, had just completed a year or so on President Reagan's Council of Economic Advisors, and were still working on their Ph.D.'s in Economics. The third, Kathleen Weiss, who started at the same time as me, was near the end of completing her Ph.D. in Finance from the University of Florida. It was a small group, and not only collegial but also impactful I soon learned.

Merger Research Agenda

The big question for me starting out is what research agenda I would focus on. As a research fellow, I did not have assigned duties per se in terms of maintaining periodic SEC reports and publications. I greatly valued the flexibility, plus I was pleased with the compensation. But what skill set did I bring to the table to complement the other economists? Netter had been doing work on corporate control and mergers, Furbush and Williams were separately working on various types of market structure and trading behavior, and Weiss was planning to focus her efforts on initial public offerings, the subject of her dissertation in process. While trained as an economist, and specifically in microeconomics, my current interest in finance was primarily in mergers and acquisitions, and I was well up to speed on financial event-study methodology based on my dissertation at Clemson. As described in my time at Clemson, my dissertation focused on the impact of events on the brand-name capital or reputation value of firms. That is, if firms undertake actions, or fail to undertake actions, which decreases their reputational value, what is the impact on their share prices? And could a similar analysis be carried out with respect to corporate takeovers? I had in mind distinguishing between good and bad mergers but my thoughts on this were loosely structured and without the thought of testing any formal economic theory.

I soon learned that Ken Lehn and I were on the same page. In our first meeting, he proposed a major project which he thought would be of interest to me and of course it was as it was highly aligned with what I was thinking about as a research agenda. The genesis for the project which Lehn had in mind was a hostile takeover attempt for Goodyear Tire by Sir James Goldsmith a year prior in 1986 and the subsequent decision by the state legislature of Ohio to pass an antitakeover law which would give an extra layer of protection of corporate boards of firms based in Ohio to resist hostile takeovers. Jeffrey Netter, mentioned above, and Michael Ryngaert, one of the junior economists at the Office of the Chief Economist who was departing at the time of my arrival to take a faculty position at the University of Florida, produced evidence documenting that the passage of the antitakeover legislation resulted in significant negative abnormal stock-price declines on the order of 2-3 percent for firms based in Ohio.⁴ Thus, this legislation while perhaps protecting local jobs in the interim period was wealth-destroying to the shareholders of the respective firms based in Ohio.

When Goldsmith launched the takeover bid for Goodyear, one of his stated objectives was to sell off some of Goodyear's non-core businesses including energy and focus its efforts on tire and rubber. Interestingly, when Goodyear entered the energy industry just a few years prior in 1983 via an acquisition of Celeron Oil, the stock price of Goodyear plummeted nearly 15 percent when the acquisition was announced. For whatever reason, stock market participants seemed skeptical on the ability of Goodyear management to succeed in the "oil patch" and thus shareholders paid the price. Arguably, had Goodyear not entered the energy business and instead had focused largely on its tire and rubber operations, Sir James Goldsmith would have been less inclined to launch the hostile takeover for Goodyear.

The research project which Lehn had in mind was to see if the Goodyear anecdote would generalize to a larger sample of mergers. My sense was that Lehn was hopeful, yet a bit skeptical, that the project would bear fruit, but still probably worthwhile undertaking at least to get my feet wet with respect to merger research. Looking back, it was a bit of a far stretch to

⁴ Netter and Ryngaert subsequently published their work. See Michael Ryngaert and Jeffrey Netter, "Shareholder Wealth Effects of the Ohio Antitakeover Law," *Journal of Law, Economics, and Organization* (1988).

anticipate that the Goodyear example could extend to a large dataset of hundreds of mergers. Still for me, it was the perfect fit in terms of a research project. My prior research agenda for my Ph.D. dissertation at Clemson had more than adequately prepared me to run with this project and without needing much guidance along the way. I literally started working full speed on this project my second day of employment, in part because I was so gung ho about it that I didn't want to take the chance of anyone senior wanting to take my place on it. But looking back, I don't think I had anything to worry about there. It was a risky project in that a massive amount of work, several months, would need to be completed before any insight as to whether continue to move forward on the project or to admit failure and terminate it.

I started with a sample of 1,158 large publicly-traded firms covered by *Value Line*. I began the analysis in 1982 since mergers, and specifically hostile mergers, started to escalate that year. There were two stages to the database development. For the first stage, I would track each of the 1,158 public firms from the beginning of 1982 up until the current period at that time (we subsequently extended the end date to the middle of 1988), recording whether they had received a takeover bid, hostile or friendly, and if such takeover bid was successful in terms of an actual takeover. For the second stage, I would track the acquisitions made by each of the 1,158 firms over the period 1982-1986.

To put it in perspective, this was at a time in which large databases of mergers did not exist and thus I would need to build the database from the ground up. Like the various Wall Street firms, the SEC had access to the "broadtape" an information service provided by Dow Jones via telegraph lines to subscribers. The "broadtape" provided the headlines to news stories covered by such Dow Jones entities as *Barron's*, *The Wall Street Journal*, and *Dow Jones News Service*. And since the "broadtape" had a stock ticker identifier for its headlines, I was able to generate large computer printouts of all "broadtape" headlines by ticker symbol. The methodology was straightforward. I identified the ticker symbol of each of the firms as of the beginning of 1982 and then tracked each of those symbols to the current period. Then it was simply a matter of scrolling through headlines in the hundreds and sometimes thousands for the largest

corporations over the scope of the research period. Today with the internet, one can far easily build databases of this type, indeed even purchase the data from various commercial vendors.⁵

In effect, I created two separate datasets in the merger database as indicated above. The first dataset, and over the 1982-1988 period, was to note a takeover attempt, and whether hostile or friendly, and whether successful or not, for each of the 1,158 firms in the sample. And the second dataset tracked any successful acquisition made by the 1,158 firms over the 1982-1986 period. By design, I tracked the outcomes of changes in corporate control for the 1,158 firms longer than I did of their own acquisition records as I was analyzing whether the Goodyear experience generalizes to a larger dataset. That is, I required a certain time to elapse for a takeover attempt to emerge for a firm with an acquisition record.

From the onset, I realized that this project was a massive database creation undertaking and procrastination would only delay it significantly. Thus, I was relentless in creating the database and worked incredibly long hours to plod through it. And thankfully, it was not a matter of working on this project in my spare time, rather Lehn did not assign me with any other projects to work on. And like my experience as a Ph.D. student at Clemson where I would work on weekends, albeit less than on a weekday, I chose to do the same at the SEC. I still recall the end of my first week at the SEC and I showed up at the office on a Saturday morning not knowing what to expect. I was pleased to see that others were already in the office working, specifically Netter and Poulsen (she had not left yet for her academic position at the University of Georgia). And a few hours later, Lehn showed up. I knew then that I had ended up in a super group to work with.

For the next several weeks, I made amazing progress on the buildout of the merger database. And I still had no priors how the results would lean since my plan was to complete the build out of the database before doing starting the empirical analysis we had in mind. And then, suddenly, and without warning, my project stalled, albeit temporarily, due to exogenous forces way beyond my control. It was the largest single-day decline in the U.S. stock market, namely the October 19, 1987 stock market crash which immediately became known as *Black Monday*. And

⁵ The increased use of the internet in the mid-1990s eliminated the need for the telegraph networks.

while the crash was an extraordinary shock to everyone, there were some important triggering events leading up to the crash, events which I will discuss shortly, and which significantly impacted my research agenda.

On *Black Monday*, the Dow Jones Industrial Average (DJIA) plummeted 22.6%, the largest one-day decline in the history of the U.S. stock market. By comparison, the second largest decline for the DJIA was 12.9% on March 16, 2020 at the onset of Covid-19. Many of us felt like the world as we knew it was ending then in March 2020, and yet this extraordinary decline paled in comparison to the 1987 crash. The third largest decline occurred nearly 100 years ago on October 28, 1929 during the beginning of the Great Depression. Soon after, the United States was experiencing a deep economic depression viewed as the worst over. And this was the big concern of most everyone when the stock market crashed on October 19, 1987, that is, was it the start of the next depression?

As I will describe shortly below, the stock market was already experiencing major declines during the three trading days preceding the actual crash itself. And the mindset at the SEC was more than cognizant of the recent market declines, yet it is virtually impossible to mentally prepare for the magnitude of the crash which occurred on the 19th. My recollection of that day, obviously fussier as time passes, was a sense of bewilderment and not just by me, but by everyone in the office and on the 6th floor. We were largely just trying to stay on top of the information flow, relying on phone conversations for the most part with market participants.

It came to our attention late that afternoon on October 19, 1987, and via the "broadtape" that several large corporations were starting to announce open-market stock repurchase programs. The SEC staff responded positively to the announcement of these programs especially given the fluid conditions as markets were in absolute disarray. And the next day, dozens of corporations began to announce open-market share repurchase programs which we believe provided a much-needed lift to the stock market. Netter and I eventually published a SEC staff paper which

we subsequently turned into an academic publication documenting the economic benefits of corporations announcing open-market share repurchase programs in the wake of the Crash.⁶

While the Crash week was largely a blur due to its surreal nature, I most distinctly remembered an early morning meeting at the SEC on the Saturday that week. The usual suspects, that is, Lehn and Netter, were onsite as always, plus a couple of other economists who showed up given the ongoing market turmoil. One of the SEC commissioners, Edward Fleischman asked us to update him in a 9 a.m. meeting that Saturday morning from the perspective of the Office of the Chief Economist. Commissioner Fleischman was sitting behind his huge desk puffing smoke on a pipe and we were huddled up on front of his desk. Lehn delivered the oral report to Commissioner Fleischman who peppered us all non-stop with questions. I was especially tired as it had been a superlong week with staying at the office late every single night and then going out for fun the prior evening. At one point Commissioner Fleischman paused and then chastised me for not paying attention and said something to the effect of "you certainly seem to be disinterested in being here." I was obviously horrified and beyond embarrassed. But he was right to call me out and I made certain going forward I would never get called out again.

I spent a great deal of my time during the week of the crash focusing on the plethora of open-market share repurchase programs by corporations. And that was a great place to focus my immediate efforts. But in the back of my mind, as well as that of everyone else, was to try to understand what the underlying cause of the crash. It did not take long for me to end up going down a certain research path to try to better understand one of the triggers of the crash. Coincidentally, it had to do with mergers which I had been fully engrossed working on prior to the crash itself. And there were two encounters during the crash period which pushed me down this research path of the linkage between mergers and the Crash.

The first encounter involved Commissioner Joseph Grundfest, a youthful and colorful figure at the SEC with strong views about the benefits of corporate mergers. While trained as an economist and lawyer at Yale, London School of Economics, and Stanford, one could easily

⁶ Jeffrey Netter and Mark Mitchell, "Stock-Repurchase Announcements and Insider Transactions after the Stock Market Crash of 1987," *Financial Management*, 1989.

mistake Grundfest for a University of Chicago economist. Though a life-long Democrat, Grundfest was on Reagan's Council of Economic Advisors for a couple of years despite his political affiliation. With respect to mergers and leveraged buyouts, Commissioner Grundfest held the view that markets were better equipped to self-regulate corporate takeovers than SEC bureaucrats. Obviously, this line of reasoning needed the SEC staff considerably, and especially since Grundfest was an avid Democrat. As mentioned, Chairman Shad wanted the Office of the Chief Economist close to his office and thus we were located on the 6th floor along with the other SEC commissioners. I quickly learned how important proximity could be. Commissioner Grundfest would often bounce into our office (we were across the hall from the men's bathroom) and pepper us with questions and provide his own economic analysis. It was either the week of the crash itself or the week after that Grundfest started suggesting to Netter and I that we conduct an analysis of certain tax legislation which had been progressing in the House Ways and Means Committee and its impact on triggering the stock market crash. Initially, I was a bit skeptical about the proposed analysis, but thought it would be fun to work with Netter on a project and especially one so timely. Plus, I felt honored that a SEC Commissioner thought I would be up to the task.⁷

The second encounter involved a phone call which David Malmquist received from a merger arbitrageur on Wall Street.⁸ The merger arbitrageur wanted to speak to someone in our office about the takeover tax legislation progressing through Congress. Given our interest in corporate takeovers, Malmquist handed the call over to Netter and myself. The merger arbitrageur described how the proposed tax legislation negatively impacted the stock prices of target firms in the midst of merger transactions. When mergers are announced, a small community of

⁷ I also interacted a lot with Bernard Black who was counsel to Commissioner Grundfest. Black was trained as a lawyer at Stanford, but also conducted a lot of research which overlapped into economics and finance and hence our interactions. Black has become a prolific scholar over the years and is now at Northwestern University. It was great to interact with him, though I often felt that he viewed me as a novice, which was partially correct.

⁸ Little did I know that a few years later, I would undertake a massive research project to analyze the risk and return to merger arbitrage. And that in 2001, I would create a merger arbitrage firm with my research partner which continues to invest in merger arbitrage situations today on behalf of institutions around the world.

merger arbitrageurs on Wall Street buy target stocks from existing shareholders and then hold those target stocks until the merger has consummated. As described by the merger arbitrageur, there were two types of entities which practiced merger arbitrage. The first entity type were small boutique investment firms like his which specialized in merger arbitrage. The second entity type were proprietary trading desks of large Wall Street investment banks such as Goldman Sachs and Morgan Stanley. For example, Goldman Sachs had a large merger arbitrage desk, headed by Robert Rubin (former Treasury Secretary under President Clinton) at the time of the crash, which invested internal capital of Goldman Sachs in merger stocks. During that era, the concept of arbitrage desks on Wall Street was quite secretive and I was more than intrigued that an actual arbitrageur reached out to our office to inquire if we would look at the proposed legislation. The arbitrageur was aware of our pro-markets stance on takeovers and astutely assumed he was speaking to a friendly audience. And from our perspective, this additional voice of concern about the legislation, on top of that from Commissioner Grundfest, Netter and I needed no further encouragement to start digging deep and see what we could learn.

Our first task was to read the proposed takeover tax legislation and decide whether we believed it would have a negative impact on takeover targets specifically and the overall stock market generally. The language in the proposed legislation was stark in the intent to greatly reduce takeovers, especially hostile takeovers and leveraged buyouts via elimination of various interest expenses and a higher tax burden on certain acquirers. And to further note their intentions to stop takeovers, the House Ways and Means Committee stated "The committee believes that corporation acquisitions that lack the consent of the acquired corporation are detrimental to the general economy as well as to the welfare of the acquired corporation's employees and community. The committee therefore believes it is appropriate not only to remove tax incentives for corporate acquisitions, but to create tax disincentives for such acquisitions."⁹

As it was clear to us that the proposed legislation would have a negative impact on the merger market, our next task was to establish the exact timing of when the proposed legislation became available to investors, that is, when the information became public. With my prior research,

⁹ See U.S. House Reports (1987, p. 1086).

airline crashes for instance, and even my ongoing research at the time, merger announcements, there was a clean window at which to examine the stock price response to the event. But what about legislation making its way through Congress? Our initial concern is that there would be no well-defined event dates, but this concern was soon alleviated as we dived in further and learned the concreteness of when the relevant information became available to investors.

We identified two key dates when the House Ways and Means Committee revealed material information about the legislation moving forward. The first event occurred on Tuesday, October 13, 1987, after the market had closed when the Committee mentioned for the first time that Democrat members of the Committee agreed to the takeover-tax proposals in a closed caucus. This revelation hit the *Dow Jones Broadtape* at 5:33 p.m. and was covered by the *Wall Street Journal* the following day. And on the evening of Thursday, October 15, a subsequent major development occurred when the full Committee approved a tax bill which contained the takeover-tax provisions and was reported by *The Wall Street Journal* the following day.

Based on the timing of these two announcements, we focused our analysis on Wednesday, October 14 and Friday, October 16, when investors could first trade on the new information. As predicted, existing target firms of mergers already in play realized negative stock returns, relative to the overall stock market, on both dates, and highly statistically significant. Moreover, we find that for the first hour of trading on both dates when investors could trade on the takeover-tax news, the stock prices of merger targets underperformed the overall stock market.

We also theorized that the proposed takeover-tax legislation would not only negatively impact existing target firms in play, but the entire stock market in general. That is, there was empirical evidence that takeovers such as those which the Committee intended to restrict were beneficial to the economy and reflected in the stock prices of corporations already and even those not in play, so to speak. By removing the probability of a takeover attempt in the future, this event negatively impacts the stock prices of corporations and even those not even currently contemplated to be a near-term takeover target. Consistent with our logic, we found that the overall stock market declined significantly on the two dates noted above in which investors could first trade on the news and during the first hour of trading. And overall, during the three

trading days preceding the Crash itself, we found that the stock market declined over 10% which was the largest one, two, or three day decline dating back to World War II. Absent the Crash itself, this 10% decline immediately prior was a huge deal and likely connected to the Crash.

Our thesis was not that the proposed takeover-tax legislation caused the Crash itself, rather it was a primary driver of the 10% decline in the stock market immediately prior to the Crash. We did not focus on the root causes of the Crash, rather made the argument that two event periods with such large declines in the stock market likely had to be related given they were adjacent to each other in terms of time. Thus, we suggest that the Crash began with a fundamental trigger, namely the proposal to restrict corporate takeovers.

In the aftermath of the Crash, various Wall Street firms were relentless in their pummeling of Congress for supposedly causing the Crash. Obviously, members of the House Ways and Means Committee were sensitive to the criticism yet pushed back on the link between the proposed antitakeover tax legislation and the Crash itself. Nonetheless, none of the Committee members, including Chairman Dan Rostenkowski, had the political capital to move the legislation forward. On October 28, after the market had closed, Rostenkowski indicated in congressional testimony that he would be willing to reexamine the takeover proposals. The next evening, he made a formal announcement that he would strongly consider relaxing some of the proposals, but not entirely. During the next six weeks, Rostenkowski did not deviate from his position. And then on December 16, the Committee announced that it was largely abandoning the antitakeover proposals.

The stock price behavior immediately after these announcements was the mirror image of the behavior to the announcements of the legislation moving forward. For all three event dates and for the first hour of trading in response to the announcements, takeover targets in place saw their stock prices increasing substantially relative to the overall market. And in all cases, for the full day of trading and for the first hour on which traders could first act on the news, the stock market rebounded substantially. During the two event dates in which the takeover legislation was proposed the stock market declined a little over 8% and when the legislation was halted, the market rebounded just under 10%. Notably, the level of the stock market around the

rebound period was roughly 25% less than before the takeover tax news hit the market, thus the overall wealth rebound was slightly less than the decline when the news first hit the market. In both cases, the decline and the subsequent rebound are extraordinarily large. It is incredible at how similar the overall valuation changes are. That is, what the stock market took away from the firms' capitalizations when it appeared the tax legislation had legs to stand on, it gave back nearly the same amount when the legislation turned out to be dead in the water.

While Netter and I spend a substantial amount of time establishing the correct event dates and the portfolio of takeover targets which would be most impacted by the proposed legislation, we probably spent considerably more time ruling out other factors which could have resulted in the extraordinary stock market decline during the three days immediately preceding the Crash. We were aware of the political ramifications of our research and wanted to ensure that everyone who would be taking their best shots at critiquing our work would come up empty. Thus, we spent an inordinate amount of brain power and time to analyze all the other factors which could have played a role in the decline during the three days preceding the crash, and effectively was able to empirically rule them out as having a material impact.

From the onset of Netter and I working on the takeover-tax paper, it was a controversial issue in the corridors of the SEC. My sense is that it stemmed back to Gregg Jarrell and his zeal for corporate takeovers, and to annoying the SEC legal staff which far outnumbered the economists. The scuttlebutt was that his tradition was continuing with our work. Hence, the pushback was strong. A couple of long-term staffers were blunt to us that Congress decides the budget for the SEC and our research would not be viewed positively by any measure. The Division of Market Regulation, a large and important division within the SEC, one made up exclusively of lawyers and no economists on staff was particularly sensitive to our views on markets and regulations. Just prior to my joining the SEC, David Ruder, a Northwestern law professor and former Dean of the Law School, assumed the role of SEC Chairman following the resignation of John Shad. Chairman Ruder instructed the lawyers at the Division of Market Regulation to take the responsibility of assessing the impact of the Crash. Like other groups at the SEC, the Office of the Chief Economist provided a supporting role to the Division of Market Regulation, but it was

the lawyers who provided the official analysis of the Crash.¹⁰ And obviously, they were concerned about a different group within the SEC perhaps delivering a different view of the Crash than their perspective.

One event in particular clued Netter and me as to the pushback by others with respect to our analysis. A memo emerged from the other group of economists at the SEC in the Directorate of Economic and Policy Analysis which strongly critiqued our analysis of the impact of the takeover tax provisions on the Crash and was highlighted by other groups at the SEC as evidence that our analysis was faulty. To me personally, this was a bit jarring as prior to this memo circulating throughout the SEC, we had no knowledge that the other group of economists had an issue with our research. However, their memo didn't carry much weight as it had some critical errors and thus had a short shelf life and was quickly withdrawn.

But this was not the last roadblock to our research. By late summer of 1988, we had the paper ready for circulation to the academic community and to the business news community as well. Normally, the paper would be released by the Office of the Chief Economist under the direction of the Office of Public Affairs, subject to the approval by the SEC's Compliance Office. It would then get picked by the outlets such as *The Wall Street Journal*, *The Washington Post*, and *The New York Times* to name a few. And I had strong priors these mainstream outlets would publicize our paper and thus was excited to see my name in a major newspaper. We did circulate the paper to a select few academics with the caveat that the paper was not for attribution or quotation. And a reporter from the *Wall Street Journal* would call me every couple of months and ask if I was willing to discuss the paper on the record. And my answer was always the party line no. I always suspected that someone had discussed the paper with this specific reporter since he had a pretty good idea of everything in it. But until the Compliance Office approved our paper for distribution, it was in limbo for the time being. And they were in no hurry to approve it given the sensitive nature of our research findings.

¹⁰ Interestingly, unlike the rest of the world, the Division of Market Regulation refused to acknowledge what happened on October 19, 1987, as a Crash, rather referred to it only as a Market Break. *The October 1987 Market Break: A Report by the Division of Market Regulation, U.S. Securities and Exchange Commission*, February 1988.

With the addition of my research efforts on share repurchases and on the takeover tax legislation, my research plate had become jam packed. Originally, I would just focus my efforts on the merger paper with Ken Lehn and in getting my two papers published from my dissertation which took a lot of effort dealing with getting them in shape to submit to the respective academic journals and then plod through the revision and final editing process. Suddenly overnight, I am working on five research papers rather than three. I was already working non-stop in terms of hours, but now I would have to get more productive and efficient with each hour so as not to drag out these projects over too long a period. And as expected, I found working with Netter was very productive and synergistic. We were on a mission and did not lose focus. Whereas my model was to stay late in the office on weeknights, Netter would tend to go to his apartment at a reasonable time, but that didn't mean he stopped working. Rather, it was just a change of work location. On a few occasions, I would swing by Netter's apartment where we would continue our research efforts. We had a lot of energy back then and did not need a ton of sleep. Or at least thought we did not need a ton of sleep.

While my focus on the merger paper with Lehn was slightly derailed by the Crash, I resumed attention to it a couple of weeks later; just it was no longer accounting for the bulk of my research time. But I still made great effort with it and by the fall of 1988 a little over a year after starting the project, we had completed the basic research we had embarked on and with some remarkable findings. As mentioned earlier, we tracked the acquisition record of 1,158 firms on two different levels: (1) acquisitions made by these firms during 1982-1986 and likewise (2) whether these firms were subject to a merger attempt, either friendly or hostile.

During the period of 1982-1986, the 1,158 firms made 401 acquisitions. We examined several event windows around the public announcements of these 401 acquisitions and the overall finding was a stock market response of roughly zero on average.¹¹ But when we partition the 401 acquisitions into various categories, the resulting patterns are stark. For example, the stock

¹¹ It is not immediately obvious what the abnormal return to acquiring firms in acquisitions should be. Stock prices reflect the future expected cash flows, discounted to the present time. Thus, an abnormal return of zero reflects a normal rate of return on the acquisition. I will discuss more on this later in my Harvard commentary.

price reaction to acquisitions made by firms which were not subject to takeover attempts themselves was positive and highly statistically significant. But a far different story emerges for acquisitions by firms which eventually became targets of merger attempts themselves. Here, the stock market responded negatively to their acquisition announcements and highly statistically significant. Moreover, the results are especially significant for the acquirers which were not just subject to takeover attempts themselves, but indeed to hostile takeover attempts.

Earlier, I described the anecdote of Goodyear's acquisition record. When Goodyear management decided to expand beyond its tire and rubber operations and diversify into the energy sector, the stock market issued a strong negative rebuke of its energy acquisition announcements. And just three years later, Sir James Goldsmith made a hostile takeover attempt of Goodyear with one of the mandates to divest its oil and gas operations. Remarkably, the Goodyear anecdote generalizes to the large dataset of several hundred acquisitions made by large corporations during the 1980s. Thus, the title of our paper, "Do Bad Bidders Become Good Targets?" Firms which make acquisition announcements that are judged harshly by the stock market are relatively more likely to be subject to takeover pressure themselves down the road.

Our paper conducted several other analyses and performed various robustness tests, but the headline findings are what I describe above. Our research was not merely motivated by the Goodyear anecdote, but also by a rich theoretical literature which focuses on the divergence of interest between management and shareholders. The basic economic theory is that when managers deviate from maximizing shareholder wealth, their respective stock prices will underperform. This stock price underperformance creates incentives for other firms to acquire the poor performers and thus benefit the shareholders of the poor performers. Despite the rich theory, there was a complete lack of empirical support of the theory and thus our paper was at the forefront of providing empirical evidence that the market for corporate control acts to discipline inefficient or poor management. In other words, the market works!

Unlike my takeover tax paper with Netter, there was no outright pushback within the SEC to bury my bad-bidders paper with Lehn. But our research findings were not without controversy. In a nutshell, we provided empirical evidence that hostile takeovers could be beneficial even if

they ended up derailing the well-intended plans of highly noted CEOs of well-known corporations. While many commentators viewed hostile takeovers as devices which benefitted short-term shareholders at the expense of long-term shareholders, our evidence suggested that hostile takeovers often promoted economic efficiency by reallocating assets to their highest valued users. Indeed, the stock price of a corporation reflects all expected future cash flows, whether short or long term.

In late November 1988, the SEC released our paper to the public and it was immediately covered by several outlets including *The New York Times* and *The Wall Street Journal*. This coverage by the press was obviously exciting for me. I had been mentioned once before by the *Wall Street Journal* regarding a prior paper I had written, but this one seemed far more important. And the *Wall Street Journal* article on December 2, 1988, even included a quote from me: "This is some of the first clear-cut evidence of why hostile takeovers occur", Mr. Mitchell said in an interview. "It's basically because there are a lot of managers out there who make decisions which turn out to be wrong." He added: "The takeover is a medium by which they are punished."¹² It was cool to see me getting quoted by the *Wall Street Journal* on top of being written about.

Nearly, three weeks later, and completely unexpected, The Editorial Board of *The Wall Street Journal* published a nearly six-hundred word editorial about our research, entitled "Raiders Who Get Raided."¹³ This came at a shock and I am certain that I got no work done that morning after learning the news. My first call was to my parents in Louisiana which resulted in my father going out to search for *The Wall Street Journal* in my hometown. The editorial was very supportive of our research and for the readers of *The Wall Street Journal*, they often tend to use their bully pulpit to criticize rather than to commend. I felt very lucky that my research was generating incredible attention. Of course, by the early afternoon, it was time to move on and get back to working hard on the paper trying to make it even better and more influential.

¹² Thomas Ricks, "Of Bad Bidders Are Targets Born, SEC Study Finds," *The Wall Street Journal*, December 2, 1988.

¹³ The Editorial Board, "Review and Outlook: Raiders Who Get Raided," *The Wall Street Journal*, December 19, 1988.

And then even bigger than all the attention from *The Wall Street Journal*, in January 1989 just a few weeks later, Ken Lehn popped into my office and said that George Stigler, Nobel Laureate, had just invited us to present our paper at the University of Chicago. This set me for a jar. I had an inkling that our paper might have an impact, but certainly didn't expect the University of Chicago to invite us as we had just a couple of months before completed its first draft. A few weeks later I was on my first trip ever to Chicago and I had no idea at the time I would eventually move there and live for an incredible nine years. Lehn didn't want to waste time by going the evening before, so we took an early morning flight from Washington National Airport to Midway Airport on the south side of Chicago, a short distance from the University of Chicago. We had a couple of office visits, then lunch with some of the esteemed economics faculty at the Quadrangle Club (the faculty club), and the seminar early that afternoon.

The presence in the seminar room was a bit daunting. Lehn and I sat at the end of a super large conference table and Professor George Stigler was to our immediate right. And Professor Gary Becker, who won the Nobel Prize a few years later, was on our immediate left. It was a surreal moment in time for me. Lehn spent the first fifteen minutes of the presentation outlining the paper and providing the motivation for it. Then I spent the next hour or so going through the dataset development and the empirical results. I was obviously nervous. There were lots of questions, but no critical rebukes. After the presentation ended, Stigler declared to us that he liked the paper. This was huge for me: I was on cloud nine. Lehn was also super pleased. We departed for the airport a few minutes later and shortly afterwards we were on our flight back to Washington, D.C.

Based on the comments from the participants at the University of Chicago workshop, as well as other comments from various readers of our paper, we made substantial improvements and revisions to the paper. I worked non-stop on it. By the middle of the spring of 1989, we felt that it was ready for submission to a super-high quality academic journal and we both thought the natural home for our paper would be the *Journal of Political Economy* which was edited at the time by Stigler at the University of Chicago. The *Journal of Political Economy* had always been considered, and even so today, as one of the top two or three academic journals in economics. We were shooting high, yet it seemed like a natural and plus we were confident that Stigler liked

it, though of course we understood that an anonymous reviewer could certainly feel otherwise and end up rejecting the paper as the acceptance rate is low, usually around 5% or so. Within a couple of months, we received a positive revise-and-resubmit letter from the journal which we of course revised accordingly, and it was soon accepted afterwards. Now, I had my first grand-slam paper and I wanted to write more, not yet realizing the difficulty of pulling off this feat again and again.¹⁴

Meanwhile, around the same time in the spring of 1989, Ken French, a superstar finance professor at the University of Chicago gave me a call to see if I would present my takeover tax paper with Jeff Netter in May 1989 at the CRSP Seminar on the Analysis of Security Prices. The Center for Research in Security Prices (CRSP) is a provider of historical stock market data and was founded in 1960 by professors at the University of Chicago's Graduate School of Business where it has operated ever since as a wholly owned subsidiary of the University of Chicago. When I did the empirical research for my Ph.D. dissertation at Clemson University and the ongoing merger research at the SEC, CRSP was the source of the stock price and dividends data which I employed in my research. CRSP conducted the one-day semi-annual seminars to practitioners who came in from all the United States to hear research presentations by mostly academics, but some practitioners as well. I was super pumped up that Professor French invited me out.

I think there were six presentations in all, four in the morning and two immediately after lunch. My presentation was the second or third presentation that morning. I don't recall who announced me as the speaker, but I do vividly remember the announcer stating that my takeover-tax paper which I was presenting was covered by *The Wall Street Journal* in that day's issue.¹⁵ I hadn't even seen *The Wall Street Journal* that morning and had no idea. And given I was at the podium and about to present my paper with Netter, I was uncertain as to what *The Wall Street Journal* had to write about our research. Obviously, as soon as I finished my

¹⁴ Mark Mitchell and Kenneth Lehn, "Do Bad Bidders Become Good Targets?" *Journal of Political Economy*, 1990.

¹⁵ Thomas Ricks, "SEC Economists Closely Link Tax Action by Ways and Means Panel to 1987 Crash," *The Wall Street Journal*, May 4, 1989.

presentation, someone gave me a copy of *The Wall Street Journal* so I could read what it said about our research. As I expected, the article was written by the reporter who had periodically called me and asked for a copy of the paper. The main point of *The Wall Street Journal* article was that Netter and I went further than “earlier studies in blaming the House Ways and Means Committee for setting off the stock market crash of October 1987.” It also pointed out the paper was being presented at a University of Chicago conference and that it had not yet been formally released by the SEC. I am not certain how the reporter learned that I would be presenting our research at the University of Chicago conference but assumed that he was tipped and then asked the conference organizers for a copy of the paper.

As expected, a few folks at the SEC were not thrilled by our paper leaking out in this manner. But the SEC had not put any restrictions on my presenting the research at an academic institution and everyone understand that we could not restrict third parties from circulating our work. Indeed, my understanding was always that the reporter at *The Wall Street Journal* had a copy even before the conference but was willing to wait until an event where he could report on the paper without it looking like a leak from the inside.

I was starting to realize that which stuff like this happened, noses would get out of joint, but soon all would largely be forgotten. Well, five days later, the editorial board of *The Wall Street Journal* chose to chime in. And did they ever. The editorial summarized our research and indicated it should be a warning to Congressman who would like to stem corporate takeovers from occurring. It was a great endorsement of our paper and my favorite line from the editorial was “So the SEC report released last week is not only excellent but pertinent economic history.”¹⁶ I received my share of glares that day and the next couple of days in the SEC hallways. At least no one outside of our office offered congratulations. I get it. Two young SEC economists get accolades from *The Wall Street* for showing that certain members of Congress had pushed for antitakeover legislation which arguably triggered the October 1987 stock market crash. And

¹⁶ The Editorial Board, “Review & Outlook: The Market’s Maginot Line,” *The Wall Street Journal*, May 10, 1989.

Congress determines the size of the SEC's budget. It was no wonder that the lawyers were bent out of shape about our research getting leaked. I am not certain that I blamed them.

For me though, the feeling was great. In the span of five months, *The Wall Street Journal* not only covered my two recent research papers on mergers and acquisitions, but it also chose to write two editorials about my merger research as well. And I was only twenty-eight years old. And just ten years from working in the autobody shop the year after I graduated from high school. I had zero concept when I was working in the autobody shop and reading *Newsweek* columns by the Nobel Laureate Milton Friedman that ten years later I would be presenting my research at the University of Chicago, and not just once but twice.

Jeff and I decided to submit our paper to the *Journal of Financial Economics*, a top-tier academic journal housed then at the University of Rochester and with strong ties to the University of Chicago. Michael Jensen, Managing Editor of the *Journal of Financial Economics*, received his Ph.D. at the University of Chicago, and as discussed in my Clemson chronicle, had written one of the most important papers in economics and finance, a paper which focused on agency costs and corporate governance. As other top-tiered economics and finance journals, the acceptance rate was well below 10% at the *Journal of Financial Economics*, but an anonymous referee gave us a favorable revise-and-resubmit which we were able turnaround fairly in short order and Jensen soon after accepted our paper for publication. Remarkably, we went from a research paper which was virtually sneered at in the SEC corridors to a presentation at the University of Chicago, coverage twice by *The Wall Street Journal*, and eventual publication in the prestigious *Journal of Financial Economics*.

Insider Trading and Securities Fraud

As noted earlier, my workload during my first year at the SEC was massive. My original focus was the bad-bidders paper with Lehn which involved the complete buildout of a largescale merger database from scratch. Secondly, I was revising the two papers from my dissertation for publication. Plus, I was working on a third paper, related to my dissertation, with a former Clemson professor. For these three papers, I allocated the bulk of my free time on weekends as well as some evenings. Then with the market crash, I added the two research projects with

Netter to my weekday workload. Time management became more essential than ever. And not surprisingly, I added another project, as described below, to my ambitious research agenda.

In April 1988, Lehn asked me to join him on a short trip to Annapolis, Maryland where the Division of Enforcement was having an off-site meeting for its senior legal staff. The purpose of our attendance was to describe event-study methodology to the lawyers in the Division of Enforcement and specifically how this methodology could be employed by the SEC in insider trading and securities fraud cases. As alluded to earlier, tensions existed on multiple fronts between the Office of the Chief Economist and the legal staff when Gregg Jarrell was the Chief Economist. But Lehn was amenable, if not eager, to be a partner to the other divisions at the SEC, yet they still seemed skeptical that we would toe the party line so to speak. But now the Division of Enforcement wanted to hear from the Office of the Chief Economist and we were happy to comply.

There was a major recent event which certainly triggered our participation in their off-site meeting. Just one month prior to the off-site meeting, the U.S. Supreme Court adopted the “fraud-on-the-market” theory in a seminal case which is frequently cited to the current day. In a nutshell, the fraud-on-the-market theory is the adoption of efficient markets and financial economics theory in securities litigation.¹⁷ The theory assumes that an investor can rely on a stock price as a reflection of its intrinsic value irrespective of how much information the investor possesses about the firm in question. Beforehand, the investor would need to have read and relied on a fraudulent statement in making their investment decisions which resulted in a financial loss before they could bring a legal suit against another investor or a corporation. But now with the acceptance of the fraud-on-the-market theory, plaintiffs and defendants alike could employ financial economics to document materiality, an important construct, in establishing securities fraud, and even in assessing damages. Indeed, with respect to some of the recent SEC enforcement cases at the time, certain defendants were employing the “fraud-

¹⁷ Daniel Fischel, former law professor and Dean at the University of Chicago wrote the seminal article which laid out “the fraud-on-the-market theory. See Daniel Fischel, “Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities,” *Business Lawyer*, 1982. This paper was highly influential in the U.S. Supreme Court’s decision in 1988.

on-the-market theory in combination with event-study methodology in attempting to make their case and thus with the recent Supreme Court ruling, the enforcement lawyers at the SEC quickly realized they needed to get up on speed on event-study methodology.

As mentioned in my Clemson narrative and above with my recent research at the SEC, I frequently employed event-study methodology in my research papers. To summarize, an event study examines the impact of an event on stock prices (or any type of securities prices) of specific firms, generally controlling for the overall impact of the stock market and sometimes other risk factors as well. In most cases, the event study will involve various statistical tests such as assessing not only the impact of the event on the affected stock price but also the statistical significance or reliability of the associated stock price movement.

Today, event-study methodology is widely accepted and used by academic researchers and by practitioners in numerous areas, including the legal arena. But when I started employing event-study methodology during the mid-1980s, it was relatively new and largely employed by a handful economics and finance professors, especially the latter, at large universities which had access to the then expensive stock price data. And I did not merely apply event-study methodology in my research but attempted to master it in detail and know all the nuances, etc., as I viewed the methodology as a powerful analysis in financial markets. Thus, I was an obvious choice for Lehn to pick as his colleague to present to the SEC enforcement lawyers. Our presentation did not involve slides or anything of that sort. Rather, Lehn and I sat at the front of the room and described not only the methodology behind event studies but also how it could be used to benefit the SEC in its enforcement efforts. We probably talked 30-45 minutes, there were a handful of questions, and we went our way. We didn't seem to have any sense of their reception of our presentation.

A few weeks later, I took a call from the Assistant Director of Enforcement in the San Francisco Regional Office. Regrettably, I don't recall his name but will refer to him as William Evans. William had attended the recent offsite meeting held by the Division of Enforcement and wanted to seek my input on an ongoing enforcement case he was working on. I was all ears and wanted to hear more. The case involved the sharing of allegedly material non-public

information between two individuals, both of whom were extremely well known in the financial sector. For confidentiality reasons, I am unable to share their names, but knowing the parties involved made the situation several times more interesting to me. I was already interested to begin with, but the knowledge of the players escalated my interest big time.

The enforcement case involved the trading of common stock immediately prior to an oil firm announcing a share-repurchase program. The firm announced the repurchase program during the week after Thanksgiving in 1986. On average, when a firm announces a share repurchase program, the announcement signals that the management believes the stock price is undervalued by the market. Thus, stock prices increase on average, a few percent or so, when firms make such announcements. Consequently, if an investor knew in advance that a firm planned to soon make an announcement that it was launching a stock-repurchase program, the investor could purchase the shares in advance and then profit when the announcement occurred. Of course, this information advantage creates an unlevel playing field in investing and is deemed an illegal activity. That is, it is illegal for investors to trade on material non-public information.

In this instance, the firm stock's price did not increase when it announced the share repurchase program. If the stock price did not increase, then how could it be the case that the investor was buying shares in the oil firm based on material, non-public information? And thus, the conundrum. Having heard our recent presentation on using financial economics as a tool in the SEC's enforcement actions, William was worried that the SEC would not be able to use the stock price response to the announcement to show materiality of the information possessed by the person who traded on the private news. The Assistant Director was extremely confident that the person expected to reap material gains on the announcement, just that it didn't occur as plan. And he was so convinced because the two parties spoke at length telephonically on Thanksgiving evening of the week before. Here it is, two individuals, speaking at length on a Thanksgiving night, yet did not work for the same firm, etc. It just seemed beyond suspicious. Basically, that a person running a large trading desk at a large investment bank conversing with an arbitrageur on Thanksgiving night and the arbitrageur subsequently purchasing shares in the oil firm just prior to the share repurchase announcement. Yet, the arbitrageur did not profit from

the transaction as the stock price of the oil firm did not increase contemporaneous with its share-repurchase announcement.

Suddenly, I had an exciting puzzle to solve. The arbitrageur did not profit from the trade, yet we believe he expected to make a profit with an extremely high likelihood of certainty. My first inclination was to analyze how the energy firm's stock performed relative to the overall stock market. Indeed, this is an important feature of an event-study, to isolate the idiosyncratic stock price performance from that attributable to the overall stock market. That is, stock prices of oil firms move on average in the same direction as the stock market, but of course not always. Suppose that during a short time frame around the stock repurchase announcement, the overall stock market just happened to decline. If it the case that the market declined over the same period, then holding the overall stock market constant, the stock price responded positive to the share repurchase announcement. But the stock market was largely flat around the period of the share repurchase announcement so to our disappointment, we hit a dead end on that front.

Undeterred, I kept pressing to better understand the oil firm's lack of positive stock price reaction to its share repurchase announcement. In my further investigation, I noticed that other oil stocks declined during this period and moreover that oil prices dropped as well. Thus, I started analyzing the sensitivity of the oil firm's stock price to oil price movements and quickly realized it was more responsive to oil prices than were other oil firms. In the end, by adjusting for how the oil firm's stock price would be expected to respond to the contemporaneous oil price decline, I was able to create an adjusted stock price movement for simultaneous movements in oil prices and documented that the relation was significantly positive. Now, the pieces all seemed to fit together. The arbitrageur was betting on the stock price of the oil firm increasing upon the announcement of the share repurchase program, holding constant exogenous risk factors such as the stock market and oil prices. Indeed, the arbitrageur could have hedged this systematic risk via shorting the stock market as well as shorting oil futures, and in effect, isolating the systematic risk associated with the oil firm's stock price.

William now had a bona fide insider trading case to take to the next level. Not only was there motive to expect to profit from the share repurchase announcement, but also by controlling for

other exogenous factors, the stock price of the oil firm increased by a statistically significant amount, thereby establishing the materiality of the non-public material information provided by the Wall Street executive to the arbitrageur. William knew it would be an uphill battle from there, but at least we had satisfied the materiality issue, albeit not that cleanly given the case that the oil firm's stock did not actually increase until I accounted for the exogenous risk factors.

William prepared his memo, including my detailed financial economics analysis, for the Director of Enforcement who would review it in consultation with various Associate Directors in the Enforcement Division. The response back was unfavorable, and not because of a view that the arbitrageur was not trading on inside information, rather because to show materiality via the stock price response, we had to rely upon multiple factors. It simply wasn't as clean as they would have liked, and I quickly learned that the SEC, at least during that era, preferred to move forward on cases in which they would easily win if it went to litigation. And it was not simply a matter of William convincing his superiors, but the big step would then be to get a positive sign-off from the SEC Commissions. The SEC was a relatively small agency and it had to pick and choose its battles. It was a huge disappointment for both of us, yet a learning experience for me as well. I was starting to appreciate more of how bureaucracies work, yet still had a ton to learn for sure.

That was the only time that I worked with William on a SEC enforcement action, but our collaboration resulted in a flurry of insider trading cases which I got involved in. Word got around quickly that William included me in his case and even though the Division of Enforcement decided not to move forward and take the case to the next level. William conveyed that I would be valuable to other enforcement lawyers with respect to establishing materiality and coming up with disgorgement estimates in their insider trading cases.

Suddenly, lawyers from the Division of Enforcement were swinging by my office and we would talk through their cases. Some of the lawyers had attended our presentation a few weeks prior and others just reached out just via word of mouth. During the next two years, I worked on roughly twenty enforcement cases, some of which were in the super-early stages. I quickly found that I had a lot to offer on their proposed cases. Often, I could save the enforcement lawyers

needless and painful work by showing that it would be tough to establish materiality using financial economics. And if tough to establish materiality, the probability is far lower for the SEC winning in the courtroom and hence the reduced appetite of pursuing the case. In several of the cases which I worked on, my financial economics analysis resulted in the enforcement lawyer deciding not to proceed with the case. On the flip side, I was able in numerous cases to employ financial economics to greatly bolster the materiality argument and sometimes even to require larger disgorgement figures than the lawyer was initially hoping for. The work started to get a bit mundane, but I didn't mind doing it as I felt there was still a net benefit. Plus, doing just basic academic research all the time can get a bit boring and mundane as well.

Many of the enforcement cases I worked were super interesting. I will bring up one in particular because of the actual connection to me. It involves the legendary corporate raider known as T. Boone Pickens. In February 1988, Pickens, via his entity Mesa Limited Partnership, announced a 3.8% stake in Homestake Mining and offered to acquire the remaining shares at \$20. Upon the announcement, Homestake's stock price immediately increased from \$14 to \$18. Unexpectedly, Mesa started selling its shares immediately after the price soared and for the next few days. Importantly, Mesa did so without disclosing its intentions to exit the position. The SEC charged Mesa with negligence absent of fraudulent intent. The SEC's position was that the original announcement by Mesa to offer to acquire Homestake Mining was misleading because it did not reveal Mesa's intent to immediately unload the 3.8% stake that it had amassed.

At stake was not simply whether the original announcement was misleading, but also whether it was material that Mesa reported the 3.8% ownership stake when making the announcement to acquire Homestake Mining. This was the moment where I was able to assist the enforcement lawyers in making their case against Mesa. It was not only one of the early enforcement cases in which the SEC employed financial economics but was also the first case not involving insider trading which made use of financial economics. From a financial economics standpoint, if the initial announcement of the 3.8% stake could be considered material, then the decision to sell the 3.8% stake should also be considered material. I needed to formulate whether the 3.8% purchase of Homestake shares was material, and specifically whether that information would have resulted in a stock price increase of Homestake. Of course, the confounding information is

the simultaneous announcement of the offer to acquire the rest of the firm. This is where I went to work, that is, to attempt to separate the announcement of the 3.8% stake from that of the simultaneous announcement of the takeover offer.

My first step was to review the academic literature on what happens to stock prices when investors, and in particular activist investors such as Pickens, announce ownership positions in publicly traded corporations. Overall, the empirical evidence indicates that stock prices increase an economically and statistically significant 5-10% when activists and corporate raiders such as Pickens announce the ownership of stock in a corporation due to the increased probability of a subsequent acquisition. In addition, I carefully examined the historical record of ownership announcements by Pickens and Mesa in other corporations. Here, I also found a large and positive stock price reaction to the news that Pickens was amassing an ownership stake in a corporation, even if the announcement did not simultaneously reveal an acquisition offer. Thus, we made the point that the empirical record, using financial economics, suggested that investors considered the 3.8% ownership stake in Homestake by Mesa as material. And if so, then the decision to sell the 3.8% ownership stake should be considered material as well.

Ironically, Pickens hired his racquetball buddy, Gregg Jarrell, who had made the initial overture to hire me when he was still the SEC Chief Economist, as his financial economics consultant to defend against the SEC's case. Our empirical evidence and economic logic were solid. It was a quick settlement whereby Pickens did not admit or deny the charges and moreover agreed to disgorge over \$2 million in profits based on my analysis of the stock price impact of ownership announcements. As mentioned above, the charge by the SEC was negligence, absent of fraudulent intent. Thus, from the perspective of the Pickens camp, the violation was simply more of a technicality, that is, a slap on the wrist. But from my perspective, we were dealing with a formidable opponent in Pickens, and in his expert consultant, Gregg Jarrell, the former SEC Chief Economist, and it was pretty apparent that the SEC's employment of financial economics had a substantive impact on prevailing against Pickens.

And for me personally, it was not simply a matter of being on the other side from the person who made the initial offer to hire me, but I also had prior interactions with Pickens himself. As

described earlier, my “Do Bad Bidders Become Good Targets?” paper with Ken Lehn provided empirical evidence that corporate raiders such as T. Boone Pickens served to discipline corporations which were failing to maximize shareholder wealth via engaging in bad acquisitions. Pickens himself took an interest in our research. For example, one of his direct subordinates invited Ken and I to lunch with him where we described our research. Three years prior in 1986, Pickens had founded USA Shareholders Group, an entity which advocated for shareholder rights on behalf of mainstream investors. In one of their 1988 quarterly newsletters, Pickens heralded our research as providing great benefits on behalf of shareholders. And Pickens had invited us to the annual meeting of the USA Shareholders Group where we briefly met him and listened to his presentation on shareholder rights. I was certainly a fan of T. Boone Pickens, but none of that deterred me in building the strongest possible empirical case in the SEC’s efforts against him.¹⁸

Again, timing seems to be everything, at least ex post. It was fortuitous that less than a year after I started working at the SEC that the Division of Enforcement needed the Office of Chief Economist’s support on securities fraud cases and my detailed knowledge of event-study methodology put me in a prime position to assist. And it was great fun to being at the forefront of this endeavor. Plus, I learned a lot about securities fraud and insider trading. And I ended up writing two research papers on the subject, both of which ended up in law academic journals, and I will discuss these papers briefly with respect to my University of Chicago days. It also struck me that I could have an extremely lucrative career working on these cases after exiting the SEC, representing both the SEC and various defendants as well. I could see that the compensation would be high, at least on an hourly rate, though I quickly figured out that the growth rate to the compensation would level off quickly and that the only way to really leverage my expertise here would be to start a firm which specialized in litigation support, something I had no desire to do. Yet, even so, the experience was invaluable as I benefitted greatly from it as

¹⁸ Coincidentally, nearly twenty years later in 2007, I went to the Nebraska and Oklahoma State football game in Lincoln, Nebraska with a small group which included T. Boone Pickens. Boone was a huge supporter of Oklahoma State football and took great glee in the thrashing of Nebraska by Oklahoma State that game. I did not bring up the SEC case during our numerous conversations that fall day.

I gained a lot of additional human capital in not only starting to understand securities law but also with working in tandem with non-economists such as lawyers.

New Faces and an Office Reorganization

As mentioned earlier, the Office of the Chief Economist was a small group and to boot, a very enjoyable group of economists to work with. But changes were on the way, some positive and others not so positive. First, to the positive changes. One late spring day in 1988, David Malmquist gave Jeff Netter and I a stack of resumes and said we could hire a full-time summer intern. We had a formal intern program, primarily of undergrads who would work a few hours each week at the SEC while spending a semester at universities such as American University or Georgetown. And these interns were great and hardworking and were assigned to our office by the human resources staff at the SEC. But with respect to the stack of resumes which David handed us, they were for a specific internship in our office and were of graduate students as opposed to undergrads. One resume, belonging to Lisa Meulbroek, stood out based on her impeccable background. Lisa had completed her undergraduate studies at The University of Chicago, worked a couple of years for the premier consulting firm, Boston Consulting Group, then joined the Ph.D. Program in Economics at M.I.T., and interned at Goldman Sachs after her first year at M.I.T. From my viewpoint, the decision was easy. Don't even bother looking through the rest of the resumes. Just offer the internship immediately to Lisa. Here it is, someone who has spent time at two of the best universities in the world, arguably the best management consulting firm in the world, and arguably the best investment bank in the world, all in a period of eight years. Meanwhile, my recollection is that Jeff was considerably more cautious than I was. Lisa's pedigree was so impeccable, in contrast to ours, is that we could be setting ourselves up for a culture crash. Employee fit is so important, especially in a small office and Jeff didn't want to jeopardize our incredible culture. But for different reasons, and as described below, our small-office culture of close knit economists was about to get disrupted. Jeff and I conducted a phone interview with Lisa, and she seemed very excited to join us. We made the quick decision to hire her and didn't bother interviewing anyone else.

Lisa was a great fit that summer. When she showed up, I recall that we didn't have an immediate place to put her, but David Malmquist, the Deputy Chief Economist, who had a large office, was out on vacation and so we put Lisa in David's office. And then we started wondering whether Lisa would relinquish David's office when he returned from vacation. I remember not so much the books she brought or the gym bag, or the baseball bat and glove, but it was the shoes. On her second day of work, Lisa brought in a box with several pairs of shoes, shoes for comfort, shoes for softball, shoes for running, shoes for formality, etc. And she lined them all up in David's office. Lisa clearly made herself at home and established property rights. And when David returned to the office from vacation, I think he was a bit startled by how Lisa had commandeered his office but took it in stride and we quickly found a new spot for Lisa to camp out. It was hilarious then, and hilarious to this day.

Lisa focused a lot of her work efforts that summer on figuring out a research topic for her Ph.D. dissertation at M.I.T. For a Ph.D. student, the roadblocks to completing the degree are plentiful. The classes are super-difficult, the hours are brutal, and once the coursework is completed, then the Ph.D. must take qualifying examinations in the basic area of study, economics for instance, and field exams in the areas of economics the student chooses to specialize in. Yet, many Ph.D. students find the big challenge is in coming up with a dissertation topic which is novel, unique, and generates excitement from their professors. In a nutshell, you attempt to come up with a topic that no one has previously written on. And a good topic. So that is the crux of the matter. If your idea is so good, why hasn't anyone else already come up with it? A standard way of coming up with a dissertation topic is read and re-read everything of interest in academic journals with the hope of coming up with great ideas. And often, the Ph.D. students hits a big roadblock as it is asking a lot for a student to be able to think beyond what has recently been published and come up with ideas to extend the current knowledge in a specific field.

By spending the prior summer at Goldman Sachs, Lisa came up with a research paper which examined the price divergences between futures and forward contracts for Eurodollars. By virtue of sitting on one of the trading desks at Goldman Sachs, Lisa was able to converse with various traders who informed her of the price divergences where there should have been none in perfect capital markets. Eventually, Lisa was able to turn this research into an academic

publication in what many consider the most prestigious journal in finance, the *Journal of Finance*.¹⁹ While Lisa didn't know at the time that her paper from her Goldman Sachs experience would eventually get published in the top-ranked finance journal, she did have fairly strong prior that it would likely suffice for one of the chapters in her Ph.D. dissertation and thus Lisa was thinking that she could repeat that experience with her summer internship at the SEC.

It turns out that Lisa was indeed able to replicate her Goldman Sachs experience at the SEC. She acutely took notice of my efforts in assisting the Division of Enforcement with respect to insider trading cases. My objective was simply to apply my financial economics toolkit to their cases, be a good colleague, and perhaps improve my human capital along the way. Lisa was a bit more skeptical, and I think even thought there was perhaps a bit of overreach by the enforcement lawyers in pursuing their cases. And in hindsight, I can certainly see that they were on the zealous side. Lisa was approaching it more as an economist, and one trained in Chicago Price Theory as an undergraduate, where she was thinking about the cost and benefits of insider trading. On the cost side, insider trading can decrease market liquidity, can result in perverse incentives by managers, and is disadvantageous to investors without information. But on the positive side, insider trading moves prices quicker to fundamental values. So Lisa was of the mindset that one should try to measure the costs and benefits to insider trading before simply determining it is net harmful to markets.

By being at the SEC, Lisa was able to examine non-public case files of insider trading which provided details such as when the investor accused of insider trading put on their trades. It was a lengthy task to examine the insider case files as they were largely hard copies in archived boxes and no machine-readable data of any sort. Lisa immediately concluded that access to the data required being onsite at the SEC and no one had ever bothered going through all the files in a rigorous fashion. Her thesis was to examine if there were any possible benefits to insider trading and to do so she examined whether insider trading resulted in price movements. Her final dataset consisted of over four-hundred insider trading cases during a nearly ten-year

¹⁹ Lisa Meulbroek, "A Comparison of Forward and Futures Prices of an Interest Rate-Sensitive Financial Asset," *The Journal of Finance*, 1992.

period. The crux of her idea was that most investors who trade do so without having an information advantage, at least in terms of possessing material non-public information. The richness of the dataset which Lisa built was that we know ex post the investors were certainly likely trading on material non-public information since they were alleged by the SEC as such. Lisa designed an empirical test to determine whether stock prices move when investors trade on non-public information. Her hypothesis was that stock prices will react more to trades by these informed investors than by investors who do not trade on information. Lisa found that when these investors trade, the respective stock prices move a significantly three percent and account for about half of the price movement which occurs when the information is subsequently publicly released. She found that the mechanism for the informed investors moving stock prices in advance of the information release was not that they accounted for a large part of the trading volume on the days during which they trade, rather they accounted for a large proportion of the unexpected or the abnormal trading volume on those days. Lisa concluded that insider trading has price discovery benefits which should be considered by the government which deciding on the optimal penalties for insider trading. This paper became a big hit and was not only published by the prestigious *Journal of Finance* but also won the journal's paper of the year prize in its year of publication.²⁰

In the late spring of 1988, I invited Professor Harold Mulherin, a professor at Clemson University to give a seminar at the SEC. Harold was a couple of years older than I and we had become good friends when he joined the Clemson faculty in 1985. Harold gave a seminar on trading volume and had a great day interacting with the other SEC economists, so much that Ken Lehn asked me a few days later if I thought Harold would have any interest in spending a year or two at the SEC. Harold had only been at Clemson for three years but was always a bit of a wanderer and thus jumped at the opportunity to join us. I ended up living with Harold for two years in Old Town, a historic neighborhood in Alexandria, Virginia just outside of Washington, D.C.

²⁰ Lisa Meulbroek, "An Empirical Analysis of Illegal Insider Trading," *Journal of Finance*, 1992, and winner of Smith Breeden Prize for best paper.

Harold and I had an interesting time living and working together. Harold was full of life, liked going out a lot, was very athletic and enjoyed sports, and maintained long hours at the office. Thus, he didn't have a lot of time for sleep. A typical weekday for us would be to arrive at the office by 7:30a, work at least 12 hours, then out to dinner and other stuff, then hit the bed. Rinse and repeat. And weekends we chose not to sleep, rather would stay out late on Friday nights, but back in the office by 8a or 8:30at at the latest. The cool part about working with Harold on the weekends is that we would bike to work. It was a short bike ride, less than ten miles each way, and Harold had only one rule. No one was allowed to pass us on the bike path. Harold was an incredible cyclist, and my goal was simply to keep him in sight! Those weekend bike sprints kept me in better shape than I otherwise would have. Harold and I also collaborated on two influential research papers, both of which I will describe in my Chicago chronicles.

By the beginning of the summer of 1988, less than a year after I had started working at the SEC, the news came down from the top that the Office of the Chief Economist, and its prime real estate on the 6th floor along with the Chairman and Commissioners, was coming to an end. The business model was not sustainable. It didn't make sense to have two economics groups, and especially if they were going to be at odds with each other, as highlighted by the Directorate of Economic and Policy Analysis circulating an erroneous memorandum throughout the SEC about my research with Jeff Netter on the 1987 market crash without running it past us first. Moreover, and more importantly, it was John Shad, the former SEC Chairman following the directive of the Reagan Administration who created the Office of the Chief Economics six years prior back in 1982. In contrast, David Ruder, the current SEC Chairman, did not share Shad's passion for free markets and preferred a stronger government hand in dealing with the securities industry. And when Chairman Ruder put the Division of Market Regulation, a division full of lawyers, to write the economic report of the October 1987 market crash, it was obvious that the Office of the Chief Economist would no longer have the cache and support as under the prior administration.

The decision was to merge the two economics offices under the new name, Office of Economic Analysis. So goodbye to the Office of the Chief Economist, an office which had a substantial impact under the leadership of Cox, Jarrell, and Lehn. With the newly merged office, Lehn would retain his position at the top with the same title of Chief Economist. And we would move from

the 6th floor up to the 9th floor which was the top floor at 450th Street. I was immediately sad by this transition. My nostalgia for the Office of the Chief Economist was deep even though I had spent a little less than a year there. My original office was a small interior office which I was quite content in. The fact that we were on the Chairman and Commissioner's floor was so special that I would have been happy in a coat closet. For some unknown reason, when we moved upstairs, Lehn assigned me a super-large office with not just large windows, but a large conference table and a door where I could step outside on the terrace. Moreover, I had a view of the Washington Monument on the Mall which was special. I soon found that my new office had a real impact with respect to the enforcement lawyers bringing me insider trading cases to analyze. Most of them had offices like I originally started out in and when they would swing by and see me in this large office with a conference table and exterior door to the terrace, they immediately assumed I was far more important than I was. Again, another economic lesson for me as I was starting to appreciate more and more how signals with respect to information can be so important.

We had several interns throughout my time at the SEC. Often, they would intern with us for either the fall or spring semester in conjunction with their respective universities. These were non-paying internships. We also had a few interns during the summer as well. On late Friday afternoons during the summer, we would send the interns out to the Mall near the Capitol Building to establish property rights on one of the softball fields on the Mall. Our softball games were a lot of fun and we won most of them, largely based on hustle and never giving up. It was a matter of pride for the economists to beat the various teams made up of SEC lawyers.

One of my SEC summer interns became famous in the financial world years later. David Einhorn interned for me during the summer of 1988 and graduated from Cornell University a couple of years later.²¹ David became both a famous hedge fund investor and a poker player to boot. As a hedge-fund investor, David achieved fame and notoriety for going after several well-known

²¹ David was a super research assistant and among many tasks worked on one of my academic research papers which was noted in my merger research section due to space constraints. See Lisa Meulbroek, Mark Mitchell, Harold Mulherin, Jeffrey Netter, and Annette Poulsen, "Shark Repellants and Managerial Myopia: An Empirical Test," *Journal of Political Economy*, 1990.

publicly traded companies for failing to maximize shareholder value. As a professional poker player, David has won as much as \$4.3 million in a single tournament. While I kept up with David's career and whereabouts via the business press, we went over thirty years without interaction. Then out of the blue one day in 2021, Andrew Karolyi, Dean of Cornell's Business School, reached out to me and said he spoke with David at a dinner the previous evening on the Cornell campus and David mentioned wanting to connect with me. We connected via email a couple of days later and both of us conveyed an effort at some point to get together for dinner. But without a real catalyst, and given both of us are quite busy, neither one of us has gotten around to initiating the dinner. But what is crazy and evidence of what a small world it is, I noticed less than a week later an occurrence that seemed extremely improbable. I had a Cessna Citation X, a private jet which I had employed a management company to charter out for revenue when I wasn't using it. I noticed that the jet was heading from the White Plains airport just outside of NYC to Las Vegas which piqued my curiosity as to who was flying on it. Sure enough, David Einhorn was on the flight manifest. Crazy, I hadn't heard from David in over thirty years and one week later, by sheer coincidence, he had chartered a flight from New York to Las Vegas (I assume to play poker!) on our jet.

My experience at the SEC was incredible and I not only found the work rewarding but I also had an incredibly fun time. I looked forward each morning to get back into the office. And the group was always up to something. The office became much more bureaucratic after combining with the other economists as they were all bona fide government employees, and we were far from that. And sometimes, we were a bit mischievous in dealing with the bureaucracy. Despite the office reorganization, the fellows from the original Office of the Chief Economist could come and go as well pleased. There were no time clocks in place for us. But for the civil servants, every morning around 9:30a, one of the office administrative assistants would do a walk through and note attendance. There was one of the government economists who was often late for work and thus would get dinged. But he would have his buddy open his office door, turn the light on and put a newspaper or coffee mug on the desk. Then, when the administrative assistant would do the rounds and take attendance, the no-show economist would be counted as present. Lisa Meulbroek one morning observed the buddy preparing the office as if his friend was really in

attendance and started paying close attention. A few days later, after the buddy prepped the office for “attendance”, Lisa went down the hall and turned the office light off and closed the door. The result was that the economist was dinged for no attendance which then made him upset with his friend who was supposed to be covering for him. Lisa did this a few more occasions, but eventually moved on to different pranks!

And then there was the Saturday afternoon when Harold Mulherin fell through Ken Lehn’s ceiling. There was a small going-away party for a staffer the prior evening with appetizers, cheese, beer, and wine. Some of the beer was remaining and for whatever reason the door to Ken’s office was locked which was unusual as Ken’s office door was never locked. At some point the next afternoon, Harold decided it was time for a beer, albeit a warm beer since they were sitting out on the conference table in Ken’s office. Given Ken’s office door was locked, Harold’s innovative idea was to access Ken’s office by removing a ceiling tile from the adjacent office, then crawl a few feet over and remove a ceiling tile from Ken’s office to then jump down, grab, and a beer and unlock the door to the office. Things didn’t go as planned for Harold as he fell through the ceiling tiles into Ken’s office. He got his beer but there was a bit of explaining to do when Ken showed up later for work! I stayed clear of that fiasco.

Despite the incredible experience, the extraordinary success with my research agenda, and being a primary architect of developing the program in using financial economics to assist the enforcement lawyers, I was ready to move on, and not just at the end of the three years, but even earlier, roughly two years after starting work there. A big factor was the change in the office dynamics and location. The Office of the Chief Economist, with its location on the 6th floor was beyond sweet. And the change in the Administration from Reagan to Bush had an impact as well. Bureaucracy was back in flavor again. Deregulation and free markets were not on the outs per se, but the Bush Administration which took office in 1989 was far accepting of government as the solution as opposed to the Reagan Administration which often viewed government as the problem. And lastly, my new job which I accepted in December 1989, over eight months before I started it, was at the mother church of academic, The University of Chicago. So not only was I ready to exit for the sake of exiting, but I was also incredibly lucky to land at such an incredible place.