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FOR SOME PROFESSORS, DISCLOSURE IS ACADEMIC

They are presented as disinterested experts, but many scholars who testify at U.S. Congressional hearings have industry ties they don't reveal.

BY EMILY FLITTER, KRISTINA COOKE
AND PEDRO DA COSTA
NEW YORK, DEC 20

When Hal Scott testified on financial reform before the U.S. Senate last February, he identified himself simply as a Harvard Law School professor and director of an independent research group.

He also had some other relevant experience: Scott is on the board of Lazard, a prominent Wall Street firm with no small interest in the outcome of regulatory reform. He did not bother to mention this association during his testimony.

Scott, who was paid about \$260,000

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in cash and stock by Lazard in 2009, did not break any rules by not pointing out his industry ties. The Senate Banking Committee does not require academics to disclose their corporate affiliations.

"My membership on the Lazard board is a matter of public record," Scott said in response to an email request for comment.

A growing number of critics are calling for

change. They argue that disclosing industry relationships should be mandatory for academics who appear before the people's elected representatives as independent experts.

After all, these critics say, congressional testimony is a key step in the legislative process and can have enormous sway on policy.

"If someone is presented as a disinterested expert, but they actually have a financial relationship with someone with an interest in what they are talking about, that leaves the members of the public in the dark and sometimes members of the committee as well," said Bill Allison, editorial director at

the Sunlight Foundation.

Yet this happens routinely. A Reuters review of 96 testimonies given by 82 academics to the Senate Banking Committee and the House Financial Services Committee between late 2008 and early 2010 -- as lawmakers debated the biggest overhaul of financial regulation since the 1930s -- found no clear standard for disclosure.

In fact, roughly a third did not reveal their financial affiliations in their testimonies, based on a comparison of the text of their testimonies available on the Congressional committees' websites with their resumes available online.

The House Financial Services Committee's rules require disclosure only if witnesses have received federal grants on the subject about which they are testifying.

ONLY HUMAN

HOW ARE SUCH experts chosen? Washington insiders say Congressional staffers are deeply immersed in the specific issues they focus on, and therefore know the experts in the field. But as is often the case in U.S. politics, lobbyists try to get certain experts a foot in the door -- usually those whose positions are closest to the firms they represent.

"The two parties choose their own witnesses and so they have a wide variety of viewpoints, often adversarial," said Addie Whisenant, a spokesperson for the House Financial Services Committee. "The hearings are usually quite heated and often revealing. They are also fully public."

Sean Oblack, a spokesman for the Senate Banking Committee, offered much the same view, saying the selection process is intended to encourage a multitude of views.

"The committee closely reviews witnesses' qualifications and backgrounds and seeks to ensure that they are open and transparent," said Oblack.

But as the research done for this report shows, details can and do fall through the cracks.

The broader trend of corporate influence on scholarship, chronicled recently in the movie "Inside Job", has been a long time in the making, as connections between major university research centers and big business have grown more extensive -- not to mention lucrative.

To be sure, academia's ties to corporate



Professor Rene Stulz.
HANDOUT/OHIO
UNIVERSITY/ KEVIN
FITZSIMONS



Professor Joseph Mason.
HANDOUT/LOUISIANA
STATE UNIVERSITY



Professor Susan Wachter.
HANDOUT/UNIVERSITY OF
PENNSYLVANIA

"IT'S NOT JUST THE MONEY, IT'S ALSO THE SOCIAL ASPECT -- THEY BECOME FRIENDS WITH THE PEOPLE THEY WORK WITH, WHICH CAN CHANGE THEIR PERSPECTIVE OF REALITY."

America can be potentially beneficial. Professors who double as business executives say they bring real world experience to the table that is greatly useful to their students. Moreover, private sector exposure can lead scholars to focus less on theory and more on issues with concrete policy implications.

But critics say links to industry can also color the views of academics in both subtle and not-so-subtle ways.

"When you have a financial incentive to see reality in a certain way, you will see it that way, not because you're bad but because you are human," said Dan Ariely, a professor of psychology and behavioral economics at Duke University. "It's not just the money, it's also the social aspect -- they become friends with the people they work with, which can change their perspective of reality."

Academic salaries can hardly compete with the sort of pay packages that can go along with private consulting positions.

EXPERT OPINION

IN OCTOBER 2009, Rene Stulz, a professor of economics at Ohio State University, testified before the House Financial Services Committee on derivatives regulation. Besides his academic position, he also

identified himself as a research associate at the National Bureau of Economic Research, a trustee of the Global Association of Risk Professionals and a member of the Squam Lake group of academics studying financial reform.

But he omitted some other professional connections: Stulz is on the board of directors of Swiss financial firms Banque Paribas and Wegelin Asset Management. He is also a director at Community First Financial Group and Peninsula Banking Group, according to his resume.

In his testimony, Stulz argued that "one should be wary of regulatory efforts that inadvertently slow down or revert the industry's progress in managing counterparty risk without substituting better mechanisms," a line of thinking that echoes the industry view.

He also made a case against new disclosure requirements, saying if they were too "onerous," innovation would slow.

Stulz was the only one among 11 witnesses Congress heard from on October 7 portrayed as an independent expert. He told Reuters he did not consider his financial ties to be relevant to his testimony.

Other witnesses at the derivatives hearing that day included officers from Prudential Financial and Chatham Financial Corp, the Wholesale Markets Brokers' Association, the general counsel of the Managed Funds Association and the director of federal government relations at Cargill.

In another instance, Joseph Mason, testifying on credit default swaps on government debt on April 29, 2010, identified himself as the Louisiana Bankers Association professor of finance at Louisiana State University.

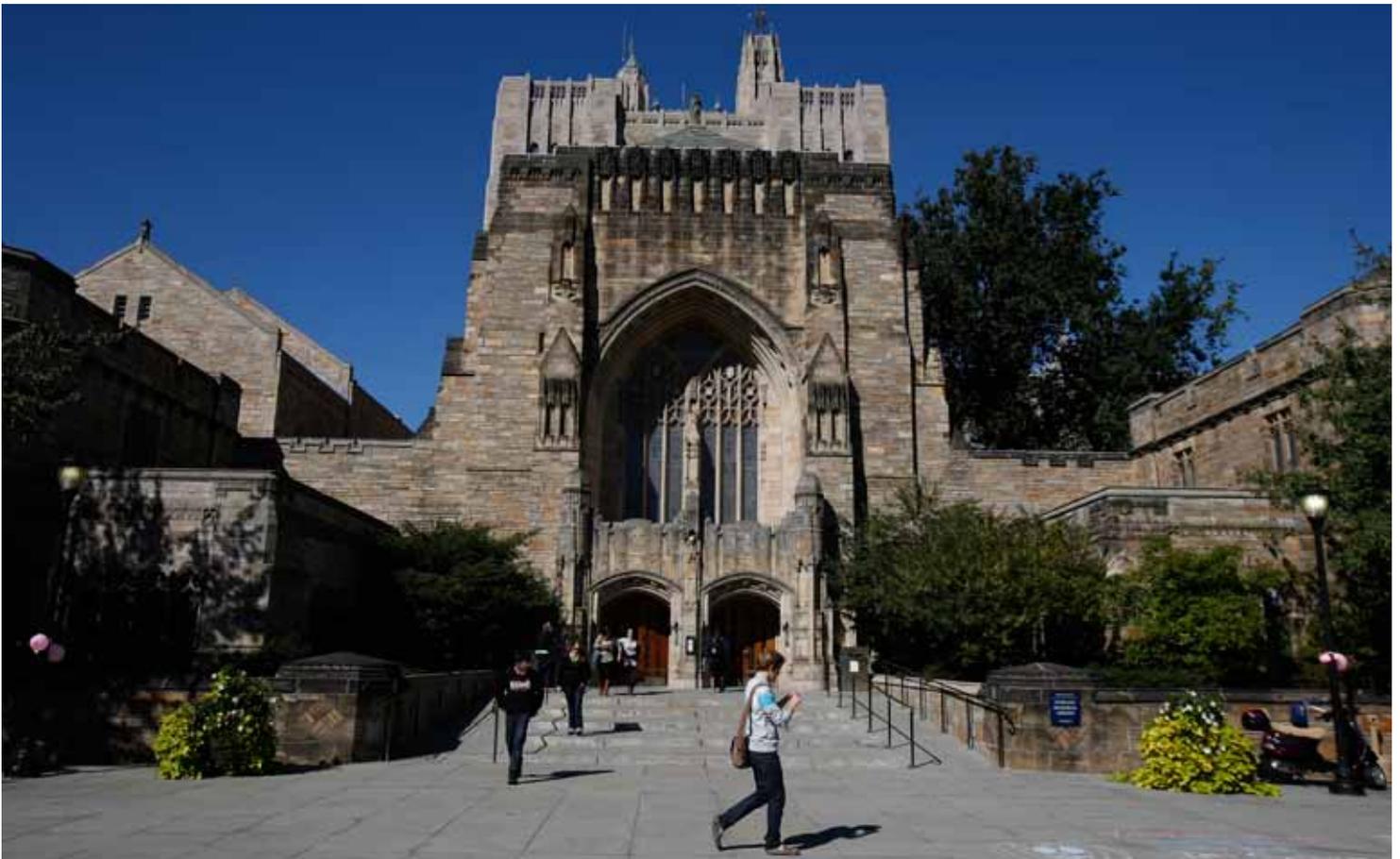
But according to his LinkedIn profile, he was also a director for Navigant Economics, an economic consulting firm.

Mason argued in his testimony that it was hard to conclude that credit default swaps are to blame for Greece's predicament.

Mason did not respond to a request for comment.

DEFINE RELEVANT

SUSAN WACHTER, a professor of real estate at the University of Pennsylvania's prestigious Wharton School of business, appeared before Congress three times during



IVORY TOWERS: Students walk on the campus of Yale University in New Haven, Connecticut, October 7, 2009. REUTERS/SHANNON STAPLETON

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AND STAFF MEMBERS IN CONGRESS CHOOSE ACADEMICS
BASED ON THEIR POINT OF VIEW.”*

the period reviewed by Reuters to testify about the U.S. mortgage market.

At no point did she mention her consulting gigs for global real estate firm Jones Lang LaSalle and GE Financial because she saw the work she was doing for the firms, respectively on Canadian subprime housing and New York City rents, as too tangential to matter.

“Neither was relevant to my testimony and neither occurred to me,” Wachter said in response to a request for comment. “I do not take consulting on topics I testify on. I say no.”

Experts say conflicts of interest are often in the eyes of the beholder.

“The usual pattern is that economists get paid to do consulting and then testify in cases where there is not literally a direct conflict, but certainly most people would see one,” said Dean Baker, co-director of the Center for Economic and Policy Research, a liberal think tank in Washington.

Some argue that even if academics are paid by financial firms, their compensation is pocket-change compared to the large sums involved in more direct financial industry lobbying of lawmakers.

“The amount of money pouring into Congress from financial services is monumental compared to what an academic economist might earn here and there,” said Scott Pardee, the Alan R. Holmes Professor of Monetary Economics at Middlebury College, Vermont, who has in the past consulted for financial firms.

Pardee said if there is a problem, it lies with the selection process. “You know from the op-eds what people’s positions are, and staff members in Congress choose academics based on their point of view.”

To their credit, many of the experts reviewed for this report did disclose their potential conflicts, though to varying degrees.

John Geanakoplos, a professor at Yale testifying on housing to the House Financial

BLOG

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<http://link.reuters.com/heq72q>

Services Committee identified himself as a partner in Ellington Management, LLC “a hedge fund that trades mortgage-backed securities.”

Anil Kashyap a professor at the University of Chicago Booth School of Business, disclosed in a footnote to his prepared remarks that he is a consultant for the Clearing House, which is owned by 20 banks including Bank of America, JPMorgan and Wells Fargo.

DUFFIE AND MOODY’S

RESEARCH BY University of Massachusetts Amherst professor Gerald Epstein indicates the absence of disclosure is hardly limited to

congressional testimony.

He analyzed the work of 19 prominent financial economists and found that the vast majority did not reveal their private affiliations when writing opinion pieces in newspapers or academic papers on financial regulatory reform.

"If those that are creating the culture around financial regulation as well as influencing policy at the government level for financial reform also have a significant, if hidden, conflict of interest, our public is not likely to be well-served," he said.

In his study, Epstein didn't name the economists. He said the lack of disclosure is so pervasive that he didn't want to single anyone out.

But his paper does contain one telling anecdote involving Darrell Duffie, a Stanford financial economist. In April 2009, Duffie participated in an event exploring the roots of the financial crisis.

Duffie had recently been appointed to the board of governors of Moody's Corp., the ratings agency, but he identified himself only by his academic credentials.

At the panel's conclusion, Duffie took two questions related to the crisis, the second of which is directly related to ratings agencies, still not revealing his links to Moody's. "It is only on the third question where the questioner explicitly asks whether ratings agencies have a conflict of interest -- in that they are paid by the companies they rate -- that Duffie reveals he is on the board of Moody's," Epstein writes. [<http://www.youtube.com/watch?v=OSBgfYrL9fs>]

Another much-discussed example: Frederic Mishkin, a former governor of the influential Federal Reserve Board in Washington now teaching at Columbia, wrote a glowing paper about Iceland's financial system in 2006 -- for which he was paid by the Icelandic Chamber of Commerce. Two years later, the country's financial system collapsed. [<http://movieclips.com/KCct-inside-job-movie-financial-stability-in-iceland/>]

Epstein dismissed the oft-cited argument that such ties are in the public domain for anyone who cares to look.

"If you're sitting there, listening to the radio, or reading an op-ed in the Times, and someone is simply referred to as a professor, do they really expect people to make the effort to track them down and look at their resumes?"

A PENNY FOR YOUR THOUGHTS

BEYONDPAYINGthemdirectlyasconsultants,



A FAN OF ICELAND: U.S. Federal Reserve Governor Frederic Mishkin speaks during a conference on Business Cycles, International Transmission and Macroeconomic Policies in Montreal October 20, 2007. **REUTERS/CHRISTINNE MUSCHI**

there are other ways that business interests line the pockets of academics, which are also not widely disclosed.

The Mercatus Center at George Mason University in Virginia, which is the home of several academic economists who have advised the House and Senate on regulatory reform, is funded and run in part by Charles G. Koch, a vocal libertarian billionaire who has said he wants to minimize the government's role and maximize personal freedoms and the private economy. In 2001, the Charles G. Koch Charitable Foundation gave George Mason University \$3 million to recruit new faculty members and fund programs in "experimental economics." In the 2009 fiscal year it donated \$2.5 million to George Mason University.

The House Financial Services Committee and Senate Banking Committee heard from academic economists linked to the Mercatus Center about a dozen times during the financial regulatory reform debate. That is roughly the same number of testimonies by academics hailing from both Harvard's business and law schools.

According to a 2009 ranking of 31 economics programs at U.S. universities

by U.S. News and World Report, Harvard University ranked No. 1. George Mason didn't place.

Donors can influence the tone of an academic debate, said Edward Nell, an economics professor at the New School for Social Research in New York, as certain areas or approaches that appeal to business interests are more likely to attract funding.

Economists who wanted to study income distribution using older macroeconomic theories in the latter half of the 20th century had a hard time finding funding for their research, Nell said, while an approach known as econophysics was flush with cash.

"Nobody can say that the donors, corporations, people that fund the studies are doing anything except funding a mathematical approach but it completely changed the perspective of the economics profession," Nell said.

It is impossible to gauge how much academics are shaped or influenced by their supplemental income. The type of academic a bank might pick as a consultant may already be more likely to have a certain economic ideology.

Many economists also see their work as an

impartial science, and maintain they would arrive at the same conclusions regardless of who pays the bills.

But George DeMartino, a professor at the Josef Korbel School of International Studies at the University of Denver says this argument does not hold water.

"The economics profession has built up a greater confidence among the public than it deserves, and the result of that is an outsized influence on public policy," said DeMartino, who is publishing a book on economics ethics.

"These economists have never gotten five minutes of training in their profession in conflicts of interest because it's not something that economics has taken any interest in in the last 100 years," he said.

For some, the lack of a single standard for disclosure for the profession is damaging even to those who do not have conflicts, since there is really no way to know for sure who does and who doesn't.

James Galbraith, a professor at the University of Texas, Austin, does not have high hopes for ethics rules for the economics

profession.

Asked if the American Economics Association should devise such rules, Galbraith replied: "You can't have an ethical code unless ethical people design it. No sign of that sensibility at the AEA. I think what should happen is the formation of small societies with codes joined by subscription. Then people could distinguish between economists who avoid or disclose conflicts, and those who do not."

(Editing by Jim Impoco and Clive McKeef)



SETTING THE RULES: US Treasury Secretary Timothy Geithner sits for opening statements before giving testimony about regulatory reform before the Senate Banking Committee on Capitol Hill in Washington June 18, 2009. **REUTERS/JONATHAN ERNST**

COVER PHOTO: U.S. Treasury Secretary Timothy Geithner picks up his booklet titled "Financial Regulatory Reform" after his testimony before the Senate Banking Committee on Capitol Hill in Washington, June 18, 2009. **REUTERS/JONATHAN ERNST**

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