

VOLUME II • ISSUE II

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RESEARCH BRIEF • JANUARY 2026

Africa as a Success Story: Political Organization in Pre-Colonial Africa

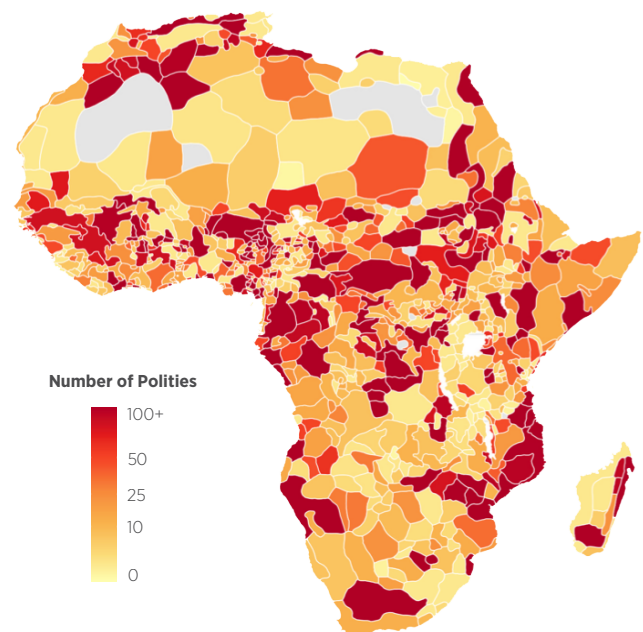
Based on BFI Working Paper No. 2025-149, “Africa as a Success Story: Political Organization in Pre-Colonial Africa,”
by Soeren J. Henn, University of Wisconsin, and James A. Robinson, University of Chicago

In 1880, Africa was extremely decentralized politically, with roughly 45,000 distinct polities based on mutual co-existence, with local community prioritized over centralized institutions. These successful political structures informed economic institutions, which favored community goals rather than Western notions of efficient resource allocation and personal accumulation.

Social science research has long credited the emergence of politically centralized states with the development of institutions that enhance public good provision and better development outcomes, as well as allowing for the ability to fight wars, collect taxes, conduct international trade, manage natural resources, and otherwise respond to the demands of both state leaders and the populace. Variations in political centralization, from statism to democracy, have resulted in economic institutions that take different approaches to resource allocation and wealth accumulation, but all these states take an economic approach motivated by collective outcomes over local community effects.

According to this Western and Asian (Eurasian) view of the world, Africa, which historically did not develop large, bureaucratized states, is a relative failure. This new paper offers a different tack. Rather than judging African outcomes against Eurasian standards, the authors review the pre-colonial status of African **polities** to

Figure 1 • Estimating the Number of Polities in Africa



Note: This map plots the estimated number of polities per group (based on ethnicity, chiefdom, and other factors) using population density and levels of jurisdictional hierarchy. Please see working paper for more details.

polities: the political organization of a society, encompassing its government, laws, and institutions, ranging from nation states (including a multinational polity like the European Union) to highly localized, subnational entities

The lack of state-building in Africa was intentional ... African polities prioritized local community effects over collective goals. By this measure, African political organization was a success.

find that the lack of state-building in Africa was intentional, and that African polities prioritized local community effects over collective goals. By this measure, African political organization was a success.

This broad, and radical, observation necessarily obscures much detail, and a perusal of the full paper will amply reward the reader. For this brief, we will summarize the authors' contributions, culminating in their observations about the economic effects of pre-1880 African political organization.

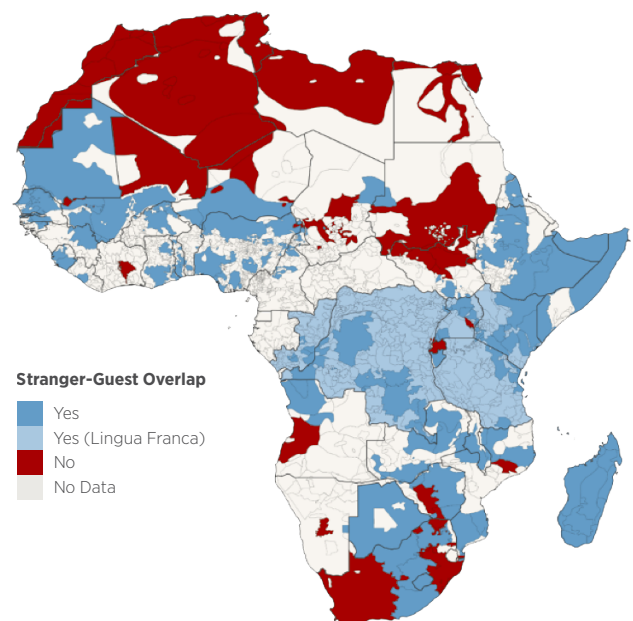
Following a literature review which emphasizes that many mechanisms of African political organization are missing from mainstream research, the authors estimate the number of pre-colonial polities to find that:

- In 1880, there were about 45,000 polities across Africa. (See accompanying map.) Fewer than 1% of these polities were ethnically based, and no more than 2% were state-like in their structure. Roughly 44% of Africa's population resided in state-like polities.
- In a novel analysis, the authors provide an explanation for *why* African societies eschewed collective states. It is not, per much of the literature, that African polities lacked certain factors that would have otherwise allowed them to build Eurasian-style states. Rather, the authors show that Africans rejected such Eurasian notions of statehood, choosing instead to construct a non-Western path into modernity that favored local community over collective outcomes. By this measure, Africa succeeded.
- That said, this choice had unintended consequences on three counts, including the

way that Africa entered the slave trade on the supply side as demand for slaves in America increased. Africa's decentralized political system meant that there was no cooperative interaction between African polities regarding slave supply, which led to a collectively disastrous outcome. Second, local polities were vulnerable to colonial expansion, both militarily and via policies of divide and rule. And third, the political geography of Africa made it difficult to build effective post-colonial nation states, which led to economic decline, corruption and **patrimonialism**, as well as **institutional path dependence**.

- African societies were flexible in their treatment of outsiders and strangers, which helped balance inter-polity relations among the 45,000 local units, and which had implications for the nature, incidence, and consequences of conflict on the continent.

Figure 2 • Stranger-Guest Across Africa



Note: This figure maps African languages that use the same word for "guest" and "stranger," which are marked in dark blue, and those that do not in dark red. Lingua franca, Kiswahili, Lingala, and Kituba, are marked in lighter colors in the areas where they are spoken if there is no data for the local language. Hawaiian is the only other language in the world that uses the same word for "guest" and "stranger."

patrimonialism: a form of rule where a leader treats the state as personal property, governing through loyalty, kinship, and client-patron networks rather than objective laws, blurring public and private spheres to reward supporters and maintain power

institutional path dependence: a theory where early choices or events in a society's history "lock in" certain institutional paths, making it difficult to switch to alternatives later due to accumulated investments, interdependencies, and inertia. Essentially, this means that history matters in shaping present and future structures. It explains why institutions (like laws, political systems, or social norms) persist, even when seemingly outdated, because past decisions create path-dependent structures that resist change.

- Of note, the authors study 114 languages outside of Africa and 114 within Africa and find that 92 out of 114 (82%) African languages use the same word for “stranger” and “guest.” Only one non-African language, Hawaiian, uses the same word for the two concepts. (See accompanying map.) The authors conjecture that the connection between stranger and guest is more than linguistic, and that along with a willingness to accept stranger kings and a lack of territorial aggression, emerged from a historic equilibrium of mobility and migration.
- Finally, regarding the economy, the authors’ analysis reveals how the focus on maintaining local autonomy necessarily precluded the development of market forces among and within African polities. Likewise, competition and innovation, key components of a market-

based economy, were hampered; on the other hand, so was the development of wealth concentration and powerful political authority. There was heterogeneity among polities, but broadly speaking, there were no **factor markets** (land, labor, and capital) in pre-colonial Africa. Also, land was typically owned by kinship groups. Access to land was granted via one’s kinship group, which also provided jobs. These institutions were kept in place by norms, practices and values.

This novel analysis not only flips the script on our understanding of pre-1880 African political development but also reveals how these otherwise successful local polities were ultimately vulnerable to the pernicious effects of the expansion of European **mercantile capitalism**, the slave trade, and colonialism. These effects are not mere historic artifacts; their effects still burden Africa today.

factor markets: factor markets are where the factors of production (land, labor, and capital) are bought and sold, distinct from product markets where finished goods are sold; firms are the buyers (demanding inputs like workers, raw materials) and households are typically the suppliers (selling their labor or land), with prices like wages, rent, and interest determining income distribution and resource allocation in the economy

mercantile capitalism: mercantile capitalism was an early stage of capitalism (roughly 1500-1800) focused on accumulating wealth through buying, selling, and trading goods, rather than mass production, with merchants acting as intermediaries between producers and markets to profit from price differences. It relied on controlling trade routes, securing colonies for resources, and maximizing exports over imports (mercantilism) to build national wealth, laying groundwork for later industrial capitalism by generating capital for investment in production.

READ THE WORKING PAPER

NO. 2025-149 · DECEMBER 2025

Africa as a Success Story: Political Organization in Pre-Colonial Africa

bfi.uchicago.edu/working-papers/africa-as-a-success-story-political-organization-in-pre-colonial-africa

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THE UNIVERSITY OF CHICAGO
HARRIS SCHOOL
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RESEARCH BRIEF • JANUARY 2026

Closed Visas Trap Temporary Foreign Workers in Worse Jobs

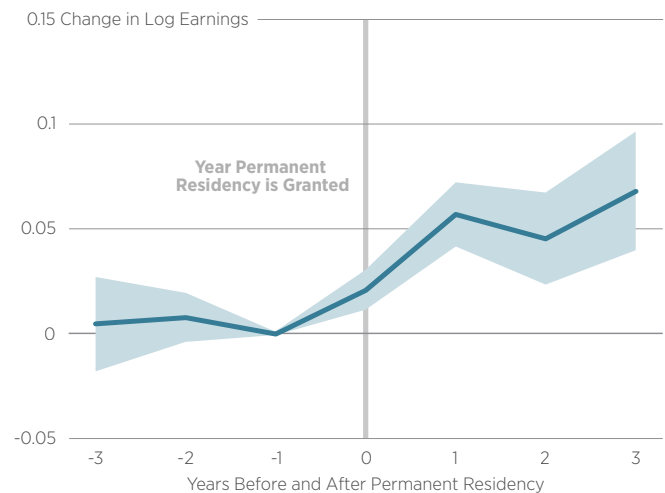
Based on BFI Working Paper No. 2026-02, “[The Labor Market Return to Permanent Residency](#),” Kory Kroft, University of Toronto; Isaac Norwich, University of Chicago; Matthew J. Notowidigdo, University of Chicago; and Stephen Tino, Toronto Metropolitan University

Gaining permanent residency leads to a sharp, immediate, and persistent increase in job switching of 21.7 percentage points and a 5.7% increase in earnings, 56% of which is attributable to workers sorting into higher-wage firms.

Countries often rely on temporary foreign worker programs to address labor shortages. Many such programs, including those in Australia, Canada, New Zealand, Singapore, South Korea, and the United States, use “closed” visas that tie workers to a single employer, channeling labor to sectors experiencing shortages. These restrictions, however, draw sharp criticism. Senator Bernie Sanders has argued that “guest workers are often locked into lower-paying jobs and can have their visas taken away... if they complain about dangerous, unfair, or illegal working conditions.” Similarly, the UN Special Rapporteur on the human rights of migrants warned that Canada’s employer-specific work permits create “a power imbalance where employers may have limited incentive to ensure decent working conditions, as workers do not have a meaningful choice of alternatives.”

Despite sustained policy attention, relatively little is known about how these restrictions shape workers’ labor market outcomes, or what happens when they are lifted. Studying this issue

Figure 1 • The Impact of Permanent Residency on Earnings



is challenging because it requires separating the effects of visa rules themselves from pre-existing differences between temporary foreign workers and other immigrants. Temporary workers may earn less or change jobs less often not because

their visas restrict mobility, but because they differ in other ways, for example, in their skills, experience, or the types of firms willing to sponsor them. Employers that rely on temporary visas may also systematically differ from other firms.

The paper addresses this challenge using detailed administrative data from Canada that link matched employer–employee records to temporary and permanent visa histories between 2004 and 2014. The dataset covers roughly 200,000 temporary foreign workers and tracks their earnings, the firms they work for (including information such as revenue and value added), and the exact timing of visa issuance and permanent residency.

To isolate the effects of visa restrictions, the authors compare groups of immigrants with the same skill level who take the same amount of time to obtain permanent residency, but who arrive in Canada in different years. This approach effectively “matches” workers on characteristics that are otherwise hard to observe, such as skills or career trajectories, so that differences in outcomes can be attributed to changes in legal status and mobility rather than underlying differences between workers or firms. The authors begin by showing that:

- Compared to similar workers who are still on restricted visas, gaining permanent residency raises the probability of a job-to-job transition by 21.7 percentage points in the first three years after permanent residency, with the increase occurring immediately and persisting over time. Earnings rise in tandem, increasing by 5.7% within three years of permanent residency.
- When temporary foreign workers obtain permanent residency, they climb the job ladder to higher-paying firms. Firm pay premia, a measure of how much a given firm pays relative to others, holding worker characteristics constant, increase by 3.2 percentage points and account for 56% of the total earnings gain. These gains emerge quickly after permanent residency and grow over time.
- Improvements in firm pay premia are driven primarily by workers switching industries, with the largest benefits going to low-wage workers and workers from lower-income countries. Workers moving across industries experience substantially larger gains than

those who stay within the same industry. Low-skilled workers see earnings increases of 12.0% compared to 1.6% for high-skilled workers, and workers from non-advantaged countries (those outside the U.S., U.K., Australia, New Zealand, and Northern and Western Europe) experience an 8.1% earnings increase compared to a 4.1% decrease for workers from advantaged countries.

Building on these results, the authors next develop a model to understand how temporary worker programs affect the broader labor market. In the model, firms decide whether to hire from the domestic workforce or recruit temporary foreign workers. Hiring a temporary worker requires submitting a costly government application that may or may not be approved—mirroring Canada’s labor market assessment process. The model captures a crucial institutional feature: domestic workers and permanent residents can search for better jobs while employed and leverage competing offers to negotiate higher pay, but temporary workers on closed visas cannot. This gives firms substantial bargaining power over temporary workers. The model also accounts for a spillover effect—when firms hire temporary workers, they reduce job openings available to domestic workers, making it harder for them to find jobs or secure better offers. Using this framework, the authors project long-run outcomes and test alternative policies, such as increasing fees for temporary worker visas or allowing free employer switching.

The model reveals the following:

- The long-term effects of permanent residency substantially exceed the short-term gains. Full integration into the domestic labor market takes roughly 15 years, with eventual increases in earnings and firm pay premia 50% larger than the effects observed three years after permanent residency.
- The model successfully replicates key patterns from the data, even those not explicitly targeted. Notably, the calibrated model reproduces the pattern wherein firms that rely more heavily on temporary foreign workers tend to pay lower wages across their entire workforce. This demonstrates the model’s ability to capture real-world labor market dynamics.

- Raising visa application fees reduces profits and output among firms that rely on temporary workers, prompting some to shift toward hiring domestic workers instead. This reallocation increases domestic output, partially offsetting the decline in the temporary worker sector, but also tightens domestic labor markets and lowers expected profits for domestic firms. With more firms competing to hire domestic workers, domestic wages rise, especially for low-wage workers, while temporary worker wages fall as demand for them declines. The policy highlights a central tradeoff: Domestic workers benefit from higher wages, while firms and temporary foreign workers bear the costs through lower profits and reduced earnings.
- Allowing temporary workers to switch employers freely causes their wages to rise sharply, as they can now search for better jobs while employed. Domestic wages fall, however, most notably for low-wage domestic workers, due to heightened labor market competition. Firm profits change little.

Policymakers face a fundamental tension: increasing visa restrictions protects domestic workers' wages but harms temporary foreign workers and reduces firm profits, while loosening restrictions helps temporary workers but puts downward pressure on domestic wages. Understanding these tradeoffs is essential for designing temporary worker programs that balance competing interests while avoiding worker exploitation.

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NO. 2026-02 · JANUARY 2026

The Labor Market Return to Permanent Residency

bfi.uchicago.edu/working-papers/the-labor-market-return-to-permanent-residency

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RESEARCH BRIEF • FEBRUARY 2026

Fast Action for Floods: Why Timing Matters in Humanitarian Cash Transfers

Based on BFI Working Paper No. 2025-140, “Fast Action for Floods: RCT Evidence on Forecast-based Cash Transfers from Bangladesh and Nepal,” by Paul J. Christian, The World Bank; Felipe A. Dunsch, United Nations World Food Programme (WFP); Jonas Heirman, United Nations WFP; Erin M. Kelley, University of Chicago; Florence Kondylis, The World Bank; Gregory Lane, University of Chicago; Jennifer Waidler, United Nations WFP; Nidhila Adusumalli, United Nations WFP; Odbayar Batmunkh, The World Bank; and Kriti Malhotra, United Nations WFP

Households in Nepal and Bangladesh who are randomly assigned to receive cash assistance within days of a flood experience overall gains in food security and psychosocial well-being compared to households who are randomly assigned to receive assistance 1-1.5 months after the flood occurs.

Advances in weather forecasting have revolutionized the delivery of humanitarian aid. Thanks to early-warning weather systems, aid organizations can now deliver aid more urgently following the onset of a disaster. As of last year, forecast-based anticipatory action (FbAA) had become a cornerstone of programming for major institutions including World Food Programme (WFP), United Nations Office for the Coordination of Humanitarian Affairs (OCHA), and the Food and Agriculture Organization (FAO).

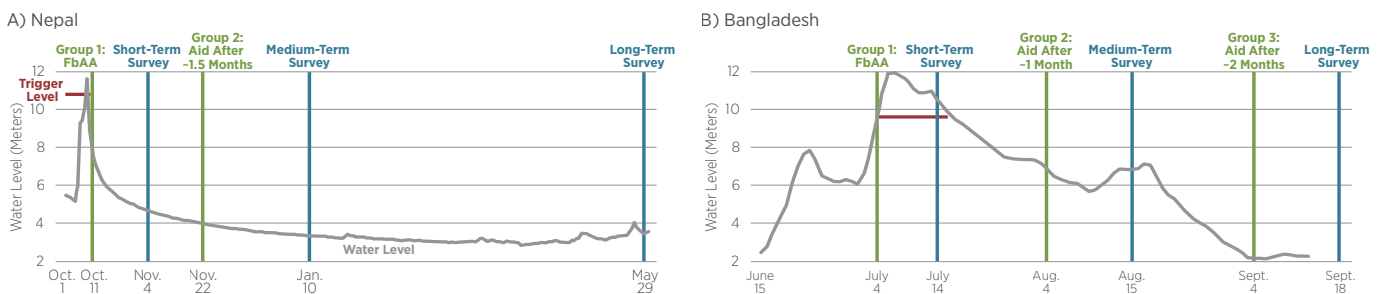
Is receiving cash earlier always better? Not necessarily. Cash could provide the same benefits regardless of when it is delivered. Shifting payments earlier could simply move those benefits forward a few months, but

households who receive the transfer later end up just as well off once they receive theirs. Alternatively, it may be better to receive transfers later if the need for assistance increases as the crisis unfolds, or if markets collapse immediately after a flood, making it difficult to use the money effectively right away.

The central question, which the authors tackle in this paper, is whether early action puts households on a fundamentally better trajectory.

To study this question, the authors compare FbAA (forecast-based anticipatory action, or cash delivered within days of flooding) to traditional post-disaster assistance using a randomized controlled trial across villages in Bangladesh and Nepal. They randomly

Figure 1 - Timeline of Flooding and Transfers



Note: This figure shows the time of events in Nepal and Bangladesh respectively.

assign participating villages to either an FbAA treatment arm or a standard post-flood assistance group. Both groups experience the same flood and receive a cash transfer of the same value. The only difference is the timing of the transfer in relation to the flood event: the FbAA group receives transfers within days of the flood, while the standard group receives assistance 1-1.5 months later.

The authors use surveys to measure the effects of FbAA relative to post-flood assistance. They survey households concerning their food security and psychological wellbeing at three key times: first, in the “short-run”, a few weeks after the FbAA group received their aid, but before the post-flood group received theirs; second, in the “medium run”, several weeks after the post-flood group received their transfer, well after the flood peak, and finally, in the “long run”, six months after the post-flood group received its transfer in Nepal, and 1.5 months after the post-flood group received their transfer in Bangladesh.

The authors document three key findings:

- In the short run, soon after the flood—a period of acute stress for households—FbAA significantly improves food security in both countries. Households assigned to FbAA have a food consumption score that is 1.1 points (2.4%) higher, and are 4.2 percentage points more likely to reach “acceptable” food security levels, driven by more households eating meat. Additionally, the Reduced Coping Strategies Index, a proxy for household food insecurity, decreases significantly for the FbAA group in both countries by approximately 1.1 points (6.8%). The authors also find that FbAA boosts psychosocial well-being in both countries, with depression symptoms falling and life satisfaction improving, both at significant levels. Finally, the authors observe reduced borrowing and increased savings in Bangladesh, which may help explain the improvements in food security and mental health.
- In the medium run, after the crisis has passed and the post-flood assistance group has received their

transfer, both groups have similar food security and coping strategy scores. This suggests that the FbAA group’s receipt of earlier funds improves their food security and psychosocial well-being sooner, and leads to similar outcomes over time.

- In the long run, as households recover and return to their stable equilibrium, the authors see no differences between the FbAA group and the post-flood assistance group. Taken together, these results show that receiving early FbAA support leads to overall gains: the total benefits for the FbAA group—combining short-run, medium-run, and long-run outcomes—are higher. Households in the FbAA group experience positive benefits of the cash transfers early after the floods, but continue maintaining equal or better outcomes than the post-flood group, suggesting an overall superior trajectory in the FbAA group.

Building on these results, the authors address an important limitation. By the medium run, both groups have received transfers. While outcomes appear similar for the FbAA and post-flood groups in the medium and long-run, this convergence could reflect two possibilities: either both groups are benefiting equally from the cash transfers, or the effects of FbAA have faded while post-flood transfers have little impact. The authors address this limitation in Bangladesh by including a third group that remains untreated in the medium run, allowing them to test whether the effects of FbAA persist over time:

- The FbAA group has significantly higher food security scores than the pure control group in the medium run, suggesting the benefits of FbAA persist for at least two months after the flood.

This research demonstrates that acting on forecasts to deliver humanitarian cash generates substantial and enduring welfare gains. As climate change intensifies extreme weather events, these findings provide justification for humanitarian organizations to expand forecast-based systems globally.

READ THE WORKING PAPER

NO. 2025-140 · NOVEMBER 2025

Fast Action for Floods: RCT Evidence on Forecastbased Cash Transfers from Bangladesh and Nepal

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RESEARCH BRIEF • FEBRUARY 2026

FinTech Firms Spend Much More on Sales and Marketing Than Traditional Financial Firms

Based on BFI Working Paper No. 2026-14, "[FinTech and Customer Capital](#)," by Bianca He, Lauren Mostrom, and Amir Sufi, University of Chicago

FinTech firms spend three times more on sales and marketing than traditional financial companies, an investment that builds valuable customer capital. The gap is not explained by sector or firm age, but by the distinct demands of building trust, acquiring data, and operating platforms in a fully digital environment.

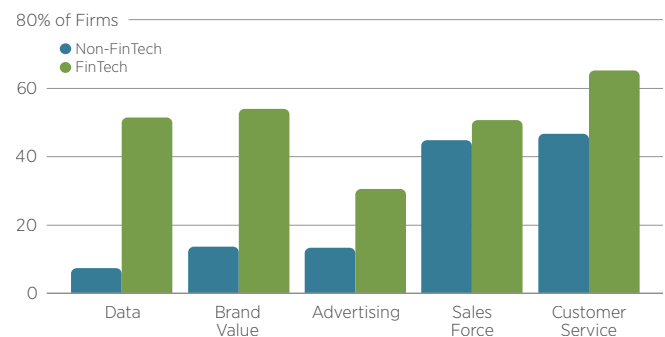
Technological advancements over the last decade have transformed the financial services industry. Bank branches and insurance agents have moved from the street corner to the palm of our hands as loans and policies can now be secured entirely through apps. Cryptocurrency trades on exchanges that didn't exist ten years ago, buy-now-pay-later services have embedded credit directly into online checkout, and homebuyers can complete entire mortgages without visiting a physical branch. This transformation has inspired much [research](#) on how FinTech firms use technology to revolutionize the delivery, quality, and experience of financial services.

In this paper, the authors examine FinTech firms from a new angle. As the authors show, FinTech firms differ from traditional financial firms not only in their use of technology, but also in how much they invest in attracting customers. The authors use Gemini to identify FinTech firms based on the text of their 10-K SEC filings, and data from Compustat to capture sales and marketing expenditures among US-based financial firms from 1997 to 2022. They begin by documenting the following:

- FinTech firms spend three times more on sales and marketing than non-FinTech financial firms, and this investment builds valuable [customer capital](#).

customer capital: the intangible asset a firm builds through sales and marketing, including brand recognition, customer trust, and customer data

Figure 1 • Sales and Marketing Strategies Emphasized by FinTech and Non-FinTech Firms



Note: This figure compares the fraction of FinTech and non-FinTech firms whose business descriptions highlight specific sales and marketing strategies.

Why do FinTechs invest so heavily in customer capital? The authors begin by ruling out two potential explanations:

- First, the authors consider the possibility that FinTech firms simply operate in segments of the financial sector where sales and marketing expenditures are higher. But even within industries like insurance and capital markets, FinTech firms outspend traditional firms. The insurance industry is particularly striking. InsurTech firms spend 40-60% of revenue on

sales and marketing, compared to much more modest spending by non-FinTech insurers.

- Next, the authors consider the role of age. Perhaps FinTech firms spend more because they are younger. (As of 2022, the median FinTech firm is 23.5 years old, compared to 72 years for the median non-FinTech financial firm.) Across all age groups, however, FinTech firms outspend traditional firms on sales and marketing. Even FinTech firms that have existed for 30-40 years, including WisdomTree Inc, Rocket Cos Inc, and Fleetcor Technologies Inc, spend six times more than traditional financial firms of the same age.

So, what explains the outsized expenditures? As the authors show, substantial investment in customer capital is an instrumental component of the FinTech business strategy. This is true for the following reasons:

- FinTech firms must establish trust and credibility outside of traditional cues. Trust and credibility are central for financial firms. Banks and other incumbents have long used branches and prominent office locations as signals of permanence and credibility. FinTech firms, by contrast, operate almost entirely online and therefore cannot draw on these traditional, location-based trust cues. Instead, they build credibility through sales and marketing, which serve as the online analog of securing “prime real estate.” Rather than paying for a branch on a busy street corner, FinTechs pay for prime web traffic to signal permanence and trust in a fully digital setting.
- FinTech firms focus on downstream segments of the financial marketplace. Bank-FinTech partnerships have become a defining feature of the sector, with banks frequently outsourcing customer

acquisition and customer service operations to FinTech partners. FinTech firms, as the farthest downstream producers in these industries, invest heavily in customer capital in order to lease this capital stock to upstream financial firms, primarily traditional financial intermediaries.

- FinTech firms operate platform-based business models. Firms using platform-based business models, in which profits come from connecting two different types of users, tend to spend more on customer capital, likely because of the value in conveying dominance. Users are more likely to use the more popular platform. The authors find that 75% of FinTech firms operate a platform business model, compared to only 16% of non-FinTech financial firms.
- FinTech firms place a higher premium on customer data. Customer data is a prominent source of value for FinTech firms, enabling price discrimination and product quality improvements downstream, and earning favorable terms in upstream transactions as well. The authors find that 51% of FinTech firms highlight this strategy in their business descriptions, compared to only 8% of non-FinTech financial firms.

Customer capital is emerging as a central asset in the financial services industry, with FinTech firms positioned as its primary builders. The median value of customer-related intangible assets equals 41% of annual sales for FinTech firms compared to just 3% for non-FinTech financial firms. As traditional financial institutions increasingly partner with FinTechs to reach customers, understanding who builds and owns customer capital may prove central to understanding the industry’s future.

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FinTech and Customer Capital

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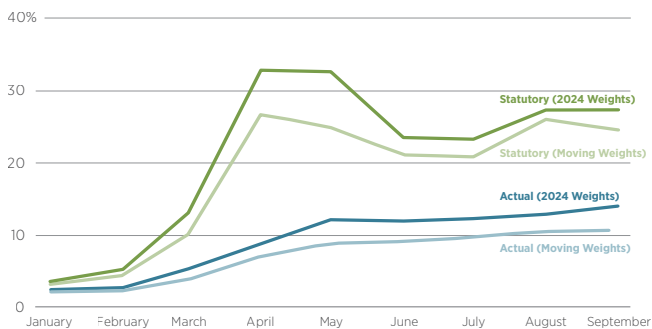
The Incidence of Tariffs: Rates and Reality

Based on BFI Working Paper 2025-151, “*The Incidence of Tariffs: Rates and Reality*,” by Gita Gopinath, Harvard University, and Brent Neiman, University of Chicago

Statutory tariff rates on US imports rose to historic levels; however, shipping lags, exemptions, and enforcement gaps kept the actual implemented rates at only half of the statutory levels, moderating the tariffs’ impact, while tariff pass-through to US import prices reached nearly 100 percent.

Statutory tariff rates (which can differ from actual rates) on US imports have risen dramatically to levels not seen since the 1930s, with the trade-weighted average rate at 27% in September 2025. Imports from 176 exporters, on goods accounting for more than 70% of total US imports, faced higher tariffs than at the end of 2024.

Figure 1 • Statutory and Actual Tariff Rates Overall in 2025



Note: This figure illustrates statutory and actual tariff rates in 2025. After peaking at 32.8 percent in April, the statutory rate in September sits at 27.4 percent. This is the highest level since at least the late 1930s, a time when import spending relative to GDP was less than half what it is today.

This figure distinguishes between a trade-weighted tariff using fixed weights from 2024 (the solid lines) and a trade-weighted tariff using weights that change each month (the dashed lines). The 2024 weights reveal the tariffs to be somewhat higher because in 2025 spending patterns shifted away from goods with higher tariffs.

While fears of a trade war between the United States and affected countries rose along with rising tariff rates, retaliation has been limited, with China the important exception, as noted in Bullet 3 below. China responded in kind to US announcements of large and broad tariffs, with both countries pushing each other beyond 100 percent rates on nearly all traded goods. Though subsequently reducing those bilateral tariff rates, they remain historically high.

What are the effects on US producers and consumers, and for the dollar? The authors examine the effects of the tariffs during last year’s tariff hikes (as of September 2025), and during the previous episode of tariff changes during 2018-19 to find the following:

- Actual tariff rates in the current period are only about half the statutory rates due to shipment lags, exemptions, trade agreement utilization, and enforcement issues. This is one reason why price impacts so far are lower than many April forecasts predicted. While shipment lags will dissipate, other factors may persist.

Table 1 - Sectors with Largest Increases in Production Tariffs

Sector	Change in Production Tariff (Percentage Points)
Heavy Duty Trucks	3.9
Construction Machinery	3.1
Motor Vehicles	2.8
Motor Vehicle Parts	2.8
Automobiles	2.7
Agricultural Implements	2.5
Oil and Gas Field Machinery	2.3
Primary Metals	2.0
Industrial Machinery	2.0
Commercial Industry Machinery	2.0

- US importers and consumers largely bear the tariff costs, not foreign exporters. Tariff pass-through rates were high in both periods, 80% in 2018-2019 and 94% in 2025, meaning tariff-inclusive import prices rose nearly in step with the tariffs, as exporters generally did not significantly lower prices.
- Chinese goods dropped from 22% of US imports in late 2017 to 8% by September 2025. Countries like India and Vietnam gained significant market share as alternative suppliers, though it's unclear how much this reflects genuine production in India and Vietnam vs. Chinese goods routed through these countries.

- Because imported inputs are crucial for US manufacturers and pass-through is high, American producers face substantial cost increases. The study calculates that for some sectors, the effective “production tariff” rate (a hypothetical tax rate on production costs that might have an equivalent impact on U.S. manufacturing as the import tariffs) exceeded 2 percentage points. Manufacturing overall saw an increase above 1 percentage point in 2025.
- Finally, regarding the dollar, unlike 2018-2019 when the dollar strengthened as predicted, the dollar depreciated significantly in 2025 despite the tariffs, suggesting other economic forces are likely at play.

Questions persist regarding the impact of tariffs on the US economy, especially given the unpredictable nature, in terms of substance and timing, of tariff policy. This work offers current context and a framework for evaluating ongoing effects.

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NO. 2025-151 · DECEMBER 2025

The Incidence of Tariffs: Rates and Reality

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RESEARCH BRIEF • FEBRUARY 2026

Who Chooses and Who Benefits? The Design of Public School Choice Systems

Based on BFI Working Paper No. 2025-150, *“Who Chooses and Who Benefits? The Design of Public School Choice Systems,”* by Christopher Campos, University of Chicago; Eric Chyn, University of Texas at Austin; Jesse Bruhn, Brown University; and Antonia Vazquez, University of Texas at Austin

District-run choice schools are effective, generating achievement gains equivalent to roughly one grade level. Opt-in participation, however, prevents these benefits from reaching the students who need them most, as students least likely to apply are those who would gain the most from attending. Mandatory centralized assignment would eliminate this inefficiency, roughly doubling achievement impacts for students who enroll in choice schools.

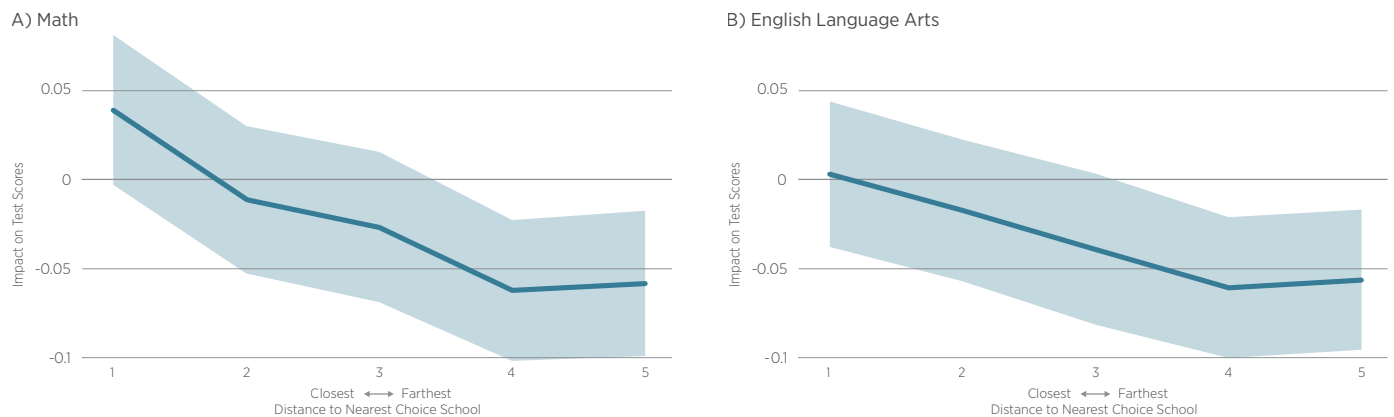
Over the last two decades, US public school districts have rapidly expanded school choice, providing students with options such as magnet schools, dual-language programs, and theme-based academies, all within their own districts. These reforms are aimed at combatting stark educational disparities—within the same district, students at the lowest-performing schools fall nearly two-thirds of a grade level behind their peers each year—and at responding to competitive pressure from charter schools.

Yet these reforms pose a design challenge: how should districts graft new choice options onto a system built around neighborhood schools? In this paper, the authors examine the structure of public school choice systems and their impact on educational opportunities.

The National Landscape

The authors begin by collecting original data from the nation’s 150 largest school districts to document how choice systems are structured.

Figure 1 • Who Benefits from Choice Schools? Achievement Impacts by Distance



Note: This figure shows how the achievement effects of receiving a choice school offer vary with students’ distance to the nearest choice program. In both math and English language arts, students in the closest quintile experience positive gains, while those in the farthest quintile experience negative effects.

The data reveal the following:

- Enrollment in non-neighborhood public schools of choice has more than doubled over the past two decades, with enrollment shares now exceeding those of the charter sector and serving more than 14% of public school students.
- Among these districts, 64% use centralized assignment algorithms to manage student placement. Yet only 9% require all students to participate, as in New York and Boston, while the rest rely on opt-in systems, where parents must proactively submit applications.
- Compared to mandatory systems, opt-in districts are harder to navigate, with less clear information and more complex applications. As a result, economically disadvantaged students are less likely to enroll in choice schools in these districts.

These patterns raise a concern. Voluntary participation may segment public education by allowing the most advantaged students to leave their less advantaged peers behind. Building on these findings, the authors turn to the nation's largest opt-in system to study how design shapes achievement and inequality.

Who Opts In?

If opt-in systems make participation voluntary, which families choose to participate? The authors turn to nearly two decades of data from the Los Angeles Unified School District (LAUSD), the largest opt-in system in the country. The data cover students' applications to hundreds of magnet programs, affiliated charters, dual-language, and theme-based schools, linked to achievement and other outcomes.

Using these data, the authors document the following characteristics of applicants:

- Choice schools in LAUSD attract a student body that is more racially diverse but also more economically and academically advantaged. Applicants have substantially stronger academic preparation—the gap in baseline scores is equivalent to roughly two

and a half grade levels—and are far less likely to be low-income or English-learners.

- Geographic distance is a primary driver of participation, as students who live closer to a choice program are much more likely to apply. Leveraging the rapid expansion of LAUSD's choice sector, the authors show that when new programs opened nearby, neighborhood application rates rose by roughly 20%, without changing the observable characteristics of who applied.

These findings suggest that while advantaged students naturally sort into choice programs, supply-side policy, such as program expansion or reduced travel costs, can broaden access.

Who Benefits?

Building on these results, the authors turn to nearly two decades of randomized lottery data to examine which students stand to gain the most from attending a choice school. By comparing lottery winners and losers, the authors uncover a phenomenon known as **"inverse-Roy" sorting**, or negative selection on gains. Their findings include:

- Students who live closest to choice programs—a proxy for weak demand—benefit the most from attendance. The difference in impact between the nearest and farthest distance quintiles is equivalent to roughly one-third of a grade level of learning.
- Students from subgroups least likely to apply, such as low-income students and English-learners, benefit the most when they enroll.

Taken together, these results suggest that opt-in designs create **allocative inefficiency**. The students who would gain the most are precisely those the system screens out.

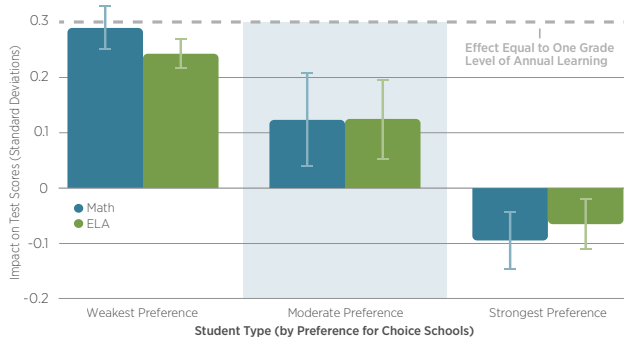
What If the System Were Redesigned?

To evaluate how alternative designs would perform, including for the 80% of students who never apply, the authors build a structural model using lottery offers and quasi-experimental variation from school openings.

inverse-Roy sorting: a pattern in which the people most likely to participate in a program are not those who benefit most from it, the opposite of self-selection based on comparative advantage

allocative inefficiency: a situation in which resources, in this case seats at effective schools, are not allocated to the people who would benefit most from them

Figure 2 • Students With Strong Preference for Choice Schools Benefit Least



Note: This figure shows how achievement gains from attending a choice school vary by students' underlying preferences.

The model first confirms that choice schools are genuinely effective, generating average achievement gains of roughly one full grade level in math and slightly less in ELA. The problem is not school quality, but rather it is that opt-in design prevents these benefits from reaching the students who need them most.

The authors then simulate a range of alternative policies including information interventions, busing-type subsidies to reduce travel costs, a decentralized market allowing multiple applications, and fully centralized assignment with mandatory participation. Their findings:

- Information interventions and reduced travel costs modestly increase the number of families who participate, but produce limited gains in student achievement across the district. This is because lowering barriers helps, but as long as participation remains voluntary, the same pattern of selection persists.

- Mandatory centralized assignment, or requiring all families to submit preferences through a clearinghouse, delivers the largest improvements. It eliminates two inefficiencies present in opt-in systems: negative sorting on gains (whereby students who would benefit most self-select out) and substantial slack (whereby seats at effective schools go unfilled). For students who enroll in choice schools, achievement impacts roughly double compared to the status quo.
- To benchmark these reforms, the authors simulate an achievement-maximizing allocation in which students are directly assigned to schools in a way that maximizes district-wide test scores. Centralization alone captures nearly 50% of these potential gains, and combining it with busing captures over 55%. The remaining gap reflects a fundamental limitation: Even with universal participation, families' preferences do not perfectly align with school effectiveness.

This research offers two policy lessons. First, district-run choice programs, often created to compete with charter schools, are genuinely effective at raising student achievement, evidence that districts respond competitively when the K-12 landscape shifts. Second, layering voluntary choice onto neighborhood assignment deepens inequality. High application costs screen out students who would gain the most, while effective schools operate with substantial unused capacity. Expanding families' options represents real progress, but that promise will be realized only when assignment mechanisms are designed to distribute opportunities equitably.

READ THE WORKING PAPER

NO. 2025-150 · DECEMBER 2025

Who Chooses and Who Benefits? The Design of Public School Choice Systems

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RESEARCH BRIEF • DECEMBER 2019

Information Operations Increase Civilian Security Cooperation

Based on BFI Working Paper No. 2019-130, "[Information Operations Increase Civilian Security Cooperation](#)," by Konstantin Sonin, professor at UChicago's Harris School of Public Policy; and Austin L. Wright, assistant professor at UChicago's Harris School of Public Policy

KEY TAKEAWAYS

- ✓ Winning over "hearts and minds" of civilians is often a key strategy for US forces
- ✓ The military frequently uses information operations designed to deliver messages to civilians, including those residing in enemy-held territory
- ✓ Though these programs are prevalent, little is known about their effectiveness
- ✓ This new research reveals that such programs can be effective, even when civilians may be neutral or even antagonistic to US forces

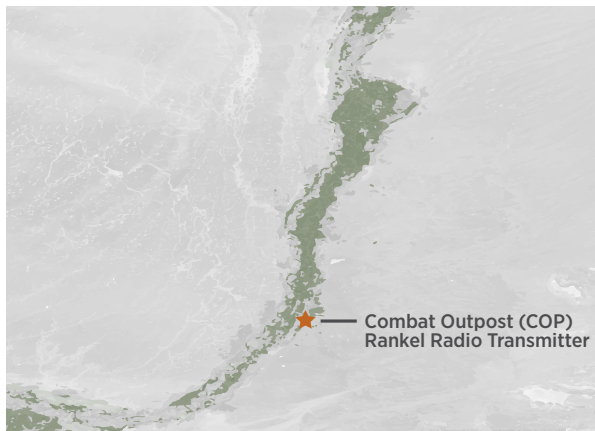
For modern militaries, the quality of local intelligence can mean the difference between success or failure. In a lengthy war, when troops are on the ground for long periods, combat extends far beyond the battlefield—troops must also campaign for the hearts and minds of local civilians. As Admiral Michael Mullen, chairman of the US Joint Chiefs of Staff, put it in 2010: "The battlefield is not necessarily a field anymore. It's in the minds of the people."¹

Given the importance of such "information and influence operations," it is imperative that military leaders are able to evaluate their effectiveness. However, there is precious little systematic evidence as to their usefulness. A new paper by Konstantin Sonin and Austin L. Wright, both of UChicago's Harris School of Public Policy, "Information Operations Increase Civilian Security Cooperation," addresses this gap by reviewing the efficacy of information campaigns by US troops in Afghanistan meant to increase civilian cooperation and, ultimately, reduce the occurrence of roadside bombings from improvised explosive devices (IEDs).

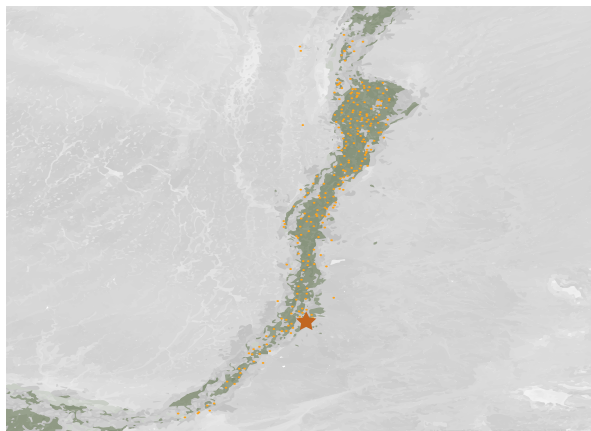
¹ Mullen, Michael. 2010. 156 Alfred Landon Lecture, Kansas State University.

Figure 1 • Findings from the US Military's Radio-In-A-Box (RIAB) Program in the Garmser District of Afghanistan

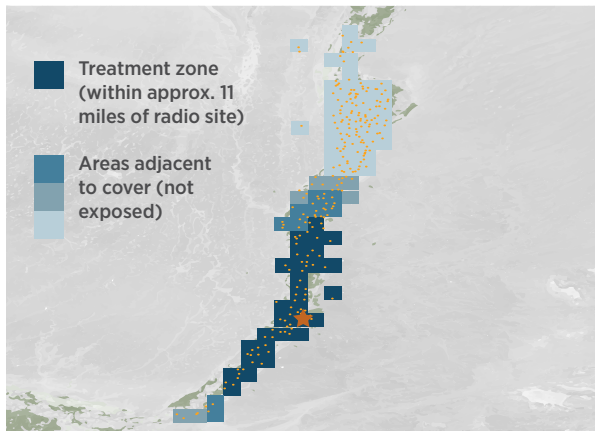
(A) Study Site: Garmser District, Helmand, Afghanistan



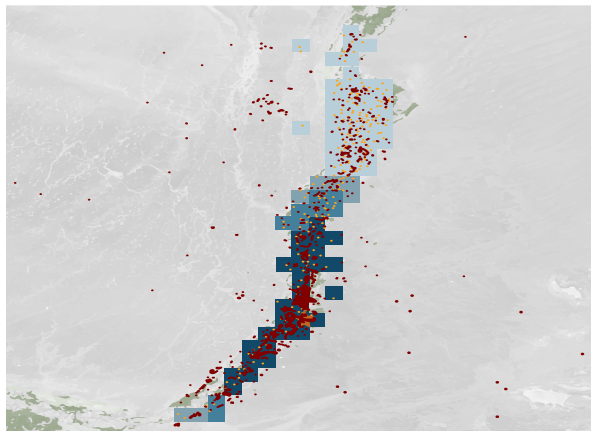
(B) Populated Settlements of the District (Orange Circles)



(C) Settlements and their Distance from Radio Site (Blue Squares)



(D) Combat & Intelligence Locations During Sample Period (Red Circles)



Their results suggest that such campaigns can be successful in changing attitudes and behavior among civilians, thus reducing the number of roadside bombings and improving battlefield outcomes.

Reducing violence through effective communication

On Oct. 7, 2001, President George W. Bush announced airstrikes in Afghanistan targeting Al Qaeda and the Taliban, in retaliation for the Sept. 11 terrorist attacks on US soil. Known as Operation Enduring Freedom, this campaign would wage until December 28, 2014, when President Barack Obama announced its closure. Over those 13 years, hundreds of millions of dollars were spent on information operations, with little evidence of success. A 2012 analysis by the RAND Corporation found mixed results “at best,” for US information operations, followed by a 2018 report concluding that NATO countries underperform their

adversaries in the use of information operations. Another 2018 report suggested that absent a thorough evaluation of information operations’ impact, it must be concluded that such operations do not have their desired effect, especially in “enemy territory.”²

What does economics have to do with military strategy? While it might not be intuitive for many observers, economics has contributed greatly to our understanding of the role of information in an economy, both its presence and its absence, with formative research by then UChicago professor George Stigler³, who would go on to receive the 1982 Nobel Prize in Economics based, in part, on his insights into the economics of information.

² Dell, Melissa and Pablo Querubin. 2018. “Nation Building Through Foreign Intervention: Evidence from Discontinuities in Military Strategies.” *The Quarterly Journal of Economics* 133(2):701-764.

³ See, for example: Stigler, George. 1961. “The Economics of Information.” *The Journal of Political Economy* 69(3):213-225.

Over time, an entire branch of microeconomics has dedicated itself to the economics of information, and Sonin and Wright apply the field's techniques to study the efficacy of one particular information campaign: the introduction of localized radio transmissions into enemy-controlled villages.

Such transmissions were part of the US military's Radio-In-A-Box (RIAB) program in the Garmser district of Afghanistan, an important region in the Afghan war that was held by Taliban forces until 2010 (see accompanying maps). The premise behind RIAB is that the military would place a radio transmitter near a village that would allow US forces to transmit information to local civilians. Given that not all villages were covered under the program, Sonin and Wright were able to evaluate the performance of those villages with an RIAB vs. those that did not. In addition, the authors corroborated their findings with a nationwide survey and investigation of military records and intelligence reports collected during Operation Enduring Freedom.

Much research over the last 20 years has focused on the prevention of sub-state conflict, or conflict within states (such as terrorism), which is the main source of death and population displacement in military conflict. Most of that work focuses on the origin of such conflict and means of prevention. Sonin and Wright advance this research by demonstrating that targeted influence campaigns can lead to welfare-enhancing outcomes, even in adversarial environments. The authors' key contribution is to demonstrate how information operations can shape attitudes and costly behaviors in areas where such messaging is considered least effective (those regions under enemy control). Further, their work reveals how such operations can improve the welfare of those exposed to the messaging (in this case, by reducing exposure to active bombs).

This positive result is derived from the authors' analysis of trends in civilian tips about the location of bombs, civilian turn-ins, and bomb neutralizations for 180 days before and after radio transmissions. Prior to the advent of radio messaging, there was no distinction among daily activity in all areas; in other words, areas that would later experience RIAB messaging looked the same as those that would not receive messaging (in effect, the control group). After transmissions begin, however, civilian cooperation

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and bomb clearances increase substantially in villages with radio access, whereas settlements without access remain unaffected.

Importantly, the authors' findings suggest that information operations can increase cooperation among civilians, effectively increasing security and welfare by the removal of roadside bombs. Further, there may be other benefits, as this analysis only captures the benefits of radio messaging as it applies to IEDs, and it is likely that there are other benefits to such civilian cooperation; however, those implied benefits are not captured in the analysis.

These findings of violence reduction stand in contrast to previous research that suggests how information operations can be used to reinforce existing prejudices and incite violence. These new results also suggest that efficient interventions can be effective even when there are risks for civilians to participate, and the civilian population is distrustful of the intervening actor (in this case, coalition forces).

The authors checked their findings against other methods, accounting for changing troop presence, movement, and operations. Their findings were also reinforced when incorporating national-scale data.

Conclusion

By linking exposure to military information operations with civilian cooperation, Sonin and Wright advance our understanding of the impact of messaging on civilian attitudes, even when those civilians live in areas under the control of rebel forces, and also when civilian attitudes about the messenger (in this case, coalition forces in Afghanistan) are mixed or even antagonistic. In this case, involving the military’s Radio-In-A-Box program, where the military hoped to reduce the number of IED bombings, the results were positive. This promising result could be further supplemented by future research on the best methods to disseminate information, for example, and to perhaps include social media and other communication outlets. New research could also evaluate civilian attitudes toward peaceful resolution and post-conflict reintegration of rebel soldiers.

CLOSING TAKEAWAY

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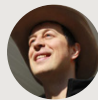
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