

# Economics Communiqué

Summer 2010

## Campaign Finance Reform

Do the laws create more confidence in democracy? Or do they make it more difficult for individuals to participate in the process?

By Jeff Milyo

In early 2010, the U.S. Supreme Court issued its decision in *Citizens United*, striking down federal prohibitions on independent campaign expenditures made by corporations and unions. For many observers, the 5-4 split decision was cause for consternation, reflecting a long-standing and deeply held belief that money plays a central and corrosive role in American politics.

Mizzou economics Professor Jeff Milyo studies the workings of political markets with the goal of informing policymakers about the benefits and costs of campaign finance reforms. Milyo, the Middlebush Chair in Social Science, seeks out research questions that are relevant for current policy debates; his published work examines a variety of topics, including the electoral effects of campaign spending, the policy consequences of campaign contributions, the effects of advertising regulation in product markets, and the political determinants of health policy.

According to Milyo, the Supreme Court has been consistent in stating that limits on campaigns are permissible only if they deter corruption or the appearance of corruption. This begs the question, "What is corruption?" One school of thought is that corruption means quid-pro-quo exchanges. "That's why the court struck down the federal ban on independent corporate campaign expenditures — because such activities do not involve direct donations to candidates," says Milyo. But others define corruption more broadly: essentially any activity that undermines public confidence in democracy.

For this reason, Milyo's current research examines whether campaign finance reforms actually influence public trust and confidence in government. "The hypothesis has never really been put to the test," he says.

Milyo argues that the states provide an ideal laboratory for studying the effects of campaign finance laws, because the number and type of laws vary considerably over time and across states. For example, some states, like Missouri and Illinois, allow anyone to contribute any amount to state candidates, while other states, like Arizona and Maine, not only limit the source and amount of contributions, but also provide public funding to candidates. However, there is no off-the-shelf measure of public trust in state government over time and across all 50 states, making it impossible to conduct the appropriate experiment.

For this reason, Milyo collected survey data on public confidence in state government from national polls conducted over the last 25 years, but he hopes to collect still more data. One hindrance: not all opinion research companies are keen to release old surveys. "It has required some tedious archival research; some data I had to purchase, and sometimes I have to whine and beg, too," Milyo says.

Milyo uses regression analysis to observe whether state campaign finance laws correlate with individual survey responses, controlling for other factors, such as individual age, education, income, etc. So far, he has found very little connection between state campaign finance laws and citizens' trust and confidence in

their state government; in fact, few political institutions appear to matter.

"If it holds up to further scrutiny, this is going to be big news," says Milyo. That's because reformers of all stripes, whether their pet issue is term limits, voter identification, or early voting, tend to assert that their preferred policy is critical to preserving the public faith in the integrity of democracy. "But the only thing that seems to matter very much to people," he says, "is whether government is controlled by their party or not." To the general public, political corruption seems to be "whatever the other party does."

Milyo is also investigating whether such laws have unintended costs. "Reformers have played 'Whack-a-Mole' with interest groups for decades. Laws are passed, interest groups find ways to evade restrictions; this leads to new regulations, etc." Lost in this process, according to Milyo, is much concern about how regulations affect ordinary citizens.

State campaign finance laws are complex but also cover a wide range of activities that most people wouldn't think require any special permission. For example, encouraging fellow citizens to vote for or against a ballot measure may require registering as a political committee, while urging others to contact a legislator about a public matter may require registering as a lobbyist. The thresholds for registering vary by state, but once registered, citizen-activists typically must file disclosure reports on their activities, donors, and expenditures. "The problem is that these laws are not written with or-

Continues on Page 3



## From the Chair

By David Mandy

Interest in economic issues and econom-

ics as a major continues to surge as the real economy begins a fledgling recovery while financial markets have mounted a substantial rebound. Years of research will be required to fully learn the lessons from the recession of 2008–09. Meanwhile, MU economics students are being exposed to the latest economic thought as some of these lessons begin to make their way into the undergraduate economics curriculum.

The graph at right gives a revealing glimpse into the severity of the recession. This chart displays monthly U.S. employment during downturns and subsequent recoveries in the economy, expressed as a percent of the employment level at the beginning of the downturn. Each line is a different recession, beginning in the month shown in the chart legend. The horizontal

axis measures time in months, so the length of the downward-sloping part of each line indicates the number of months of declining employment. The vertical decrease in each line shows the percent of total employment that was lost during the recession. For example, the recession that began in October 1974 had seven months of declining employment and, at the end of that seven months, employment was about 97.2 percent of the pre-recession peak. Put differently, the U.S. economy lost 2.8 percent of its jobs dur-

ing those seven months. The chart shows that the October 1974 recession was short, but very steep, compared to other recent recessions.

It is notable that recessions seem to be getting longer. The August 1981 recession lasted 17 months (and could arguably be considered an extension of the short recession that began in March 1980). The June 1990 recession bucked the trend at only 12 months, but then the February 2001 recession was very long at 31 months. Despite its length, the February 2001 recession was not severe; employment dropped gradually during the downturn and the total drop was only 2 percent.



The chart places the current recession in historical perspective. It began in December 2007 as a slow downturn. During the first 11 months, employment dropped less in percentage terms than in any recent recession. However, employment losses accelerated and continued a stunning decline that resulted in total employment loss at about 6 percent of the jobs in the economy. This is twice as much employment loss, *relative* to the size of the economy, as any recent recession,

and is even larger in absolute number of jobs lost as the economy was larger at the beginning of this recession than at any previous time. The drop has been so severe that total employment is lower now than it was at the *end* of the February 2001 recession. Indeed, employment has not been this low since summer 1999. Over a decade of employment growth has been lost during the current recession.

The upward-sloping part of each line shows the rebound in employment following each recession. Employment rebounded very quickly following the recessions of the 1970s and 1980s. Recoveries, however, like downturns, became more gradual and prolonged in the 1990s. It was 33 months before employment fully recovered following the June 1990 recession and 49 months (over four years!) following the February 2001 recession. It seems a safe bet that five years or more will elapse from December 2007 before employment regains pre-recession levels.

Economics faculty are deeply involved in research aimed at understanding these and many other aspects of the way our economy and society functions.

An example is Middlebush Professor of the Social Sciences **Jeffrey Milyo's** cover story on campaign finance reform. Milyo has published widely on the effectiveness of limits on contributions to political campaigns and appeared on ABC's *20/20* to discuss the difficulties of compliance with some campaign finance rules, as well as appearing before Congress to discuss the effects of voter ID laws.

Middlebush Professor of Economics **Shawn Ni** addresses the broad

role of economists in defining and shaping public policy, emphasizing the importance of incentives.

Associate Professor **Emek Basker's** recent paper "Imports "Я" Us: Retail Chains as Platforms for Developing-country Imports" was included in the proceedings of the American Economic Association's annual meeting. This manuscript continues Basker's research into the economic effects of large retail chains in general and Wal-Mart in particular. Basker has received a prestigious American Statistical Association/National Science Foundation fellowship to work at the Census Bureau in Washington, D.C. during academic year 2010–11, utilizing detailed data on retail trade that are only available on site at the Census Bureau.

Associate Professor **Saku Aura** will visit his home country of Finland during the fall 2010 semester as a visiting professor at the Helsinki School of Economics, where he will continue research on the effects of taxes and regulation on housing markets, commuting, and city structure. He also hopes to initiate new research on business licensing practices as a form of taxation and markets for executive talent.

Professor **Peter Mueser's** research into the effectiveness of worker training and poverty programs con-

tinues to garner financial support from the U.S. Department of Labor, the Missouri Department of Elementary and Secondary Education, and the private Spencer Foundation. He recently received new funding from the Economic Research Service of the U.S. Department of Agriculture to examine the role of the Supplemental Nutritional Assistance Program (formerly food stamps) in the current economic downturn.

Professor **Michael Podgursky's** research into reform of teacher compensation systems continued to result in multiple major research grants from the Institute on Education Sciences (IES) of the U.S. Department of Education (DOE). He and colleagues from DOE are partners in the Center for Analysis of Longitudinal Data in Education Research (CALDER) at the Urban Institute and the National Center on Performance Incentives at Vanderbilt University, both of which are funded by IES grants. Among other things, these grants fund research on the effect of teacher retirement system rules on school staffing and teacher quality. They also received a large grant from the Joyce Foundation to extend this work to several other states. Another IES grant supports joint work with the Missouri Department of Elementary and Secondary Education

to develop a K–12 longitudinal data system to track student achievement growth and teacher effectiveness in the state.

Assistant Professor **Cory Koedel** has collaborated with Podgursky on some of the research into the effects of teacher compensation, especially pension systems, on the pool of teachers. Koedel also studies several other issues in teaching effectiveness, including the methods used to measure teacher performance, the effects of Missouri's 30-plus teacher training programs on student outcomes, and curricular effectiveness in schools. Koedel's most recent study finds large differences in curricular effectiveness across some math curricula — an important result given that cost differences among curricula are very low.

These are just a few samples of the important research and teaching underway in the department. We are always interested in the activities of our alumni and current students, and we invite all friends of the department to visit our ever-expanding Facebook page and Web site at [economics.missouri.edu](http://economics.missouri.edu). There you will find more news about the department and opportunities to update us and others about your activities and accomplishments.

## Campaign Finance Reform

Continued from Page 1

dinary citizens in mind. I think there is a need to simplify things," says Milyo.

To demonstrate this, Milyo asked more than 250 people to participate in a compliance experiment that involved filling out actual state disclosure forms. Subjects were recruited from among university students and staff, local businesses, and even Milyo's neighborhood and church. As in most economic experiments, subjects were also incentivized with monetary payments tied to their performances.

The experiment involved reading a simple scenario about a neighborhood group that organizes a public rally in support of a ballot measure; people were

then asked to fill out the appropriate paperwork using actual forms and instructions from one of three states, including Missouri. "People were flummoxed," Milyo says. "Many said they would need a lawyer, including the lawyer in the group."

The compliance experiment was a fairly unorthodox study, but Milyo was motivated by the challenge of how to measure the complexity of regulations. Until his research, Milyo says "Nobody cared about the red-tape costs of regulations." But then the experiment caught the attention of the ABC news program, *20/20*.

Reporter John Stossel was doing a story on a citizen group that tried to oppose a

town annexation measure but ran afoul of Colorado's campaign finance laws. Milyo replicated the compliance experiment for the news cameras on location in Colorado. "It had nice visuals," said Milyo, because the experimental subjects looked like students who "forgot to study for a final."

Milyo's research is aimed at plugging some of the holes in campaign finance research, whether it's testing presumed outcomes or measuring unrecognized costs. In his opinion, rational public policy requires that policymakers weigh the costs and benefits, and he emphasizes, "It's our job to try to measure those costs and benefits."

# Milestone 10<sup>th</sup> Year for Econ Conference

Story and photos by Laura Lindsey

The 10th Annual Missouri Economics Conference, jointly sponsored by the Department of Economics and the Research Division of the Federal Reserve Bank of St. Louis, was held March 26 and 27 on the MU campus. Economists from the United States and around the world presented 64 papers. Finn Kydland, Henley Professor of Economics at the University of California, Santa Barbara, and 2004 Nobel Memorial Prize in Economic Sciences winner, served as the plenary speaker.

For the past decade, the conference has provided a forum for researchers to share their work. Dan Thornton, PhD '76, has been instrumental in establishing and organizing the ongoing research conference based on his association with MU and his position as vice president and economic advisor at the Federal Reserve Bank of St. Louis.

"The conference is important in building and contributing to MU's reputation as a center for distinctive research," says David Mandy, chair of the economics department.

In the first years of the conference, the emphasis was placed on macro and monetary economics because of the interest in those areas at the Federal Reserve Banks, but today, it has expanded to include virtually all areas of economics.

To celebrate the 10<sup>th</sup> anniversary, the conference-planning committee wanted to secure a high-profile economist to serve as its keynote speaker. Joseph Haslag, Kenneth Lay Chair in Economics, met Kydland when Kydland was a visiting scholar at the Federal Reserve Bank of Dallas and

Haslag was an economist in the research department there. Haslag approached him about the speaking engagement, and Kydland accepted.

Kydland jointly won the Nobel Prize with Professor Edward Prescott of Arizona State University for their research on business cycles and macroeconomic policy, specifically, the driving forces behind business cycles and the time inconsistency of economic policy. Kydland's presentation on the evening of March 26, titled "Nominal Anomalies," drew from three recent research papers documenting that fluctuations in nominal interest rates are much more synchronized across countries than fluctuations in real gross domestic product.

His presentation was focused on research that could account for the correlations between nominal values — money stock and price level — and real activity over the course of the business cycle.

"It was an exciting presentation because he shared with us research at the frontier," says Haslag. "The term 'anomalies' arises because there are different relationships in the nominal variables and output across countries. These empirical regularities are guiding research aimed at developing economic theory that can account for these observations."

"The economics conference has grown every year since its inception in 2000, and we look forward to continuing to enhance collaborative research and exchange ideas between the MU economics department and the Federal Reserve Bank of St. Louis in future years," says Mandy.



Above: A conference participant and graduate student Marty Lueken taking a refreshment break.

Arthur Janssen and alumnus Dan Thornton chatting between presentations.



Left: Professor Joe Haslag, conference organizer, visiting with presenters Michael Kejak, Michale Klaus Jetter, and Martin Lopez-Daneri.

Below: Michael Bauer and Steve Cas-sou presented at the conference.



Above: Finn Kydland at the beginning of the plenary lecture of the conference.

Right: Sisi Zhang, a presenter at the conference, and Professor Peter Mueser chatting during a break.



# Economists Work to Prevent Future Problems

Even the state of our educational system has bearing on how the country will fare in coming years

By Melody Galen

According to Middlebush Professor of Economics Shawn Ni, the role of an economist is to perform mental experiments and learn from history to find answers that can help prevent future problems. Economic theory provides a framework for the mental experiments, and historical data are useful for learning the behavior of households or firms — the basis for predicting outcomes under competing policies.

## Learning from the Past

Ni and one of his former graduate students studied a Korean data set in an effort to determine whether standard economic theory could explain how consumer behavior is altered by financial crisis. They examined the household consumption data before and after the 1997–98 Asian financial crisis that caused an economic collapse in Korea and found the exercise to be very instructive.

Conventional economic theory views households as rational entities that make consumption decisions based on what will happen in the future. “How much you save will influence your future financial condition,” says Ni. “How much you save depends on what you *think* will happen in the future.”

Many standard economic models assume people are fairly rational and behave in more or less the same way. Ni and his student found strong evidence against this assumption: estimates based on the whole sample show about 10 percent divergence from the benchmark rational model, mainly because there are 10 percent of households that don’t plan at all. “There’s a small fraction of households that are essentially quite irrational,” he says.

An important lesson Ni learned from the Korean data is that households are not intrinsically rational or irrational. Their behavior can change based on circumstances. Before the Asian financial crisis, roughly 10 percent of the households behaved irrationally, but after the



Shawn Ni

crisis people behaved more rationally — the irrational types essentially disappeared. Behavior can change when there is a need for it. When jobs are certain and credit is readily available, people may act more carelessly, but when the financial future becomes more uncertain, then people’s behavior can respond accordingly. What this finding implies for policy making is that because the households become more rational and forward looking after the crisis, short-term stimuli such as a one-time tax rebate will not increase consumption as much as before the crisis.

## Role of the Education System

Ni also works with Professor Michael Podgursky on the difficult problem of measuring the effect of a teacher on his or her students. Ni says that the U.S. is falling behind many industrialized countries in K-12 student performance in math and science, which does not bode well for our national productivity at a time when so much is riding on it.

A key to improving education is to create an incentive for better teaching by linking teachers’ pay to performance. Trying to measure the contribution of a particular teacher using data from standardized tests is difficult. “The data are really noisy in the sense that test scores are not a perfect measure of student per-

formance,” says Ni. Most principals can probably point out the exceptional teachers in a school, but an objective measure is required in order to implement policy. Unfortunately, this problem is unsolved as yet, and Ni continues to work on it with colleagues Podgursky and Cory Koedel.

Another educational issue the team works on is teacher incentives. Because of their pension system, the peak retirement age for teachers is around 56, whereas most who depend on Social Security retire around 60. It happens that the mid 50s is one of the most productive times for teachers, but if they retire later, they are punished financially. Ni and Podgursky are trying to use economic models to design more efficient policy.

“It’s part of their compensation, really, but the pension has always been viewed as something of a fringe benefit,” Ni says. The teacher shortage is well known, as is the idea that teacher pay needs to be increased, but the pension has never been thought of as an instrument to induce a certain kind of behavior from teachers — whether working more years or performing differently in the classroom.

Ni worries that poor student performance in math and science may jeopardize the U.S. position as world leader in science and technology, and ultimately the long-term economic future of the country.

Ni is a believer in the power of economic incentives. He argues that the government can influence household savings and student performance — the key is in having policies that put the right incentives in place.

“All this policy stuff is different than biology or physics,” says Ni. “They can do a controlled experiment. Add water, give more sunshine, and see how things go. With public policy you only have one shot. And that one shot takes about 10 years for you to see the full impact. It’s too costly for you to do it wrong.”

Ni recognizes that recent financial crises around the world highlight the challenges faced by economists, but he also believes those challenges will be met.

# Undergraduate Programs Update

By Myoung Lee

As part of our effort to increase awareness of the educational opportunities offered by the economics department, the department held its fifth annual Undergraduate Open House in September 2009 under the slogan “What path will you take?” Students learned that a strong foundation in economics enhances opportunities in areas such as education, government, medicine, business, journalism, and law. The open house also provided students information about undergraduate teaching and research opportunities, minors or majors in economics, courses and specialty areas, the Economics Undergraduate Student Association (EUSA), internships and career opportunities, and how to prepare for the job market or graduate school. Refreshments were provided in the conference room, where students had the opportunity to meet with faculty.

During a special career session, three alumni guest speakers offered their perspectives on the value of their economics training: Terry Schroepfer, senior manager of marketing analytics at AT&T Advertising; Bob Hull, Commerce Bank’s small business banking specialist sales manager for the Central Missouri region; and Bernie Esser, economist, physician, lawyer, and negotiator. The knowledge, experiences, and current positions of these Mizzou graduates sparked the interest of numerous students.

## EUSA

Last year was an exciting time for EUSA. The organization, lead by President Tyler Wood and Vice President Anthony Almond, kicked off the year with a great start, pulling in new students from all over campus. EUSA’s first activity was volunteering with a group of intelligent, but at-risk

children. The MU students taught them about work ethics, the meaning of saving, and the importance of planning for their economic futures.

EUSA meetings were enlivened by faculty visitors. Professors Jeffrey Milyo, Emek Basker, and David Mandy attended EUSA meetings to discuss their research and provide opportunities for students to interact with faculty outside of the classroom.

EUSA wrapped up the school year with a trip to the Federal Reserve Bank of Kansas City. There the students took a tour of the facility, learned how the Fed operates, and got a peek at the massive vault and money counting room. The trip was a fun opportunity to see some of the things learned in classes.

## The Undergraduate Program

These awareness-heightening activities have contributed to steady increases in the number of students studying economics. There are about 140 undergraduate economics majors in the College of Arts and Science and about the same number of undergraduate economics concentrations in the College of Business. During the last academic year, a total of 23 bachelor’s degrees and 41 economics minors were awarded by A&S.

Our undergraduates are involved in research proj-

ects with faculty members both as research assistants and by winning competitive Undergraduate Research Mentorship awards and scholarships. Many of our outstanding undergraduates are invited to become tutors in the Student Success Center and the Department of Intercollegiate Athletics’ Total Person Program. Two of our undergraduates, Megan Spicknall and Anthony Almond, serve as departmental undergraduate advisers.

The generosity of our friends and alumni has made several scholarships available to outstanding undergraduate economics majors. Eva Dou, Mark Fowler, and Anthony Dubis received Clay J. Anderson Memorial Scholarships. Daniel Ramey and Long Pei received John Charles Willet Memorial Scholarships. Trenton Beckham received the David J. Loschky Scholarship. Thomas Wuenenberg received the Allen and Barbara Soshnick Memorial Scholarship, and Taylor Mathew received the Elmer J. Wood Memorial Scholarship. These scholarships were awarded during Arts and Science Week 2010 in February. Most of these students also received other scholarships from the College of Arts and Science.



Long Pei, Tyler Wood, Chris Kemp, Zach Rozier, Evan Raynsford, and Anthony Almond in front of the Federal Reserve Bank on their field trip.

*Communiqué* is published annually by the Department of Economics at the University of Missouri.

#### **Editorial Office**

Department of Economics  
118 Professional Building  
Columbia, MO 65211  
Phone: 573-882-0063  
E-mail: [umcecon@missouri.edu](mailto:umcecon@missouri.edu)  
Web site: [economics.missouri.edu](http://economics.missouri.edu)

#### **Editorial Board**

David Mandy  
Melody Galen

The department appreciates hearing from alumni and friends. Send announcements or milestones to the address listed above.

University of Missouri  
College of Arts and Science  
317 Lowry Hall  
Columbia, MO 65211

## Graduate Programs Update

*By Xinghe Wang*

In 2009, 14 master's students received their master's of arts degrees and nine doctoral candidates graduated from the Department of Economics. Despite a brutal job market, last year was one of our most successful years in recent history in the placement of our doctoral graduates. Four of our graduates were placed with academic positions at universities in the U.S. and Canada: Kent State University, Southwestern Oklahoma State University, the University of Missouri, and Wilfrid Laurier University in Canada. Two doctoral graduates received academic positions at universities in Asia. One doctoral graduate assumed a prominent position by becoming the program officer for the Social Sciences and Humanities Research Council of Canada.

Our students were very active last year attending academic confer-

ences. They made a number of presentations at regional and national professional meetings, including the Graduate Student Conference at Washington University in St. Louis; the Southern Economic Association Annual Meeting in San Antonio, Texas; the 41st Annual Meeting of the Southern Risk and Insurance Association in Orlando, Fla; the American Educational Research Association Conference in Denver, Colo.; the Comparative and International Education Society Conference in Chicago; and the 46th Annual Meeting of Missouri Valley Economics Association in Kansas City.

Several of our graduate students received awards for their outstanding performances in course work, research, or as a teaching assistant: Rebecca Whitworth received the Harry Gunnison Brown Graduate Student Fellowship, Seoung Joun Won

received the Harry Gunnison Brown Research Fellowship, and Zhongyun "Job" Deng received the Harry Gunnison Brown Graduate Teaching Award.

We welcomed the second group of graduate students into our restructured graduate programs. The doctoral students in the first group who passed their doctoral qualifying exam in summer 2009 have just finished their second-year core courses. Doctoral students who entered in fall 2009 are busy taking their classes and preparing for their qualifying exams to be offered in summer 2010. We all look forward to the successes of these and future groups of graduate students.