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
The chart places the current re-cession in historical perspective. It began in December 2007 as a slow downturn. During the first 11 months, employment dropped less than 2% in 30 months before employment fully recovered following the June 1990 recession and 49 months (over four years!) follow-ing the February 2001 recession. It seems a safe bet that five years or more will elapse from December 2007 before the employment regains pre-recession levels. Economics faculty are deep-ly involved in re-search aimed at understanding these and many other aspects of the way our economy and society functions. An example is Middlebush Profes-sor of the Social Sciences Jeffrey Milloy’s research on campaign fi-nance reform. Milloy has published widely on the effectiveness of lim-its on contributions to political cam-paigns and appeared on ABC’s 20/20 to discuss the difficulties of compli-ance with some campaign finance rules, as it appeared in Congress to discuss the effects of voter ID laws. Middlebush Professor of Econom-ics Shawn Ni addresses the broad role of economists in defining and shaping public policy, emphasizing the importance of rigorous research. Associate Professor Emek Bas-kers’ recent paper “Imports ‘R’ Us: Retai-l Chains as Platforms for Devel-oping-country Imports” was includ-ed in the proceedings of the Ameri-can Economic Association’s annual meeting. It presents Basker’s research into the economic effects of large retail chains in gener-al and Wal-Mart in particular. Basker has received prestigious. American Statistical Association/National Sci-ence 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 Sakur Ara will visit his home country of Fin-lan-d 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 mar-kets, connected house prices, and the stock market. He also hopes to initiate new re-search on business licensing practic-es as a form of taxation and markets for executive talent. Professor Peter Mueser’s research into the effectiveness of worker training and poverty programs continues to garner financial support from the U.S. Department of Labor, the Missouri Department of Ele-mentary and Secondary Education, and the private Spencer Foundation. He recently received new funding from the U.S. Department of Agriculture to examine the role of the Supple-mental Nutrition Assistance Program (formerly food stamps) in the current economic downturn. Professor Michael Podgursky’s research into the effectiveness of teacher com-pensation systems continued to re-sult in multiple major research grants from the Institute on Education Sciences (IES) of the U.S. Depart-ment of Education (DOE). He and colleagues from DOE are partners in the Center for Analysis of Longi-tudinal 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 effects of teacher retirement system rules on school staffing and teacher qual-ity. They also received a large grant from the Spencer Foundation to extend this work to several other states. An-other IES grant supports joint work with the Missouri Department of Ele-mentary 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 recent research on the effects of teacher compensation, especial-ly pension systems, on the pool of teachers. Koedel also studies several other issues in teaching effective-ness, including the methods used to measure teacher performance, the effects of Missouri’s 30-plus teacher training programs on student out-comes, and curricular effectiveness in schools. Koedel’s most recent study finds large differences in cur-ricular 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 teach-ing underway in the department. We are always interested in the activities of our alumni and current students, and we invite all friends of the depart-ment to visit our ever-expanding Face book page and Web site at eco nomics.missouri.edu. There you’ll find more news about the depart-ment and opportunities to update us and others about your activities and accomplishments.
Story and photos by Laura Lindsey

The 10th Annual Missouri Econometrics 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 10th 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.
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

A ccording 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 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. If you save, you save will influence your future financial condition," Ni says. "How much you save depends on what you think will happen in the future.

Many standard economic models as- sume 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 crisis people behaved more rationally — the irrational types essentially disappeared.

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 performance," says Ni. Most principals can probably point out the exceptional teachers in a school, but objective measures are 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 Knolck.

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 late, 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 in the short term much 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. "There’s no need to do a controlled experiment. Add water, give more sunshine, and see how things go. With policy you just have to throw one shot. And that one shot takes about 10 years for you to see the full impact. It’s too easy 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.
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, the University of Missouri, and Wilfrid Laurier University in Canada. Two doctoral graduates received academic positions at universities in Asia.

Our students were very active last year attending academic conferences. 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.