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Editor: Qiuyu Dong

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Predicting and Preventing Homelessness Report

Economics professor Till von Wachter worked alongside the California Policy Lab and the University of Chicago Poverty Lab to publish a report on Predicting and Preventing Homelessness. Using data from Los Angeles County, they were able to predict homelessness among single adults. By identifying people currently at high risk of homelessness and understanding factors associated with future homelessness, the County can more effectively target its policies to ensure limited resources are going to those that benefit from them the most. This research has been featured on media outlets including the LA Times and Santa Monica Mirror. Access the full report here.

Value Investing Program Renamed after Ben Graham

Last November, the Economics Department renamed the undergraduate Value Investing Program after Benjamin Graham, a pioneer in the field of investing. Highlights in Graham's legendary career on Wall Street include mentoring an up-and-coming Warren Buffett and publishing *The Intelligent Investor*, now a standard text for investors across the globe. The program prepares students for a wide range of careers in investing through an industry-based curriculum that includes applied value investing, corporate finance and pricing, among others.

Adriana Lleras-Muney Wins Scoville Teaching Award

We would like to congratulate Professor Adriana Lleras-Muney on winning the Scoville Award for best undergraduate teaching in Fall 2019 for her Econ 130 course, Public Finance. This class gives students an introduction to the role of government in a market economy. How does government determine if it is going to intervene in particular markets? And what tools does it typically employ? Topics span from Medicare to public education and tax policy.

Emmanuel Saez Lecture Offers Sound Warning on Need to Rethink Status Quo

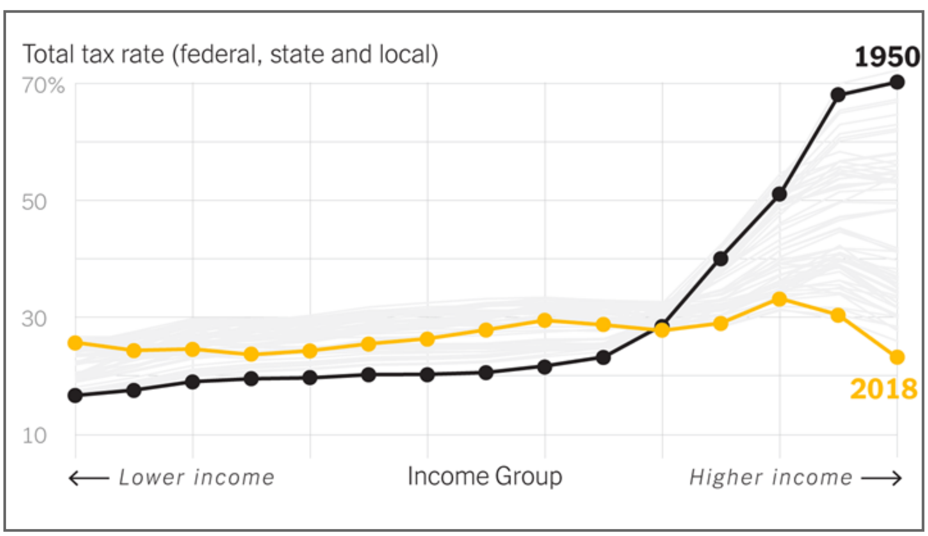
Contributed by Katia Arami, UCLA Undergraduate Economics Student

As Bernie Sanders makes waves with his revisionist proposals for economic reform, few know the man behind the research and development of these policies, Emmanuel Saez. While being a professor at UC Berkeley and a preeminent researcher on wealth inequality in the United States, Saez has been sought out by both the Sanders and Warren campaigns to serve as an economic advisor. In lieu of this, his most recent book "The Triumph of Injustice", which explores his research on wealth inequality and tax system, culminates in a proposal to correct the country's economic injustices.

On February 11, the UCLA Burkle Center for International Relations hosted the annual Arnold C. Harberger Lecture for International Development with Saez as the guest speaker. In past years, this lecture has been given by scholars specializing in the field of development, including a number of Nobel Prize winners – among them Esther Duflo, Paul Romer and Joseph Stiglitz – who took the stage to share their vast knowledge of the field.

This year's choice of speaker was a highly relevant one as the United States enters a new stage in its own development with a major presidential election just around the corner. However, Saez's lecture was far from the rousing speeches of Senator Sanders. During his lecture Saez presented a sober yet enlightening foray into the historic distribution of wealth and taxation in the country. The statistics were revealing, showing wealth having increased dramatically for those at the very top and a steep decline in taxation of those same wealthy individuals since the 1950s.

Today, the tax system amounts to a flat tax averaging around 20 percent of income with remarkable regressivity at the top 1 percent. Yet, as Saez made clear, it was not always this way.



Source: nytimes.com

"When you look through history," Saez said. "You see that ... the United States is the country that actually pioneered very progressive taxation."

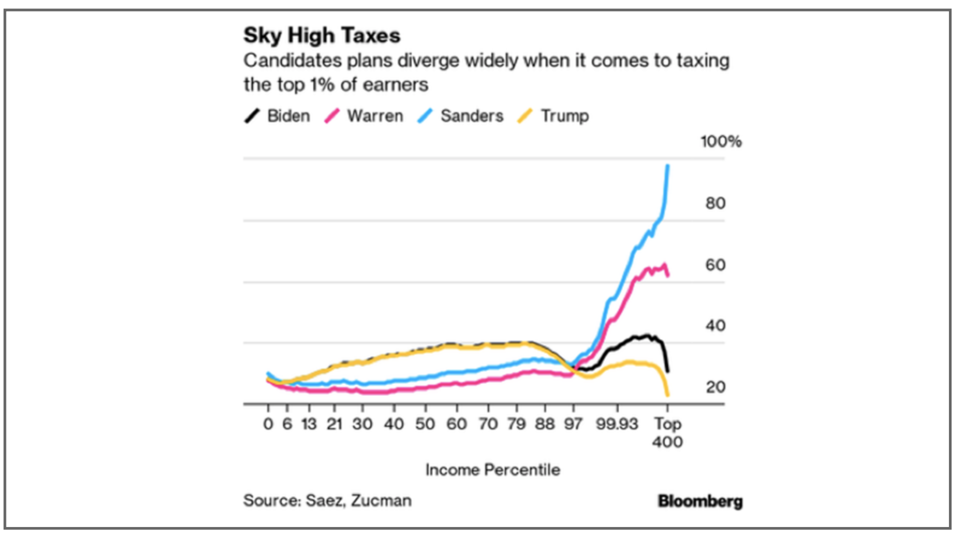
In the early 20th century, with the threat of global war looming overhead, the United States implemented a new tax system to an extreme that had never been seen before. Saez called it the “world premiere” of the progressive tax system, as a great sense of urgency and will for sacrifice pushed Americans to support a tax plan that would begin an age of economic experimentation.

This tax plan was then phased out and only reappeared in the 1930s, following the catastrophic stock market crash of 1929. With soaring unemployment and widespread panic striking the United States during the Great Depression, Roosevelt’s fiscal policy-centered New Deal meant a tax plan of similarly enormous proportions. This plan was reinforced with yet more progressivity as WWII broke out on the other side of the globe and the country united once again for a grand sacrifice.

“Large taxes *was* a U.S. invention,” Saez said. However, such a tax system is far from the flat tax we live with today. So why did we give up our invention? What brought about the demise of progressive taxation?

While the progressive tax system began to be phased out in the 1950s, by the 1970s it was all out war. But as Saez told it, the real story lacks the drama to match the severity of the change. “What happened is that [politicians] first let tax avoidance fester, and once the system had a lot of tax avoidance and tax evasion they were saying ... ‘It's impossible to tax the rich anymore, let's have a more rational system where we cut tax rates.’”

Thus goes the story of how under Ronald Reagan the individual tax rate dropped from 70 to 28 percent, and how more recently Donald Trump’s administration cut corporate taxes by 14 percent. Saez argues against such a rational: “That state of affairs is a social choice and not a law of nature.” He believes that such a series of events is avoidable with proper design and implementation of a tax plan, and so follow the proposed tax plans of the upcoming election.



Source: bloomberg.com

Both Warren and Sanders propose restoring progressivity with tax systems reminiscent of the one the United States once pioneered, one which challenges the trend of the past 70 years. As Saez noted, “What is very clear in this election cycle is that the range of options really covers a span we haven't seen in decades.” And remarkably, in an incredible acceleration of events, these tax plans are gaining enormous popular support.

However, as Saez said, “The rise in tax progressivity happens at historical junctures that are exceptional.” Does this mean we have reached a critical point not dissimilar to the world wars or the great depression in its magnitude? And this time did we bring it upon ourselves?

These questions were posed to Saez as a follow-up to the talk, and he described the juncture in history to which our economic policies have brought the country. “Our estimates show that incomes for the bottom half of the US distribution have stagnated since 1980 in spite of substantial economic growth country wide,” he said. “This is not a sustainable path and creates growing discontent with the current system. The first critical juncture happened in 2016 when Trump channeled that discontent and got elected on the promise to dramatically change the status-quo.”

As Saez describes it, Trump’s election was a reaction to growing discontent within the U.S. population. However, the current president does not appear to be making any actual egalitarian changes. “Trump's actions have not been populist – after all, his biggest policy achievement was a very large corporate tax cut that benefits the wealthy the most – but they are clearly taking the US on a new path, a path of erosion of democratic norms.”

And just as Trump offered a right-wing populist vision, Bernie Sanders is now leading the pack in the race for democratic nomination with a progressive alternative, setting the stage for a historic clash of ideas. “Bernie Sanders is now the front-runner in the democratic primary. He has proposed radical plans to curb inequality and restore tax progressivity. 2020 shapes up to be a momentous choice for America: democratic socialism vs. an accelerating slide toward authoritarianism.”

As years of growing inequality and discontent come to a head, it is time to question the system as it now stands. But we must also ask if merely redistributing wealth will be enough to answer the growing tensions in the United States. Perhaps it is time to rethink not only taxation but our institutions and shared values. We are arriving at a key moment in the grander narrative of this country, “Neither option looked like even a remote possibility before 2015. It is hard to imagine a more critical juncture!”

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2019: Year of the Unicorn?

Contributed by Yashwini Sodhani, UCLA Undergraduate Economics Student

With global investor confidence tempered by the US-China trade war, Brexit, the upcoming US elections, and other geo-political issues around the world – IPOs are having a hard time taking off. There were 1,115 initial public offerings (IPOs) of companies around the world in 2019, taking into count the ones post-poned or called off. However, even this "inflated" figure falls 19% short of the 1,383 in 2018. To provide another reference point, North America saw only 160 IPOs in the past year, less than half as many as the amount at the onset of the DotCom bubble in 1999. However, while the picture appears grim for the market as a whole, one class of firms is reaping ever larger rewards: an increasing number of startup firms are reaching high private valuations and attracting special attention from public investors. About 25 of the IPOs that went to market this year in the United States were of unicorns – startups privately valued at $1 billion or more. However, this number was still less than the projected 38. And this was despite some of the companies that are typically synonymous with "unicorn" moving to public markets in 2019: Uber, Lyft, Peloton Interactive, and Beyond Meat.

The value of unicorns is dictated by private firms who invest during series funding. For most of the recent unicorns, their value lies in their growth-proposition for private and institutional investors: promising high returns in the long run to compensate for losses in the short-run growth period. Most of them were once considered "disruptors" in high-growth, competitive markets such as technology and healthcare, but are struggling to extend their honeymoon period of prioritizing revenue growth over profits. Backed by venture capital and private equity investors, they continue to burn through piles of cash to retain their customers and break into new markets. They were able to meet the mounting pressure of providing returns to investors, however, through dividend recapitalization measures – borrowing in the market to fund dividends – in a low interest rate environment where credit is cheap and easily available. As a result, private equity and venture capital have been rushing the gates to every upcoming unicorn, injecting cash into any firm showing even the slightest promise of future profitability. Private investors have also been plagued with the kind of optimism public investors are skeptical of; since they cannot hedge their bets against the investee company like the latter, they bet on their large cash infusions to help the unicorn beat the market. This investing behavior also generates negative externalities in driving smaller competitors out of the market or leaving them fighting for scraps, even if they may have had have better management or operating efficiency.

Moreover, unicorns lure cheap capital investment by offering preferred stock that come without voting rights, but with liquidation preferences and ratchet options that protect the value of equity against the failure of the company. When the company publishes financials before going public, the common stock issued is valued in the same way as this preferred stock, making the overall valuation inflated. Early public investors are drawn to these unicorns due to initial valuation and touted revenue growth potential, but in 2019 it was evident that they lost their appetite for companies without a clear path to profitability as many large unicorns dipped below their initial offer price within a short while of trading, or, even worse, were issued at lower than expected prices. Newly public tech companies, usually the poster children of investment growth, shed an aggregate of $1.7 billion in value of shares by year-end. Investors in 2020 are set to refocus on businesses with a sustainable value-chains and more realizable growth propositions, not buying into the private equity bubble. A stricter regulatory framework for unicorn IPOs has been on the horizon for a long time, and mounting public investor pressure will likely accelerate its adoption. Investors must have unfettered access to standardized financials and ownership structures of companies going public in order to prevent any information asymmetry.

The wildly over-valued We Company was perhaps 2019's most high-profile and dramatic unicorn failure, losing almost all $47 billion of valuation pre-IPO and eventually calling off going public altogether. We's primary investor, SoftBank's Vision Fund, owned about a third of its stock in a multi-class voting structure, and had invested $10.65 billion which was largely written down when the company's IPO plan went bust. The We Company's debacle also tells another cautionary tale: unicorns frequently mislead public investors on their growth prospects and earnings by reporting side-by-side non-GAAP metrics that inflate their earnings potential. Getting creative with their metrics, management of We painted a much rosier picture of operating margins and asset ownership than was the case, using the "Community-Adjusted EBITDA" measure. Furthermore, We is not SoftBank's only failure. The supermassive venture capital fund, backed by Saudi Arabia's sovereign fund and existing tech giants, failed to do substantial due diligence on many of its 88 investees, of which more than a few are now raising glitches – leading to a $6.5 billion loss reported by Softbank Investment Group in the third quarter of 2017.

Cheap capital has never been more easily available, and it has allowed private equity investors to take on higher risk investments in companies with shakier fundamentals. Private equity still boasts up to $2 trillion of uninvested capital and has increased leverage multiples to record levels. Market commentators have described a positive economic outlook for 2020, optimistic that investors will learn from the mistakes of 2019. Furthermore, geo-political instabilities also increase the likelihood of markets re-adjusting to bearish outlooks, which threaten this current pattern of high risk investing of cheap capital. Private equity and venture capital are witnessing a bubble that is due to pop sooner than expected, and the diversified risk would mean it has the potential to hurt the whole economy.

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