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Soda-less in Seattle

Adam Noble

On January 1st 2018, Seattle imposed a 1.75 cent per ounce tax on all beverages containing sugar. These beverages include, but are not limited to: soda, sports drinks, energy drinks, sugary coffee drinks, and sweetened iced teas. The goal of this beverage tax is to decrease the rate of obesity in Seattle, whilst simultaneously increasing tax revenues to be spent on food access and education. When assessing a tax like this, there are two main arguments we need to consider. One is whether or not the tax will have a negative impact on the local economy. The other is whether or not such a tax will create a meaningful change in the amount of soda that is consumed.

After only a couple of months of the tax being implemented, University of Washington students are already feeling the difference. In addition to paying higher prices for beverages on campus, UW students are changing their purchases to avoid higher prices of sweetened beverages. These changes are becoming evident in local grocery stores such as Safeway on University and 50th, which is currently experiencing a shortage in club soda due to increased demand for soda substitutes. Considering that Seattle's beverage tax only affects drinks with sugar in them, UW students can also expect there to be less diet soda on the shelves at their grocery store. This is because technically, diet sodas do not contain sugar, and thus are not impacted by the beverage tax.

There is much debate surrounding whether or not this beverage tax will be beneficial to the Seattle economy. Proponents of the new tax estimate that it will generate about $15 million that can be used to improve education and food access in the local community. Those against the policy argue that the tax will have a negative impact on the companies and workers associated with the sweetened beverage industry. Critics also argue that omitting diet sodas from the tax is an oversight. This is because in many cases, diet soda is unhealthier than its non-diet counterparts due to the amount of artificial food additives in diet soda….

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Has Amazon Go Changed the Game for the Retail Industry?

Aileen Yang

Amazon is known for its innovation not only in the online shopping industry, but also in brick-and-mortar retailing. Besides creating some beautifully designed bookstores, Amazon also recently bought out Whole Foods for $14 billion in 2017 - a decision that has indeed shocked many consumers. Although Amazon first introduced the concept of automated shopping two years ago, acquiring Whole Foods somehow verified its ambitions to revolutionize the retail industry, namely because Amazon decided to replace manpower with technology.

The first try of Amazon's future vision is Amazon Go, a cashier-less convenience store formally opened on January 22, 2018, in downtown Seattle. The proposition is that people can simply scan an Amazon Go phone app at an entry gate, shop for whatever they want, and just walk out the door without checkout, card transactions, or bagging. This is why Amazon advertises it with the slogan "no lines, just walk out, even though the motto has become a joke because too many people are visiting the store, creating lines at the entrance. On the other hand, the attractiveness of shopping conveniently and saving time really stands out. The initial success of Amazon Go highlights the benefits of replacing manpower with technology in a retail store, so that now the question becomes: Will automation be the future of the retail industry? If so, what can the rest of the retail industry do to keep up?

For the first question, the answer is: maybe not. This is because the application of new technology often results in a loss for companies, because new technologies can't generate sufficient new revenues to cover their costs. In the case of Amazon Go, in order to realize automation, every item has to be put on RFID tags or other intelligent tags that track data points. This is costly, especially for inexpensive items. In addition, there are other possible solutions to avoid the big hassle at checkouts, such as the self-checkout services that allow customers to checkout by themselves. The self-checkout service is easier to settle down, less costly for retailers, and has already been applied in many supermarkets like QFC. It is also unknown whether enough customers are willing to...

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Fortunately, we can look at examples of sugar taxes implemented in other states to gain insight on the repercussions of such a policy. In December of 2017, Oxford Economics released an analysis on the economic impact of Philadelphia's tax on sweetened beverages. The study concluded that lawmakers incorrectly predicted the elasticity of demand for this product, and overestimated the expected tax revenue by about 15%. Ultimately, due to the loss in jobs in the beverage industry, and a decline in beverage sales in the area, there was $54 million less in labor income, a loss of $80 million in GDP, and an estimated $4.5 million reduction in local tax revenue.

Despite the negative economic repercussions of a sugar tax, proponents of this policy argue that the positive health impacts of the tax outweigh the economic drawbacks. In the study of the Philadelphia beverage tax, it was concluded that the elasticity of demand for sweetened drinks is about 91%, which indicates that a sugary beverage is an elastic good. In the wake of the tax, total beverage sales decreased by about 24% in the city, but outside the city, beverage sales increased by 14%. This trend demonstrates that people may be crossing municipal borders in order to avoid the tax. It would stand to reason, that these shoppers are not only buying drinks outside the city, but they are also completing their grocery shopping there as well. Overall, the economic analysis suggests that a tax will lead to less people drinking unhealthy drinks, but will have a negative economic impact on the municipality as a whole.

While the Philadelphia example is an informative case study, it should be noted that Seattle's beverage tax may not have the same effects as Philadelphia's due to the fact that Philadelphia has twice the population of Seattle. Critics of the Philadelphia study also argue that the analysis is bias because it was funded by the American Beverage Association, which did not include an analysis of all the induced economic effects of the tax outside of the beverage industry. Additionally, Philadelphia's tax was applied to all sweetened beverages, such that diet drinks were also included. Since the Philadelphia tax included diet soda, which is a strong substitute for regular soda, we can expect that the severity of the economic impact is likely to be smaller in Seattle.

Sources for information in this article can be provided upon request

Many also argue that Seattle tax will not be as effective as the Philadelphia tax since Seattle is a wealthier city (the median income in Philadelphia is $34,000, while Seattle's is $80,000). Considering that people are wealthier in Seattle, we could reasonably expect that the tax may not affect consumers as much. However, Berkeley, a city with a median income of $154,000, implemented a tax similar to Seattle, and results show that consumption of sweetened beverages still decreased significantly. Two years after its implementation, it was reported that consumption of sugary drinks decreased by 21%, and consumption increased by only 4% in surrounding cities like Oakland. In addition, various health organizations reported that sales of water increased by 16%, and consumption increased for healthier alternative such as unsweetened tea, juices, and milk.

Ultimately, it becomes an individual preference on whether or not the economic impacts of the tax outweigh the health benefits that come along with it. In the early stages of its implementation, our analysis of the tax is still limited to speculation. In the meantime, the city of Seattle has granted the University of Washington $50,000 to conduct a four-year study on the socio-economics impact of the new tax. Eventually, we will fully understand the effects of the Seattle beverage tax.

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...accept the big change for their shopping experience and use mobile pay. Customers may also have concerns about the security and privacy problems associated with mobile pay. Comparatively, using credit and debit cards is easy, fast, yet secure.

Regardless of the future prospects of automated shopping, Amazon has already experienced a 2.5% increase in its stock price as a result of Amazon Go. Being such a deep-pocketed company, it won't matter too much if this experiment turns out to be a bust. However, the innovative spirit of Amazon is worth pointing out. Just like what Amazon CEO Jeff Bezos says: "I believe we are in the best place in the world to fail (we have plenty of practice!), and failure and innovation are inseparable twins. To invent, you have to experiment, and if you know in advance that it's going to work, it's not an experiment. Most large organizations embrace the idea of innovation, but are not willing to suffer the string of failed experiments necessary to get there. Outsized returns often come from betting against conventional wisdom, and conventional wisdom is usually right. Given a ten percent chance of a 100 times payoff, you should take that bet every time. But you're still going to be wrong nine times out of ten. This long-tailed distribution of returns is why it's important to be bold. Big winners pay for so many experiments.

The culture of innovation is definitely one of the biggest reasons why Amazon has got this far. Other retailers may find that the initial cost of innovation is too high to follow Amazon's footsteps, but they still need to pay close attention to the changing characteristics of the industry, and be ready to make a move.

Styling the Airbnb Model to Protect the Environment

Sarah Roslan

With the world's growing population and rising demand for land, environmental efforts to protect endangered species and carbon-rich forests have become increasingly expensive.

So how does a temporary house-renting model from Airbnb provide solutions for conservationists? Airbnb is famous for its pop-up hotels created through private homeowners. The role of these private homeowners is to essentially rent out their living spaces to other people for a short period of time. Private homeowners thus provide the supply of spaces that are demanded by travelers. Consequentially, this simple supply and demand model utilizes the element of property rights that homeowners possess to make profits. By compensating respective landowners, innovative conservationists can position themselves as 'travelers' or 'temporary home seekers', and can use this model to create "pop-up nature reserves" on idle land or farm areas.

Traditional conservation efforts have consisted of buying forest reserves to create environmentally protected areas, or placing an outright ban on deforestation. These efforts have not only imposed large monetary costs on conservationists, but have also imposed social costs on people that are forced to leave the area. In Uganda, where income is generated by selling timber or using newly cleared land for agricultural activities, a deforestation ban would deprive poverty-stricken communities of much needed income. Hence the Airbnb model allows conservationists to use a market-based approach to reach their goals while minimizing potential social costs. Conservationists would essentially pay landowners to protect the nature on their own lands. The monetary incentive will act as a carrot to motivate people to choose whether or not to participate in the program. If they do participate, nature conservation efforts will be more effective. Why? Because people are empowered to exercise their property rights, take care of their land, and be essentially rewarded for doing so. This removes the need for the binary approach to land use previously employed by conservationists, which consists of privatizing land development, or purchasing the land and turning it into a nature reserve.

We can look at a specific example to analyze this model further. In the environmental world, there is an upsurge of demand for protected land when migratory birds are passing through an area, or a threatened species is breeding. The Airbnb model allowed ecologists to use the "rent over buy model", which greatly improved the conservationists overall balance of payments. In the United States, a non-profit Nature Conservancy pays rice farmers to flood their fields temporarily in a few vital dry weeks each fall and spring to accommodate bird migration seasons. The price that is paid to rice farmers fluctuates according to seasons where higher prices are demanded, such as the beginning of a harvesting period. Besides that, the government and non-profit organizations are compensating people for preserving forests. Specifically in Uganda, annual payments are made to farmers if they refrain from chopping down forestland that they owned. This has made the Airbnb method a rather inexpensive way to reduce carbon emissions and protect forests.

Moreover, a market-based approach can balance conservation goals with critical needs like growing food. If a certain landowner is an excellent farmer that produces a lot of food for the community, it would very well make sense for her to continue to farm her land, even if doing so means clearing some forest. Ideally, less productive farmers will participate in the program because the opportunity cost (food production and profit foregone) is relatively small. This idea highlights why proper pricing is important. If you offer an appropriate payment for conservation, the best farmers will decline it because they can earn more by expanding their farms, while the mediocre farmers will sign up.

The Airbnb method of protecting the environment is also flexible in response to climate change and a growing population footprint. As our climate changes, we can expect bird migratory paths to also change, but renting out wetlands from rice farmers would allow ecologists to still protect bird migration despite these changes. Although renting out reserves could be considered a short-term solution for conservationists, this model can be quickly transformed into a long-term solution through made agreements with private landowners. For example, the United States entered several 30-year easement contracts with private landowners to protect wetlands or retire their land farms.

Environmental problems can be tackled using a decentralized approach that provides the right incentives to people, which also maximizes market productive efficiency. Using the Airbnb model, scarce resources such as land are no longer left idle, but are put to use to save nature!

Sources for information in this article can be provided upon request

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Venezuela: Non-Stop Problems with a Revolutionary Idea

Ryan Shiplet

With the International Monetary Fund anticipating an economic contraction of 15% in 2018 and 13,000% inflation, Venezuela is in a pickle. The Central Bank is in an unbreakable pattern of printing money but is struggling to even pay the printing bill. People are spending money so quickly that the lifespan of a bolivar bill is just 6 months compared to a 6 year lifespan of the US dollar. According to a WSJ report, people stand in line for hours to withdraw the equivalent of 10 cents from the bank, hoping that they are able to withdraw before the bank runs out of its bills. Both Colombia and Brazil have sent additional soldiers to border crossings, as thousands of people attempt mass emigration to escape the hyperinflation, hunger, and political crisis in Venezuela, according to the Dailymail.

The Venezuelan government is at a loss of what to do. According to the "Ease of Doing Business" by the World Bank, Venezuela is extremely uncompetitive in trade, as time to process paperwork, tariffs, etc. are too high to provide an inviting environment for trade. The World Bank also reports that "Doing Business" in Venezuela is one of the worst in the world with international trade, taxes, and starting a business among the worst categories. With high deficits, enormous government influence on the economy, and extreme corruption rates—Venezuela ranks 166 out of 176 countries on corruption levels—it seems extremely unlikely Venezuela will improve. The government has become desperate to remove hyperinflation and put the country back on a path towards sustainable growth.

In December, 2017, President Maduro announced a unique plan to help his country improve. He plans to move the country towards an oil backed cryptocurrency. According to CoinTelegraph, Maduro has declared that each currency will be backed by one barrel of oil, and the government has set aside 5 million barrels of Venezuelan oil to back the currency. An idea proposed first by ex-president Hugo Chavez, the cryptocurrency is going to be used as a way to evade the collapsing bolivar, remove the need to print money, and issue debt without being limited by the US sanctions, according to a Reuters article.

The US Treasury has warned investors against investing in the cryptocurrency, and the Venezuelan parliament, composed of an opposition majority, has deemed the currency illegal and simply a tool for the government and corrupt officials to evade strict currency controls, according to Reuters. However, many countries have already committed to buying the currency.

If this cryptocurrency is indeed released, this could have a huge impact on Venezuela and the world. As far as Venezuela goes, the country could begin to see improvement if it can in fact use the currency to obtain loans and increase trade, while curbing hyperinflation. That is, if corruption is kept in check and the currency is not used for fraudulent activity for the benefit of select few Venezuelans. As for the rest of the world, this could be a huge test on the durability of cryptocurrency. With the increasing excitement of Bitcoin and other cryptocurrency, this move by Venezuela could be the push investors need to continue strong investment in cryptocurrency and change the way transactions are made around the globe. Investors and governments worldwide are sure to keep a close eye on the Venezuelan government and economy as this revolutionary idea begins to take shape.

In Memoriam: Walt Zabriskie

Walt was a proud Phi Beta Kappa graduate at the University of Washington, with a degree in Economics. He later earned his MBA from the Albers School of Business at Seattle University, where he was the distinguished scholar of his class. As a member of the Visiting Committee in the Department of Economics, it was Walt who had the idea to start a mentorship program for students. This vibrant program has provided mentors with the platform to give back in a very impactful way by passing on their knowledge to students who can then use their mentor's experiences to shape their own career path.

Walt was recognized by the department for his exceptional work as an economics alumni and Visiting Committee member as the 2015 Kathy Gehrt Memorial Service Awardee (jointly with Gabe Hanzeli), and as our first Visiting Committee Member Emeritus in 2017. Walt will be truly missed, and his legacy as a mentor and alumni will live on through the meaningful impact he has had on our students.

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