

Activism and Divestment

Burkle Center

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Nov 2014

An Economic Perspective

Fancy way of saying:

I want to help you to think about and improve how you “**make the world a better place.**”

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Plan

- ▶ 20 minutes of my own research findings on South African divestment and lessons from it
- ▶ 10 minutes of suggestions for causes to consider activism for

Divestment

We have been there before:

- ▶ 1990: Harvard divested \$58 million from Tobacco, followed by wave of other divestments.
- ▶ 1990: Council of Institutional Investors appoints board member to Exxon
- ▶ 1990: Rap music.
- ▶ Debt and liquor; corporate waste and benefits; China/Israel/Nigeria; Abortion

...but the big one was **South Africa Apartheid**.

Brief History: South Africa

- ▶ 1973, Protestant Churches proposed SA divestment of Mobil at Annual Meeting (2%)
- ▶ 1973, banks begin to restrict loans
- ▶ 1976, Kissinger announces pressure to counter Apartheid
- ▶ 1977, Sullivan principles (equal treatment)
- ▶ 1977, Canada phases out commercial operations
- ▶ Late 1970s, union activism (UAW)

Brief History: South Africa

- ▶ 1980, More churches pledge to disinvest \$250m from banks
- ▶ mid 1980s: Major unrest. Tutu Nobel Prize
- ▶ **mid 1980s: U.S. and europeans divest and pass trade sanctions. Bank of Boston and Chase halt loans. Harvard and CU divest.**
- ▶ 1986, Botha state of emergency
- ▶ 1990, DeKlerk.
- ▶ 1994, Mandela.

Economic Impact

Most Intense Pressure/Strikes: 1984-1988.

What did the **embargos** accomplish?

Worldwide Embargo >> UC Divestments

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Worldwide Embargo \gg UC Divestments

SA: Background Economics

- ▶ Annual Economic Series.
- ▶ Institutional Shareholder divestment

just background.

South Africa, Annual Series, 1984-88

- ▶ GDP Growth: Lower (Strikes).

but not unusual in terms of foreign-trade:

- ▶ economic openness (Exports + Imports)/GDP.
- ▶ gold exports
- ▶ terms of trade
- ▶ capital flows

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Institutional Stock Holdings

- ▶ Evidence that institutions divested from stocks with SA operations and came back after these firms divested their operations.

⇒ **Effective!**

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- ▶ but did it matter?

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Sharpest Method

- ▶ How did markets respond to news?
- ▶ Investors anticipate domino effects.
 - ▶ **Market anticipates when one Univ leads others**
 - ▶ **Market anticipates future dominos**
 - ▶ **Market anticipates macro effects**
 - ▶ **Market is not really important per se**
- ▶ They stake their money on guessing right!

Anti-Apartheid Act of 1986

- ▶ Trade embargo, currency sanctions, lending restrictions.
- ▶ 10 legislative events, e.g., Sep 30 1986: House of Reps overrides veto.
- ▶ Forced on *all* U.S. firms and banks.
- ▶ If this worked, news should have affected banks with SA business.
- ▶ Let's look at average abnormal rate of return
- ▶ You “want” a negative response to announcements, preferably a mean of -1% and a T-stat of < -1.96 .
- ▶ (I will tell you “summaries,” not all gory details.)

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U.S. Banks with Loans to South Africa:

Announcement Effect

Mean: +0.045%
T-stat: (+0.04)

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Gold Index:

Announcement Effect

Mean: +2.85%

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on Johannesburg Stock Exchange:

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on Rand/Dollar Exchange Rate

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Pension Fund Divestments

- ▶ Effect of their divestment announcement on stock prices of firms with SA operations
- ▶ NOTE: Pension funds are much bigger than endowments (defined-benefit plans.)
- ▶ 16 fund announcements (e.g., CA sep 27, 1986), 17 US corps in SA.
- ▶ We look at various portfolio responses.

Pension Fund Divestment

Firms with SA operations:

Announcement Effect

Mean: -0.1%

T-stat: (-0.44)

(Above is equal-weighted. Value-weighted is positive. 1-mo horizon is positive.)

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Pension Fund Divestments

- ▶ On Anglo American: -0.3% (T stat of -0.20)
- ▶ On Gold: -0.26% (T-stat of -0.19)
- ▶ On JSE: -0.1% (T-stat of -0.22)
- ▶ On Rand: $+1.36\%$ (T-stat of 0.69)

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Did Divestment Induce Lower Value?

- ▶ 46 public companies announced SA divestments.
- ▶ Did company values changed when they divested?

Announcement Effect

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Why??

“Squeeze the Balloon” effect.

Weakest link. Squeeze must be perfect everywhere.

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Did Embargo bring Apartheid to its knees?

- ▶ Exceedingly unlikely economically — economic effects were hard to find.
- ▶ Publicity and elections probably mattered (maybe sanctions brought awareness; the embargo did not bring down the system).
- ▶ More likely: Mandela was a better alternative. (White) voters/party favored free elections.
- ▶ Even though a worldwide embargo is far more effective than voluntary partial divestment by funds,
- ▶ ...it still seemed to have had zero effect.

What Now?

What should you spend
your activist time on?

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Fancy Version

Think about an “objective function” to agree how we compare choices:

$$p(\Delta|\text{Effort}) \times \Delta - C(\text{Effort})$$

- ▶ If prob of change $p(\Delta)$ is zero, don't.
- ▶ If effort does not change prob $p(\Delta|\text{Eff})$, don't.
- ▶ If change (Δ) makes little difference, don't.
- ▶ If cost of effort is too high (Eff), don't.
- ▶ (Budget Constraint + more than 1 choice allowed)

Select Targets

- ▶ Pick projects that have non-zero $p(\Delta|\text{Effort})$.
 - ▶ Fossil fuels, CO₂, and Global Warming ain't it.
 - ▶ UC Activists \subset UC Students \subset UC Admin \subset UC Regents \subset UC Endowment \subset University Endowments \subset All Funds \subset US Embargo \subset **World Embargo** \subset Fossil Fuel Redux \subset CO₂ Redux \subset (Less) Global Warming
 - ▶ Israel ain't it.
 - ▶ Why only Israel? Why not Saudi, China, N.Korea?
- ▶ You can't affect (globally) meaningful change during your short four years at UCLA.

“Better” Causes (Objective Function)

Saddle the horse from the other side.

Q: Where can you have influence?

$$p(\Delta | \mathbf{Eff})$$

A: UCLA (Administration)

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Find UC causes with high Δ that have high $(p(\Delta|\text{Eff}))$.

Cost of activist effort is often “similar” regardless of cause.

My Suggested Cause (1): NCAA

- ▶ We pay (mostly poor minority) athletes nothing.
 - ▶ They pay millions to coaches.
 - ▶ They pay for Lacrosse, Golf, and Waterpolo.
- ▶ We kick them out when they get kicked off the team. Really. Obviously, we don't admit them because we care about their education.
- ▶ We cooperate with and allow the NCAA to form a cartel that gives them no choice.

This is us. UCLA.

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My Cause (2): Uninsured Patients

Steven Brill's *Time Magazine* 2013 Cover Story.

- ▶ We bankrupt poor uninsured patients by charging them prices **many times** higher than what we charge insurance companies for the same services.
- ▶ National Examples:

	Insurance Co	Poor Patient
Chest X-Ray	\$20	\$283
Troponin Test	\$14	\$200
Blood Work	≈\$300	\$15,000
False Alarm Ambu		\$21,000

Note: many patients pay nothing. We bankrupt those we can.

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Think About Your Causes

Pick those causes where

- ▶ your effort is most likely to change outcomes;
- ▶ your outcome is better than the current state;
- ▶ and you have the time and resources to carry it through in 4 years at UCLA.

Make the world a better place