

# THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:  
THE OPTIMAL BUNDLE

Editor: Steve Leonard  
Contributors: Jonathan Hayes, Bronson Ford  
Steven Leonard, Justin Niu

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[optimalbundle.wordpress.com](http://optimalbundle.wordpress.com)  
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## Tax Paradise Lost

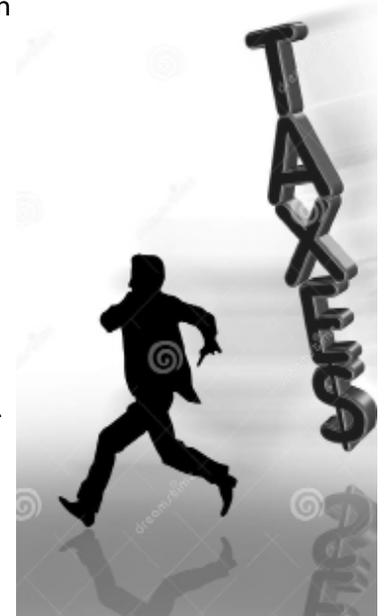
China's economy is slowing; we *know* this. However, the effects of this trend are The release of the Panama Papers earlier this month provided long-sought evidence on the use of foreign tax havens by the wealthiest corporations and individuals. The 11.5 million documents relating to offshore accounts from the Mossack Fonseca law firm have also served as an impetus for tax policy change. Within a few days of the release, the Department of the Treasury announced new rules against inversions—the act of relocating a corporation's legal headquarters through merger with a corporation in a country with lower tax rates while retaining their operational headquarters—to establish a more equitable tax code. As President Obama recently noted, inversions do not break the law because the legal code did not sufficiently address the topic. The administration's new inversion policies have begun influencing domestic and international businesses by eliminating loopholes which make it easier for corporations to undergo inversions. Pharmaceutical manufacturer Pfizer had been planning to merge with Ireland-based Allergan, but abruptly called off the proposal because of the new regulations. Without a doubt, the Panama Papers are making businesses pay their fair share of paper. — BF

Sources:

<http://cnnmon.ie/1XHi1PW>

<http://usat.ly/1r9nEul>

<http://bit.ly/1Sreyn6>



## The Emperor Has No New Clothes: U.S. Retail Sales Decline

Violence in Jerusalem between In March, domestic retail sales declined 0.3% from the prior month, contributing to a drop of 2.0% from the prior year. Economists are concerned because they expected retail sales to be at least flat this month, citing increased consumer discretionary income provided by stagnantly low oil prices. The slowdown was driven primarily by a lack of auto purchases, which dropped 2.1%. Without taking into account auto

purchases, domestic retail sales increased by 0.2%. Retail sales dipped to a seasonally adjusted \$446.9 billion, the third straight month sales have fallen. Overall domestic data is showing that, although the economy is growing at a steady pace, consumers as a whole are still struggling. Consumer spending, of which retail sales is a significant portion, makes up about two-thirds of U.S. domestic output. Slow consumer spending is a worrisome sign that a recession might be looming in the near future. — JN

Sources:

<http://on.wsj.com/1NzPVAh>

## Equal Assistance for Equal Contribution: The U.S. Dilemma with NATO

Out of the 28 countries involved in the North Atlantic Treaty Organization, or NATO, 23 of them don't meet the minimum spending guidelines. The collective security organization deters aggression by promising an attack on any one member will lead to retaliation by all members of the organization, but in exchange requires each member to spend at least 2% of GDP on defense. The United States, whose defense budget is 3.62 percent of GDP, spends more than double that of the other 27 countries combined, despite the fact that the combined GDP of the other 27 countries is greater than the United States' GDP. In fact, United States defense spending accounts for 72 percent of total NATO spending, and the organization itself even acknowledges it is over-reliant on certain United States military capabilities, including mid-air refueling, airborne electronic warfare, and ballistic missile defense.

The disparity in the amount of money the United States is contributing to NATO, indirect contributions and in indirect military spending, has presidential candidates talking. For one, both Hillary Clinton and Bernie Sanders called for other NATO members to increase their spending in the Democratic Presidential Debate on Thursday, April 14th. Donald Trump has taken these remarks a step further (as usual) by expressing that the United States should rethink its involvement in the organization, adding that "frankly, [the other members] have to put up more money."

**"The U.S, whose defense budget is 3.62% of GDP, spends more than double that of the other 27 countries combined"**

Perhaps this is the only item these candidates can agree on, and their position is a reasonable one. However, an alternative could be to simply decrease the United States' contribution to the organization. While membership in NATO is certainly beneficial to homeland



security, the return that the United States receives from its contribution is vastly smaller than the return that smaller nations like Iceland (which doesn't even have its own army) receive. For example, if Iceland is attacked, it receives the full backing of the entire organization of NATO. On the other hand, the United States receives only marginal backing compared to the fighting force it's already able to field. Of course, any assistance is appreciated in that sort of situation, so withdrawal from NATO should not be considered.

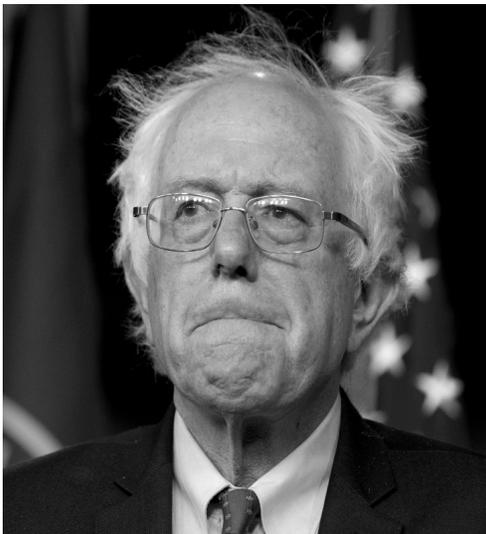
However, future leaders should use marginal analysis to determine at what point the returns to contributing to NATO become negative, and they should set contributions to that level to ensure the United States receives assistance in proportion to its contributions. — SL

Sources:

<http://cnnmon.ie/1ThDkX8>

<http://cnn.it/1ThDmhD>

## Put Those Jobs Back Where They Came From (or So Help Me)



Bernie Sanders and General Electric Corporation don't seem to agree on what constitutes ethical business practices. Recently, Sanders criticized the corporation by saying, "General Electric is a company that is well known for negotiating contracts with its workers which call for concessions, sending jobs outside of this country, and not paying their fair share of taxes". In Sanders' opinion, these practices "destroy the moral fabric of this country." Jeffrey Immelt, CEO of GE, fired back by defending his company's practice of employing laborers in countries where it sells products, and also said the company pays "billions in taxes." This feud is just one of many between presidential candidates and American businesses. Donald Trump, for example, has picked on Ford for deciding to build a new factory in Mexico. It's looking increasingly likely that the labor practices of American businesses will change drastically after the next presidential election, whoever the winner turns out to be. — SL

Sources:

<http://fortune.com/2016/03/07/trump-targets-ford-michigan-primary/>

<http://bloom.bg/1ThDu0F>

### Upcoming Events

Annual End of the Year Dinner! April 22nd at Rotelli's. RSVP through email link: \$10

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