THE OPTIMAL BUNDLE

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Traders or Traitors? Presidential Candidates Oppose TPP

Speaking on the Trans-Pacific Partnership last week in Michigan, Hillary Clinton proclaimed, "I oppose it now, I'll oppose it after the election, and I'll oppose it as President." Donald Trump further criticized the international trade deal in calling it "a continuing rape of our country." The United States and dozens of Pacific rim nations signed the TPP over six months ago, yet it has become a focal point of political contention on both sides of the American partisan divide. Given President Obama's ardent support for the agreement and the Republican Party's historical embrace of free-trade policies, the disdain for the TPP among progressives and conservatives alike is surprising both politically and economically. The argument in favor of the agreement holds that globalization will not be stopped, and as such the United States should lead the future of trade. Analysts estimate that the deal eliminates over 18,000 trade barriers, many of which place an economic burden on middle class consumers. However, Trump and Clinton cite potential loss of domestic jobs and the lack of a crackdown on currency manipulators as the sources of their opposition. Following either candidate's election this November, the agreement may be subject to further scrutiny and possible renegotiation. — JQ

Sources: http://bit.ly/1brYG2J, http://cnn.it/2aPYQTw, http://bit.ly/1OGShCz, http://abcn.ws/2atR2EE, http://bit.ly/1RiSuaG, http://bit.ly/2bMZJjB, http://politi.co/293XUxx

News and Updates

- Juniors: Apply for the New York Fed's two-day Undergraduate Student Summit by September 1st here: http://nyfed.org/2bxdaiU
- The Department of Economics has opened a library on Kern's third floor. See available selections here: http://pennstateecon.libib.com/
- First meeting of the semester will be on Tuesday, August 30th at 8pm in 60 Willard.

China's Got a Ticket to Ride

In early 2014, Uber launched its ride-sharing services to China to compete with the communist country's similar homegrown service Didi Chuxing. Due to Uber's poor business strategy and lack of consumer information, on August 1st, UberChina sold its operations to its native competitor. Though acquiring UberChina is an apparent win for Didi Chuxing, the deal offers benefits to both parties. Uber will receive $1 billion from Didi and a seat on Didi's Board, while Didi will acquire an $8 billion business and a seat on Uber's Board. Atop becoming a minority stakeholder—owning 17.7% of Didi—Uber will soon have a better chance of registering for an IPO. After raising $7.3 billion in a fundraising round in June, plus this newest acquisition, Didi Chuxing now has plenty of capital. Uber's loss in China comes after its services won hefty market shares in over 100 cities across the globe, making its loss in China merely a temporary setback. Don't expect Uber to give up spreading its operations in other countries and cities across the globe. — CS

Sources: http://on.wsj.com/2aFTfkl, http://bloom.bg/2akzz3h, http://reut.rs/2aYujIQ, http://tcrn.ch/25ZMQaP

Rolling in the Deep Economic Crisis

The Bank of England announced plans earlier this month to cut its main interest rate for the first time in seven years. Now at 0.25%, the Bank Rate has never straddled the zero-bound so closely in the British central bank's 322 year history. The bank also unveiled a new $90 billion stimulus program to stave off a recession in the wake of the Brexit vote. Analysts have estimated that the deterioration of trade and financial relationships between the European Union and United Kingdom may result in lost growth, higher unemployment, and increased prices for the island nation. The plummeting value of the British pound, along with lagging consumer confidence and services output, has already demonstrated worsening economic conditions, with one think tank still predicting a 50% chance of a severe recession within the next year and half. Perhaps British voters should have recalled Ringo Starr's timeless advice to "get by with a little help from your friends" before voting to leave the EU. — JC

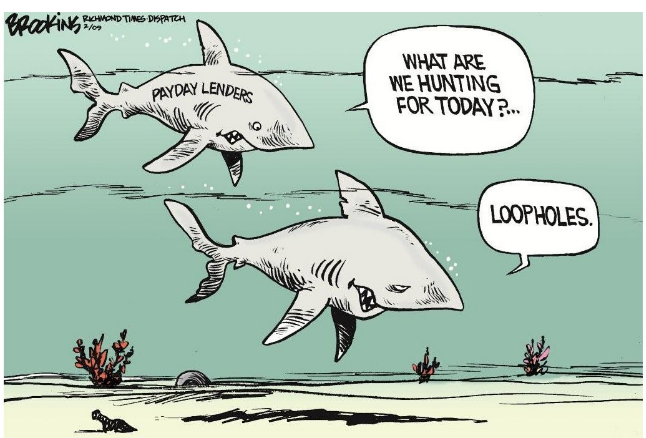
Sources: http://on.wsj.com/2aSVEt7, http://bit.ly/2aPQJYV, http://nyti.ms/2bBiXVV, http://cnnmon.ie/2aAylTt

Postponing New Lending Rules is Bad, M'kay?

OP-ED

On New Year's Eve 2013, Florida Representative Debbie Wasserman Schultz resolved to "end obstructionism" in the U.S. Congress. The year prior had seen the first government shutdown since the 1990s, which arose from ongoing partisan gamesmanship over the Affordable Care Act and sequestration-era spending.

In the two years since then, however, Congresswoman Wasserman Schultz has abandoned her resolution like so many Americans often do. This past March, Wasserman Schultz began whipping up Democratic support for the Consumer Protection and Choice Act. The bill's name implies better defenses for vulnerable economic classes, but its text calls for the opposite. Specifically, the bill instructs the Consumer Financial Protection Bureau to identify states with laws that limit payday lenders from offering certain products and further stipulates that no new CFPB rules on the same products may be applied to those states. The bill also bars the CFPB from enacting any new prohibitions on payday lenders for two years.



This is the epitome of political obstructionism. The new rules that Wasserman Schultz and Congressional Republicans are attempting to curtail serve to defend poor borrowers from the most expensive loans. Payday lenders target cash-strapped working class and marginalized communities with the guise of immediate financial security through money advances, and payment on the loan is deferred until the borrower's next payday. Although these loans allow for borrowers to pay their bills and feed their families, the problem is that borrowers often cannot afford the loans themselves.

According to the CFPB, an average payday loan's finance charge varies from ten to thirty percent, but the final payment usually has an egregiously high effective APR sometimes ranging from 400% to 3,000%. Borrowers can end up paying hundreds to thousands of dollars more in interest than what the loan was actually worth. Given their typically meager resources, borrowers often cannot repay the loan, thus trapping them in a cycle of debt necessitating more loans to make ends meet.

Making it expensive to be poor should be no more. To end the practices hampering the economic livelihoods of payday borrowers, the Consumer Financial Protection Bureau must be allowed to institute the Full Payment Test to ensure lenders check that borrowers can repay loans, the Principal Payoff Option so that consumers stop paying ridiculously high effective interest rates, new reporting requirements for better lender accountability, and penalty fee prevention so that borrowers are informed of what they owe. Without these regulations, payday lending will continue to be a market failure.

Congresswoman Wasserman Schultz has defended her support for the bill by arguing that the CFPB's new rules would preempt Florida's similar state prohibitions on payday lending, but what protects consumers only in Florida does not safeguard borrowers in the forty-nine remaining states. — BF

Sources: http://bit.ly/2bxqnYX, http://bit.ly/2b7VT0w, http://bit.ly/2b0CNvQ, http://huff.to/1ngwTrB, http://bit.ly/1L3cz8F, http://bit.ly/1qzfOuu