

THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:
THE OPTIMAL BUNDLE

Editor: Steve Leonard
Contributors: David Akrami, Bronson Ford,
Jonathan Hayes, Justin Niu
February 23, 2015
Spring Semester 2016: Volume 10

optimalbundle.org
psuea.org



U.S. Budget Deficit Falls

The Treasury Department reported a \$55.20 billion surplus in January, which dropped the annual deficit to the lowest level since August 2008. The U.S. deficit fell to \$405 billion in the 12-month period ended in January, about 2.20% of gross domestic product. The deficit fell from \$495 billion, representing a decrease of 18.18% y/y. Revenues grew approximately 6.00%, while the \$314 billion of receipts collected by the Treasury was a record. Year-to-date government revenues have been boosted by a one-time payment of \$19 billion from the Federal Reserve that was enacted last year by Congress for a highway-funding measure. The White House stated that it expects the annual budget deficit to exceed \$600 billion, or approximately 3.30% of GDP for the fiscal year ending September 30, primarily due to an increase in tax credits agreed to by Congress and the President. This is an increase from last year's deficit of \$439.10 bn, representing a 36.64% increase. – JN

Upcoming Events

Stata Sessions: Wednesday at 7pm and Thursday the 25th at 7pm in Sparks 009
March Madness tournament, prize money for best bracket. Entry is \$5.
Northwestern Mutual, March 29th 7-8 pm, room TBA
Saga Innovations, Wednesday, February 24th at the career fair
Don't forget to fill in our survey: bit.do/psueasurvey

Tax For Transit

President Obama's 2017 budget proposal will be the last of his tenure, and some components of it are extremely contentious. One such component in the budget is an ambitious, \$300 billion bid to create a "21st century clean transportation system" which would be funded by a \$10 tax on every barrel of oil. The policy has been touted by Democratic lawmakers as an effective, forward-looking approach to fixing the country's crumbling infrastructure, while Republican lawmakers point to the price tag. Conservatives claim that the tax would simply be passed on to consumers, and that it could add as much as 25 cents on the price of every gallon of gasoline. A Republican-controlled Congress gives little chance that Obama's plan will gain any traction, but regardless of party, the debate brings the role of the federal government in public transportation projects of the future into question. Perhaps this is what President Obama intended. – DA



America's Navy: A Global Force for Diversification in the Face of Budget Cuts



Fewer personnel, fewer Littoral Combat Ships (LCS), and the elimination of a tenth carrier air wing—will the United States Navy maintain global competitiveness? The Obama Administration

recently submitted a defense budget proposal for 2017 that entailed a \$7 billion reduction in funds compared to 2016 for the Navy supporting the reform and modernization of its fleet of ships, submarines, and aircraft.

At first glance, this fiscal change seems alarming and irrational; the rise of conflict and economic tension between the U.S., Russia, and China continues to increase and military power should adapt accordingly. However, the U.S. is indeed preparing for a drastic change in warfare, despite the under-funding. In response to fiscal pressure, the Navy limited the construction of LCS from 52 to 40 in exchange for procurement of aircraft, submarines, and missiles. This has been met with growing criticism, as some Americans believe budget cuts are synonymous with an inability to face growing security threats.

As Forbes Magazine contributor Loren Thompson argues, LCSs will play an integral role in future

“In response to fiscal pressure, the Navy limited the construction of LCS from 52 to 40”

conflicts. Due to their ability to maneuver in water depths of less than twenty feet, LCSs are better suited than traditional aircraft carriers for threats near coastlines. The LCS platform is relatively cheap and allows for greater flexibility because it can be built with anti-submarine warfare, mine



countermeasure, or surface warfare applications. Thompson believes this ship cannot be replaced with other measures and questions the proposal of building twelve fewer LCSs.

While I agree that LCSs are important, I challenge the idea that 52 LCSs are needed for future warfare. These ships are still undergoing testing and have proved less effective than originally thought when under a “swarm” attack of small enemy boats. The opportunity cost of building 12 more LCSs is fairly substantial; with the reduction from 52 to 40 ships the Navy can afford to improve upon and build more of its current missiles, anti-submarine and tactical aircraft, torpedoes, and munition. Similar to how a business diversifies itself to avoid risk, the Navy needs to balance its force to maintain global presence. While I do not discount Thompson’s opinion, I believe Defense Secretary Ashton Carter’s decision to build fewer LCSs comes from an educated economic point of view. — JH

Slave Labor Import Loophole No Longer “Works”

Since the enactment of the Smoot-Hawley Tariff Act of 1930, the United States has permitted goods made by slave, forced, and convict labor to be imported if domestic output does not meet demand. The “consumptive demand” loophole has allowed companies — primarily in the food industry — to utilize an estimated 20 million enslaved

workers to earn over \$150 billion in revenue each year. However, the U.S. Senate voted 75 to 20 to close the archaic loophole earlier this month. Once President Obama approves the measure, customs regulators will have the authority to control and stop the import of slave-made goods. Activists can then also legally challenge companies believed to use enslaved labor. While it is not certain which industry regulators will target first, this law will doubtlessly be a consequential impetus in eliminating modern

slavery if properly enforced. — BF



WRITE FOR US!
education.psuea@psu.edu