



# ***Rethinking the Export-Import Bank***

by Aaron Lukas and Ian Vásquez

## **Executive Summary**

The Export-Import Bank of the United States (Ex-Im Bank) was created in 1934 as an independent federal agency operating under a renewable congressional charter. That charter most recently expired on September 30, 2001. Since then, the Ex-Im Bank has been operating under a series of continuing resolutions set to expire on March 31, 2002.

The Ex-Im Bank is a Great Depression-era agency that has little relevance in an era of increasingly open and sophisticated global markets. Subsidized export credit does not noticeably affect the overall level of trade, does not “improve” the U.S. trade balance, and has no discernable net impact on the number of jobs in the U.S. economy.

The Bank provides financing to countries that do not have trouble obtaining credit and, in many cases, merely displaces private investment by funding ventures that would otherwise have taken place. Moreover, the

vast bulk of the Bank’s financing goes to very large corporations that do not need hand-outs from taxpayers.

Despite the tiny percentage of exports backed by the Ex-Im Bank, U.S. exporters have been demonstrating world-beating performance, proving that they do not suffer from a tilted international playing field. Only a third of Ex-Im Bank financing requests even allege that they are in response to subsidized foreign competition, and far fewer cases are confirmed. That suggests that the Bank could immediately curtail its lending without undermining its stated mission to counter foreign-subsidized competition.

Ultimately, however, U.S. policy should be consistent with the goal of maintaining a prosperous national economy as opposed to benefiting particular industries and firms. The Ex-Im Bank, as a corporate-welfare agency, should thus be closed down.

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## **Introduction**

The Export-Import Bank of the United States (Ex-Im Bank) was created in 1934 as an independent federal agency operating under a renewable congressional charter. That charter most recently expired on September 30, 2001. Since then, the Ex-Im Bank has been operating under a series of continuing resolutions set to expire on March 31 of this year. A vote to reauthorize the Bank until at least 2005 is likely to take place sometime before then.

The Ex-Im Bank was initially founded to provide credit to the Soviet Union. Today, it is the primary vehicle by which the U.S. government subsidizes U.S. exports around the world. The Bank provides guarantees of working capital loans for U.S. exporters, makes loans to foreign purchasers of U.S. goods and services (or guarantees the repayment of private loans to those purchasers), and provides credit insurance against non payment by foreign buyers for political or commercial risk. Despite its mandate to finance transactions that private creditors deem too risky, the Ex-Im Bank's charter requires it to lend only when a reasonable assurance of repayment exists.

The Ex-Im Bank's lending activities are primarily intended to fulfill two roles: first, to assume commercial and political risks that private lenders are unwilling or unable to take on, and, second, to assist U.S. exporters in competing with export financing provided by foreign governments. In the first role, the Bank ostensibly increases exports, economic growth, and the number of jobs in the economy by correcting for "market failure." In the second role, the Bank seeks to "level the playing field" for U.S. exporters in the name of fair play.

Both of those roles are suspect, but especially the first. Far from correcting for "market failure," the Ex-Im Bank, at best, duplicates private financial activities and does little to boost the U.S. economy. At worst, it misallocates scarce investment capital and leaves the nation as a whole worse off. Moreover, as officials at the General Accounting Office have noted, "Export promotion programs cannot produce a substantial change in the U.S. trade balance—nor in the

level of employment."<sup>1</sup> Recognizing the limits of what the Ex-Im Bank is able to accomplish, President Bush has called for reducing its non administrative subsidy costs to \$541 million for fiscal year 2003—or 25 percent less than its FY01 appropriation.<sup>2</sup> Unfortunately, because of a new credit risk methodology, the Bank's reduced budget would be used to support \$11.5 billion in exports, compared with an estimated \$10.4 billion in FY02.<sup>3</sup>

In response to both academic critiques and budgetary threats,<sup>4</sup> the Ex-Im Bank has re-focused its mission toward "critical areas." Chief among those is countering trade subsidies of other governments. As lesser priorities, the Bank also seeks to promote exports to developing countries (a practice denounced as "illegal dumping" when developing countries subsidize their exports to this country), stimulate small business transactions, promote the export of environmentally beneficial goods and services, and expand its project finance capabilities.<sup>5</sup>

Despite that nominal reorientation, the Ex-Im Bank remains unjustified. The two main rationales for its continued existence—that it must provide financing where the private sector does not, and that it should primarily intervene where U.S. exporters face subsidized competition abroad—are specious in both theory and in practice. The 25 percent cut proposed by President Bush, while a good start, is only a first step in recognizing that the rationales for supplying Export-Import Bank credit do not justify any level of taxpayer support.

## **Do We Need an Export-Import Bank?**

Since its inception, defenders of the Ex-Im Bank have cited numerous ways that the agency's export-promotion efforts benefit the United States. Among these, four stand out: First, the Ex-Im Bank creates jobs. Second, it helps "improve" the U.S. trade balance. Third, it corrects for various "market failures," such as information asymmetries and externalities, thereby increasing the overall efficiency of the U.S. economy. And fourth, it "levels the playing field" for U.S. exporters when their foreign

competitors receive government support.

Of those claims, only the one that the Bank helps level the international playing field appears to have any merit. Even granting that some U.S. exporters may be hurt by foreign subsidies, however, does not necessarily mean that harm to the overall economy is significant enough to warrant federal intervention on their behalf. The Bank benefits particular firms and their shareholders at the expense of taxpayers—who would save an estimated \$3.2 billion over five years if the Bank were eliminated<sup>6</sup>—and the vast majority of U.S. exporters that do not receive the agency’s subsidies. Moreover, even if Congress does resolve to counter foreign export subsidies, the Ex-Im Bank could perform that task with a fraction of its current budget.

### **The Jobs Myth**

Defenders of the Export-Import Bank often argue that the agency is justified by the jobs it creates. Indeed, “Jobs Through Exports” is one of the Bank’s slogans, and the first sentence on the Ex-Im Bank Web site bluntly states, “[The] Ex-Im Bank’s mission is to create jobs through exports.”<sup>7</sup> Similarly, Ex-Im press materials regularly make claims such as “Annually, the Bank sustains an estimated 200,000 U.S. jobs directly, and another one million jobs indirectly,”<sup>8</sup> and “[The] Ex-Im Bank...helps create American jobs by financing and promoting the sale of U.S. goods and services around the world.”<sup>9</sup> Clearly, the creation and maintenance of jobs has been an important part of how the Ex-Im Bank markets itself to Congress and the public.

On a superficial level, the Bank’s claims about jobs are true. When money is lent to a foreign borrower to purchase U.S. goods or services, for example, the exporter gets additional income that it might otherwise have had to forego. That income may prompt the exporter to expand operations and hire new employees. The connection between Ex-Im Bank financing and jobs is both intuitive and obvious, but it is only half the story.

The Bank’s resources do not appear out of thin air; they come from taxes. In other words, the Bank takes resources from the general economy and diverts them toward politically

determined uses. There is no reason to think that the Ex-Im Bank knows how to better employ those resources than the consumers, investors, and businesses they are taken from. In fact, the Bank is likely putting resources to less efficient uses, creating distortions in the national economy, and imposing opportunity costs that are surely higher than the added value of the Bank’s intervention.<sup>10</sup> So the relevant question is not whether Ex-Im’s lending activity “creates” jobs—it obviously does. What we need to know is whether the Bank creates more value than it destroys.

At best, the activities of the Ex-Im Bank have no discernable net impact on the number of jobs in the U.S. economy. In many cases, Ex-Im-backed sales would have been completed anyway with private financing—albeit under possibly less favorable terms for the seller—so not all Bank-backed sales increase total exports. The Bank tries to avoid displacing private sector sources of finance, but it is impossible to avoid displacement entirely. Because the Ex-Im bank is ready to step in with financing, no one can know what terms might have been offered by private lenders had the Bank not existed.

Yet assume that the Bank succeeds in raising the level of U.S. exports in some particular year. What happens then? Foreign buyers must have U.S. dollars to complete their purchases. They obtain those dollars by buying them in international currency markets, thus bidding up the price of dollars. The stronger dollar does two things. First, it makes exporting more difficult for producers that do not have subsidized financing, thus reducing somewhat the total amount of non-subsidized U.S. exports. Second, a stronger dollar makes imports more attractive to U.S. consumers. The net effect is that imports rise right along with exports, with no net impact on the trade balance. Some jobs are created in the export sector, while some are lost to import competition and some to reduced sales among unsubsidized exporters. The cumulative impact on employment is indeterminate, but is not likely to be strong in either direction.

As a senior official at the General Accounting Office has testified, “Government export finance assistance programs may largely shift production

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among sectors within the economy rather than raise the overall level of employment in the economy.”<sup>11</sup>

The Congressional Research Service concurs:

Most economists doubt . . . that a nation can improve its welfare over the long run by subsidizing exports. Economic policies within individual countries are the prime factors which determine interest rates, capital flows, and exchange rates, which, in turn, largely determine the overall level of a nation’s exports. This means that, at the national level, subsidized export financing merely shifts production among sectors within the economy, rather than adding to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. This also means that promoting exports through subsidized financing or through government-backed insurance guarantees will not permanently raise the level of employment in the economy, but it will alter the composition of employment among the various sectors of the economy.<sup>12</sup>

Of course, when the mix of employment in the economy is changed due to market-directed international trade, the U.S. economy benefits. Through trade Americans are able to specialize in producing the products and services in which they have a comparative advantage while importing things made relatively cheaper elsewhere. That process raises the productivity of American workers and thus increases living standards. When exports are subsidized, however, as they are through the Ex-Im Bank, then it is politics and not comparative advantage that drives trade flows. By distorting price signals in the market, the Ex-Im Bank draws from financial resources that would have been put to other uses. The ultimate result is a less efficient economy and a lower general standard of living than would prevail absent subsidies. In simplified form, economic historian Robert Higgs has accurately described how Ex-Im Bank finance works:

(1) The government takes money from American taxpayers and gives it

to the Eximbank. (2) The Eximbank gives the money to institutions that lend to the Chinese and Saudi Arabian companies that buy airplanes from the Boeing Company. (3) Boeing (maybe) sells a few more airplanes than it would have sold in the absence of the export-credit subsidies. (4) A few more people work at the Boeing Company who otherwise would have worked elsewhere. (5) Boeing shareholders earn a little more income, which otherwise would have been earned (plus a bit more) by other producers. (6) The total amount of wealth created in the United States—and in the world as a whole—is less than it would have been had these financial shenanigans never taken place.<sup>13</sup>

### **The Trade Balance Myth**

Supporters of the Export-Import Bank often argue that it helps “improve” the U.S. balance of trade. For example, in February 2001, the U.S. Chamber of Commerce said that “last year’s record \$369.7 billion trade deficit highlights the need for full funding for the U.S. Export-Import Bank in order to advance American products overseas and correct the growing imbalance between imports and exports.”<sup>14</sup> Similarly, during the Ex-Im Bank reauthorization debate of 1997, the Economic Strategy Institute published a report that predicted, “The net impact on the U.S. trade deficit [of killing the Ex-Im Bank] is estimated to be minus \$40 billion in ten years.”<sup>15</sup>

In reality, subsidized export credit does not noticeably affect the overall level of trade, nor does it change the net balance of imports and exports. As the General Accounting Office has noted on several occasions, “Eximbank programs cannot produce a substantial change in the U.S. trade balance.”<sup>16</sup> The analysis is much the same as with Ex-Im financing and job creation. By providing credit at less than its full risk-adjusted premium, Ex-Im loans may indeed stimulate foreign demand, but the greater demand for dollars needed to buy U.S. exports bids up the dollar’s value in the exchange markets. First, the stronger dollar

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– Congressional Research Service**

encourages imports, and, second, it raises the price of U.S. exports generally. The exchange rate change, in other words, offsets any price advantage created by the Ex-Im loans. Total exports relative to imports, and hence the trade deficit, remain unchanged. Again, the real impact of the Ex-Im financing is to divert exports from less favored to more favored sectors.

Even if subsidized export credit could alter the trade balance, it is far too small to make any serious impact. Only about 1 percent of all U.S. goods and services exports were backed by the Ex-Im Bank last year. And the value of exports supported by the Bank has been shrinking recently as private credit has become more widely available—from \$17 billion in 1999 to \$15.5 billion in 2000 to \$12.5 billion in 2001 to an estimated \$10.4 billion in 2002.<sup>17</sup> Put differently, the 2001 merchandise trade deficit was 34 times larger than the exports supported by the Bank in 2001.<sup>18</sup> Thus, for reasons of size alone, those who mistakenly view the U.S. trade deficit as a sign of weakness rather than as a sign of strength should not expect the Ex-Im Bank to correct the perceived malady.

It should be stressed that the trade deficit is not indicative of American economic weakness. Trade deficits do not cause unemployment or slower growth, nor are they a sign of unfair trade practices abroad or declining industrial competitiveness at home. The current high nominal trade deficit numbers reflect the fact that the United States is an attractive haven for international investors. The trade deficit enables Americans to maintain a level of investment that would be beyond reach if they were required to rely solely on their current level of domestic savings.<sup>19</sup> In short, the trade balance says nothing about the relative competitiveness of U.S. exporters.

Again, even if one considers the trade deficit to be a problem, the Ex-Im Bank is not the solution. Even if the Bank's budget were greatly increased, it would have no real impact on the U.S. trade balance. Other factors simply play a much larger role in influencing the U.S. trade balance, most notably the rates of domestic savings and investment, and the availability of international investment funds. In a seeming

contradiction to other statements, even an official Ex-Im Bank report has admitted this fact: "Ex-Im Bank does not see itself as a tool of macroeconomic policy addressing the national level of exports or jobs."<sup>20</sup>

### **The Myth of Market Failure**

Another rationale for funding the Ex-Im Bank is that the agency provides its services when the private sector is unable or unwilling to do so on its own due to false perceptions of excessive risk. Yet the Bank has been providing the bulk of its loans, guarantees, and insurance to countries such as China, Mexico, and Brazil—countries that have had little difficulty attracting private investment on their own. As both Figure 1 and Table 1 show, 10 countries accounted for nearly 60 percent of the agency's total exposure in FY01. Table 2 shows that the pattern has not changed much from fiscal year 2000. If anything, the tendency to lend to creditworthy countries has intensified.

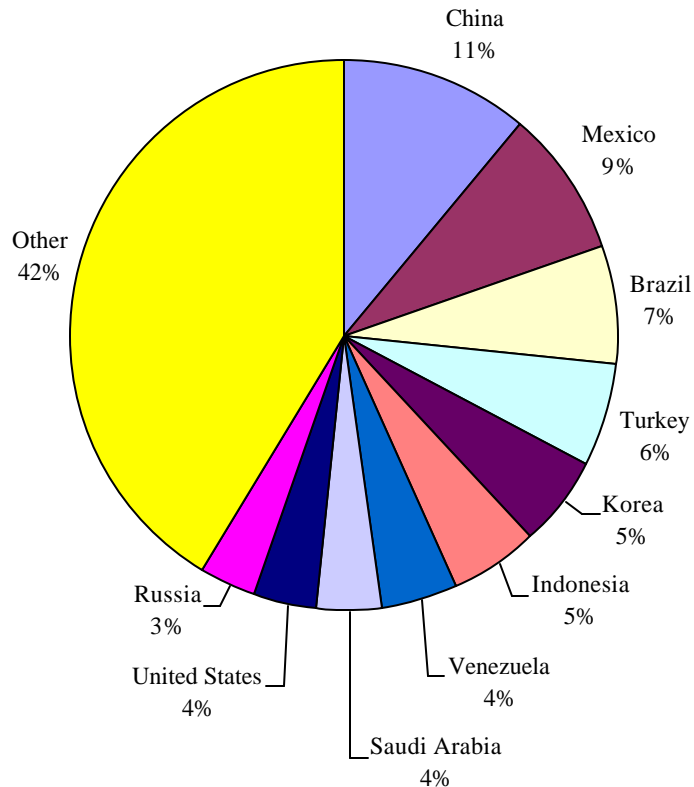
In short, Ex-Im Bank activity has largely mirrored that of private credit markets. This was true even during the Asian financial crisis that disrupted trade and private credit flows, despite claims by the Bank that its lending at the time played a crucial role in the recovery of the affected countries. Economist William Cline notes that only in Korea did the Bank provide much short-term credit, but that policy "was not very successful elsewhere in the region." Although the merits of such a policy are dubious, Cline adds that the agency's "longer-term operations have not been used much for systemic stability purposes and, arguably, have been pro-cyclical rather than counter-cyclical."<sup>21</sup>

At best, then, the Bank provides financing to countries that do not have trouble obtaining credit and in many cases merely displaces private investment by funding ventures that would otherwise have taken place. The claim that financing is provided to creditworthy projects *only* when the private sector is unwilling to do so is dubious. Consider that the Bank reports a default rate of just 1.4 percent—a record better than most commercial banks.<sup>22</sup> It is difficult to believe that an abundance of profitable financ-

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**Figure 1**

**Top Ten Countries Benefiting from the Ex-Im Bank, September 2001**



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ing opportunities with “a reasonable assurance of repayment”—the Ex-Im standard—exists, and yet private lenders are ignoring them. The Bank’s response has been to argue that private financial institutions lack the information to assess which transactions are creditworthy, while “Export-Import Bank personnel can go in to a minister of finance or the president of a company and ask for accounting records that are audited under [International Accounting Standards Board] rules, and we can push for reforms and the kind of structures that are needed.”<sup>23</sup> But the notion that foreign government or business officials, who want successful transactions, would deny private lenders access to relevant accounting records is unlikely. Nor does the Ex-Im Bank’s alleged access to information justify its lending role, because it could easily share such data with the market. Finally, the assertion that an agency with a staff of about 400 people is able to more accurately price risk than tens of thou-

sands of private-sector investors and analysts is, to say the least, highly suspect.

Worse than crowding out private-sector investment is the fact that the Ex-Im Bank often underwrites exports that should not be financed and would not otherwise receive support. Contrary to the Bank’s claims, the lack of private-sector finance on acceptable terms is not an example of market failure but rather an important market signal about a project’s prospects or a country’s investment regime. In cases in which the Bank provides credit in a bad policy environment, it discourages host governments from adopting market reforms necessary to genuinely attract private capital. When the policy environment is overlooked by export credit agencies, economic development begins to suffer. In 1969, the Commission on International Development of the World Bank (the Pearson Commission), which assessed international development policies, warned of that danger:

**Table 1**  
**Top 10 Countries Benefiting from Ex-Im Bank**  
**(Ex-Im Bank Exposure as of 9/30/01)**

Country	Exposure	Percentage of Total
China	5,937,651,338	11.09
Mexico	4,641,335,442	8.67
Brazil	3,671,044,383	6.86
Turkey	3,326,425,659	6.21
Korea	2,799,376,481	5.23
Indonesia	2,799,224,438	5.23
Venezuela	2,377,121,620	4.44
Saudi Arabia	2,082,844,074	3.89
United States	1,964,960,100	3.67
Russia	1,803,846,733	3.37
<b>TOTAL</b>	<b>32,123,830,268</b>	<b>59.00</b>
Total Exposure	\$53,497,971,975	

**Table 2**  
**Top 10 Countries Benefiting from Ex-Im Bank**  
**(Ex-Im Bank Exposure as of 9/30/00)**

Country	Exposure	Percentage of Total
China	\$6,197,191,835	10.06
Mexico	4,500,777,599	7.31
Brazil	3,576,223,094	5.81
Turkey	3,523,429,372	5.72
Indonesia	2,826,993,322	4.59
Saudi Arabia	2,526,989,512	4.10
Korea	2,389,778,130	3.88
Russia	2,075,983,958	3.37
Venezuela	1,833,180,504	2.98
Philippines	1,756,985,326	2.85
<b>TOTAL</b>	<b>31,207,532,652</b>	<b>50.67</b>
Total Exposure	\$61,595,682,783	

More than one project rejected for financing by the World Bank Group on economic grounds has been promptly financed by an export credit. This is the most unfortunate aspect of export credit finance: it provides a temporarily painless way of financing projects conceived by over-optimistic civil servants, by politicians

more concerned with immediate political advantage than with potential future economic problems, and by unscrupulous salesmen for the manufacturers of capital equipment in developed countries.<sup>24</sup>

Of course, the result of such an approach is debt instead of development. In the worst cases,

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the accumulated debt becomes unpayable and its reduction must be financed by western taxpayers who funded the credit agencies to begin with. The current debt relief initiative led by the World Bank and the International Monetary Fund has identified 41 highly indebted poor countries whose foreign debts cannot be repaid. In many cases, credit from official export agencies accounts for a high proportion of that external debt.<sup>25</sup> For example, 14 percent of Zambia's foreign debt and 50 percent of Angola's foreign debt is due to official and officially supported trade credit.<sup>26</sup> Since most of the highly indebted poor countries are in sub-Saharan Africa, it is especially worrisome that the Ex-Im Bank has significantly expanded its operations in that region over the past few years and plans to continue expanding there. Indeed, of the 17 sub-Saharan countries that have received Ex-Im credit or guarantees in the past four years, 12 are classified by the World Bank as highly indebted poor countries.<sup>27</sup>

The Ex-Im Bank undermines the spread of free markets and economic development in other ways. For example, a large portion of the agency's credit finances public-sector borrowers. In 1999, 45 percent of Ex-Im credit financed the public sector.<sup>28</sup> Numerous loan guarantees to Mexico's state-owned oil and electricity monopolies, loans to Korea's Development Bank, and loan guarantees to Air China during the past few years have certainly not accelerated the move to privatization, and their provision sends a contradictory message to countries in which the United States presumably wishes to promote free-market reforms.

Thus, while private credit markets are not perfect, the unintended consequences of subsidized credit loom large and, as Cato Chairman William Niskanen, former head of President Reagan's Council of Economic Advisers, has observed, "Any effects of market failure are likely to be small and transient in comparison to the effects of government failure."<sup>29</sup> Those effects include the fact that Ex-Im Bank operations are often harmful to economic development, often displace private-sector finance, impose potentially significant opportunity costs, finance firms abroad that compete with U.S. firms, and politicize the market by providing a few large firms

with government loans and guarantees. Indeed, as Table 3 shows, the top 10 U.S. companies that benefited from Ex-Im Bank loans and long-term guarantees in fiscal year 2000—with combined revenues of over \$362 billion—received 86 percent of those Bank services. (Boeing alone accounted for 43 percent of total Ex-Im Bank loans and long-term guarantees in fiscal year 2000, while now-bankrupt Enron received \$132 million in Ex-Im support.) By contrast, small businesses accounted for only 18 percent of all Ex-Im lending. Yet even if more lending went to small businesses, the Bank would still not be able to avoid the perverse effects that have accompanied lending to its larger clients. And the vast majority of large and small firms that do not seek subsidies, or do not qualify for them, will always face unfair competition from those that do.

In sum, if the private sector is not already providing export credit or insurance to a project, there are probably good reasons for that outcome and little reason for the Ex-Im Bank to step in. Nor should the Bank have a role if the private sector is willing to provide finance or is contemplating it.

### **Using Government Credit to Level the Playing Field**

The other principal rationale for Ex-Im Bank finance is to counter the subsidized competition that U.S. firms sometimes face abroad. Of all the justifications offered for the Bank, this one has the most merit. Yet although U.S. exporters ideally should not have to compete in a world in which their competitors receive support from their governments, U.S. policy should be consistent with the goal of maintaining a prosperous national economy as opposed to promoting the welfare of particular industries and firms. Fortunately, Europe and Japan are already reappraising the usefulness of their export programs in light of general fiscal constraints and as a reaction to the costly process of countering each other's export subsidies.<sup>30</sup>

Defenders of the Ex-Im Bank often argue that U.S. exporters are unable to compete effectively with their foreign competitors who may have access to more generous export sub-



**Table 3**  
**Top 10 U.S. Beneficiaries of Ex-Im Bank Loans and Long-Term Guarantees FY2000**

U.S. Company	Revenues*	Total (Loans and Guarantees)*	Percentage of Total
Boeing Co.	\$51,321	\$3,384	43.1
Bechtel International	14,300	1,475	18.8
Varian Associates Inc.	704	674	8.6
United Technologies <sup>1</sup>	26,583	334	4.3
Willbros Engineers	314	200	2.5
Halliburton Co. <sup>2</sup>	11,944	172	2.2
Raytheon Engineers & Constructors	16,895	150	1.9
Enron Development Corp.	100,789	132	1.7
General Electric Co.	129,853	127	1.6
Schlumberger Technology Corp.	10,034	87	1.1
<b>TOTAL</b>		<b>6,735</b>	<b>85.9</b>
<b>GRAND TOTAL</b>	<b>\$362,737</b>	<b>\$7,844</b>	

\* In millions of U.S. dollars.

Sources: Export-Import Bank, 2000 Annual Report (Washington, D.C.: Export-Import Bank, 2000); and the 2000 annual reports from each of the listed companies.

Notes: (1) The figure for United Technologies includes loans and guarantees for Sikorsky Aircraft Corp., which is a wholly owned subsidiary of United Technologies.

(2) The figure for Halliburton Co. includes loans and guarantees for Brown and Root International, Inc., which is a wholly owned subsidiary of Halliburton Co.

sidies. Because of that disparity, foreign competitors are “eating our lunch,” as one Bank supporter recently testified.<sup>31</sup> Or as James Robson, president of the Ex-Im Bank, explained, “Foreign export credit agencies have been more aggressive in developing programs to assist their exporters. U.S. trade agencies must be aware of these efforts so that they do not lag behind others in an increasingly competitive global landscape.”<sup>32</sup>

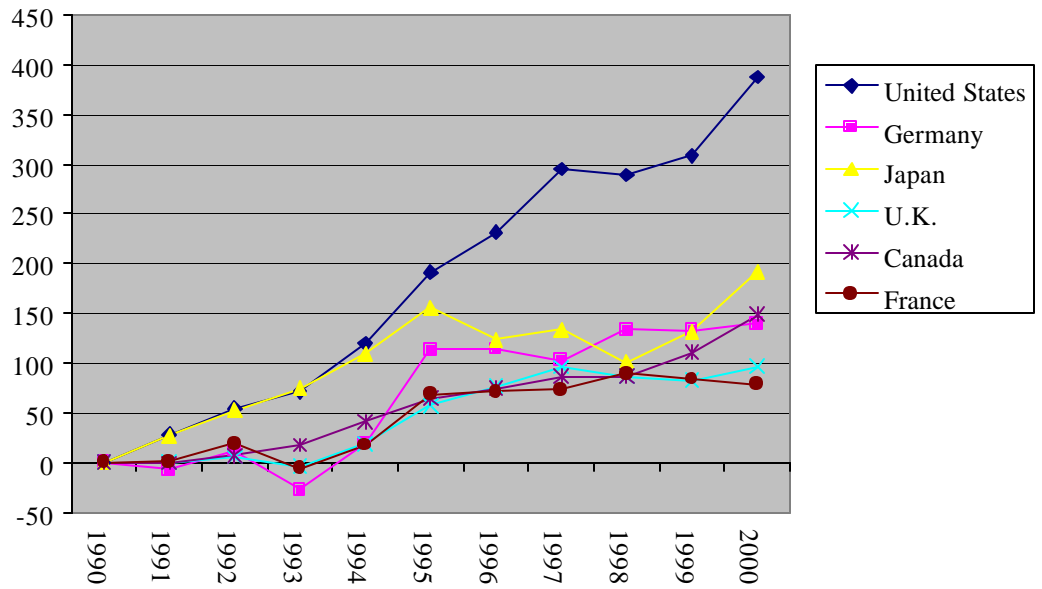
The evidence, however, tells a different story. During the past decade, U.S. export growth outpaced the export growth achieved by its main industrialized trading partners by an impressive margin. Figure 2 shows the absolute growth in exports by the United States, Germany, Japan, the United Kingdom, Canada, and France in billions of dollars during the 1990s. As the chart makes clear, from 1990 to 2000, U.S. firms increased their exports of goods and services to the rest of the world, in absolute terms, by more

than any of their main foreign competitors. Figure 3 presents the same data in relative terms. The United States exported roughly twice as much in 2000 as it did in 1990. By comparison, Germany’s exports were 34 percent higher, Japan’s 66 percent higher, the U.K.’s 51 percent higher, and France—by most accounts the most generous user of export credits—posted a lackluster gain of only 36 percent. Only Canada managed to outperform the United States in terms of relative export growth, much of which went to U.S. buyers.

Interestingly, according to a 1997 GAO analysis of official export support, Canada and the United States were tied for last in terms of the percentage of national exports financed. In other words, the relationship between generous government export supports and the overall performance of national exporters has not fit the pattern predicted by the Ex-Im Bank’s supporters. In fact, the opposite has been true:

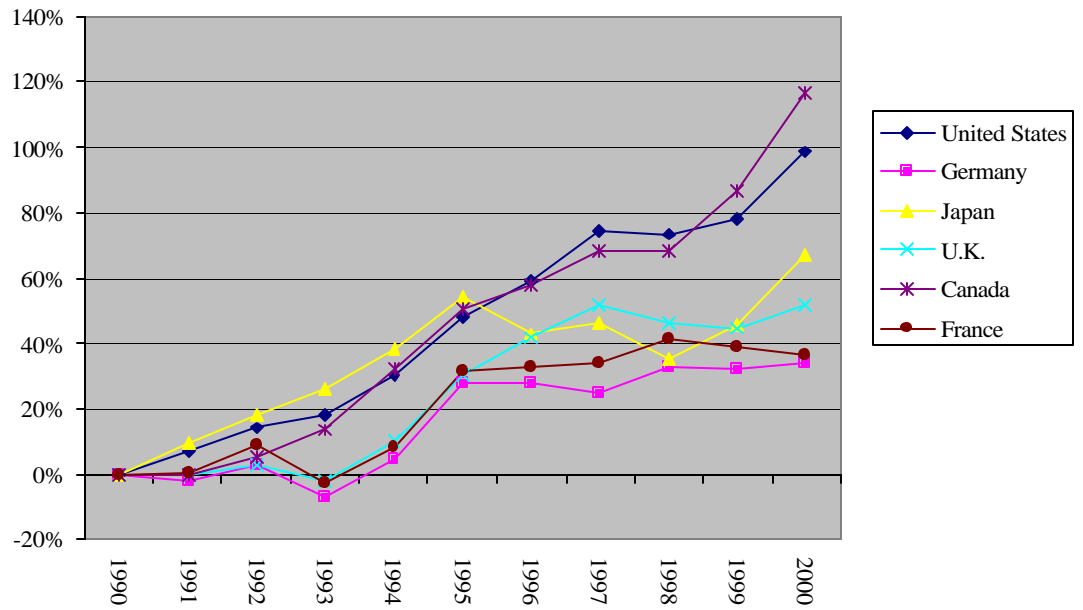
**During the past decade, U.S. export growth outpaced the export growth achieved by its main industrialized trading partners by an impressive margin.**

**Figure 2**  
**Absolute Growth in Exports Since 1990 (billions of U.S. dollars)**



Source: The authors' calculations are based on export data from *International Financial Statistics Yearbook* (Washington, DC: International Monetary Fund, 2001), p. 131.

**Figure 3**  
**International Export Growth by Percent (baseline = 1990)**



Source: The authors' calculations are based on export data from *International Financial Statistics Yearbook* (Washington, DC: International Monetary Fund, 2001), p. 131.

countries with a relatively small percentage of subsidized exports have been the strongest exporters. In 1996, Japan's export credit agencies supported 32 percent of total exports, France's supported 18 percent, and Germany's 9 percent. The United States and Canada were tied for last at 2 percent each.<sup>33</sup> The consistently poorer economic and export performances of Western European countries and of Japan compared with that of the United States argue against the United States' adopting the types of policies—including more expensive export-finance programs—that have hindered growth in Europe and Japan.

The reality is that much of the Ex-Im Bank's credit goes to U.S. firms that do not face competition subsidized by foreign governments. In FY99, for example, only 18 percent of medium- and long-term loan and guarantee transactions went to counter government-backed export credit competition, representing \$6.3 billion of the Bank's activity. In the same year, only 15 percent of the Bank's total dollar amount of medium-term insurance, or \$89 million, went to counter officially supported foreign competition.<sup>34</sup> Only a third of Ex-Im Bank financing requests even allege that they are in response to official foreign competition, and far fewer cases of subsidization are confirmed by the Bank.<sup>35</sup> Those figures suggest that the Bank could significantly reduce its activities without undermining its stated mission to counter foreign-subsidized competition. Because Ex-Im Bank credit to companies that do not face this type of unfair competition cannot be justified on economic grounds, the Bush administration's proposal to cut the Bank's funding by 25 percent should be viewed as a reasonable request even by those who believe that the agency has a legitimate role in countering subsidized foreign exports. At the very least, the Export-Import Bank should be limited to financing exports that meet that criteria.

In any case, the idea that the United States suffers from a playing field that is hopelessly tilted is questionable. With exports of about \$1 trillion of goods and services per year, the United States leads the industrialized world in both absolute exports and export growth. In

2001, the Ex-Im Bank backed only about \$12.5 billion of that amount, or just over 1 percent of total exports, only some of which faced government-subsidized competition. When only a fraction of 1 percent of U.S. exports receive Ex-Im financing in response to the efforts of foreign export credit agencies, it is difficult to conclude that the U.S. economy is seriously threatened by a playing field tilted against it.

The Ex-Im Bank has, however, occasionally stacked the deck against U.S. industries by subsidizing their foreign competitors. An \$18 million loan guarantee to Benxi Iron & Steel in China, for example, prompted steel-state legislators to champion an amendment—eventually passed—that stripped the Bank of that same amount in retaliation for the loan.<sup>36</sup>

Retiring the Ex-Im Bank entirely might reduce the profits of the few large corporations that have received the bulk of the agency's finance over the years. But surely firms like Raytheon and General Electric—with annual sales of more than \$16 billion and \$130 billion, respectively—can cope in a world without Ex-Im Bank subsidies.<sup>37</sup> Likewise, small businesses that do not have access to the vast financial resources of large corporations, already seem to be doing well without the Bank's help. The agency supports only 2,000 small businesses, or less than 1 percent of all small and medium exporting firms.<sup>38</sup>

If Congresses' goal is to help U.S. exporters, there are other, preferable ways to do it, namely, by making the United States a more competitive economy. U.S. tax levels, regulations, and the complexity of the tax code are routinely cited as factors that hinder the competitiveness of U.S. firms. As one report by Price Waterhouse found, "The U.S. system has also diverged in a number of respects from the policies and practices of other major industrial countries—often to the detriment of U.S. businesses striving to compete in foreign markets."<sup>39</sup> Thus, there is much Congress can do to help the business sector. It could begin by eliminating the \$87 billion worth of corporate welfare—of which Ex-Im Bank is a part—that exists in the federal budget.<sup>40</sup> That would generate savings sufficient to eliminate

**The reality is that much of the Ex-Im Bank's credit goes to U.S. firms that do not face competition subsidized by foreign governments.**

**Congress should not finance this negative-sum game because nowhere does the Constitution authorize the use of taxpayer funds to benefit politically favored groups.**

the capital gains tax or seriously reduce corporate income taxes. Such tax reforms would have far more impact on jobs and growth than any level of export subsidies ever could.<sup>41</sup> Unfortunately, the United States has not been especially friendly to competitive, pro-growth tax policies. The average corporate tax rate for national governments in 25 Organization for Economic Cooperation and Development (OECD) countries fell from 41 percent in 1986 to 31 percent today.<sup>42</sup> The U.S. corporate rate is now 4 percentage points higher than the average of our trading partners.

### **Boeing's Bank?**

Far and away, the number one user of the Ex-Im bank is the Boeing Company, which in 2000 was the beneficiary of more than 43 percent of the Bank's loans and long-term guarantees. The fact that such an extraordinary proportion of the Bank's resources regularly go to assist the aircraft manufacturer has prompted many critics to label the agency "Boeing's Bank." But the pattern of lending is perhaps understandable. If the Ex-Im Bank's role is to counter foreign export subsidies, and if Boeing's chief competitor, Airbus Industrie, receives the lion's share of European spending in this area, then it makes sense that the Ex-Im Bank would be mirroring the foreign lending activity.

Even granting that Ex-Im lending has helped Boeing, the magnitude of that assistance is often exaggerated. In 2001, the Ex-Im Bank provided Boeing with approximately \$2.58 billion in loans and guarantees.<sup>43</sup> For the same year, Boeing had projected total operating revenues of \$57 billion.<sup>44</sup> Assume that the Ex-Im Bank provided no financing for Boeing in 2001. The lost subsidy would have amounted to only about 4.5 percent of the company's revenues. Boeing's shareholders would undoubtedly be displeased with such a loss, but it would not spell the company's end.

This is not to suggest that subsidies to Airbus should not be a concern in Washington. Negotiating an end to commercial aircraft subsidies is in the best interest of both Europe and the United States, and the new round of trade talks at the World Trade Organization offers

an excellent opportunity to do just that. The limited progress made by U.S. negotiators in reducing government-backed export financing through the OECD proves that cooperation on this issue is possible. And there have been encouraging signs in Europe, such as the decision by Britain's export credit agency, Export Credits Guarantee Department (ECGD), to cut subsidized financing for civilian aerospace sales.<sup>45</sup> However, if negotiated solutions remain elusive and subsidized Airbus sales eventually threaten Boeing's viability, more narrowly targeted alternatives to maintaining a full-service export credit agency would be preferable.

### **Rethinking the Ex-Im Bank**

Congress should retire the Export-Import Bank because this Great Depression-era agency has no relevance in an era of increasingly open and sophisticated global markets. The Bank benefits a few firms at the expense of taxpayers, consumers, and other businesses. It does not correct for so-called market failures, but does create perverse effects at home and abroad, imposing opportunity costs and discouraging the spread of market reforms. The impressive growth of U.S. exports despite the tiny percentage of them being backed by Ex-Im subsidies, moreover, demonstrates that the U.S. economy does not suffer from a tilted international playing field. Most important, Congress should not finance this negative-sum game because nowhere does the Constitution authorize the use of taxpayer funds to benefit politically favored groups.

Short of scrapping the Ex-Im Bank altogether, Congress can begin take some immediate measures. Even supporters of export subsidies have recognized the need for change. The Bank's current president, John Robson, has acknowledged that the 25 percent funding cut requested by the Bush administration would probably leave the agency with enough resources to fully meet demand for its financing.<sup>46</sup> Kenneth Brody, former president of the Ex-Im Bank, has gone even further, recommending that Bank officials "take a very serious

look at privatization with a modest amount of government support.”<sup>47</sup>

### **Negotiate Reductions**

The United States has been the prime mover in the worldwide effort to negotiate constraints on government export credits. It has achieved limited successes in some narrow areas. As noted earlier, the OECD has been the forum in which most of these efforts have been concentrated. Building on a basic consensus reached two years earlier, the 1978 OECD Arrangement on official export credits managed to lay ground rules for export credit agencies in their use of subsidized interest rates and “tied aid,” among other things.<sup>48</sup> The basic OECD rules have been updated and tightened through further talks, such as those that resulted in the Helsinki tied aid rules of 1991. According to the Ex-Im Bank, “the volume of trade-distorting tied aid offers for commercially viable projects has decreased by more than 50 percent of pre-Helsinki levels.”<sup>49</sup>

There is every reason to think that further progress on negotiated reductions in subsidized export credits is possible. The trend in Europe recently has been to reassess government export support. Indeed, Belgium is reportedly considering plans to fully privatize its export credit insurance agency, Delcredere, this year.<sup>50</sup> But whatever happens in Europe or Japan, U.S. policymakers should not retain an agency like the Ex-Im Bank merely because other nations insist on engaging in economic folly. Defenders of export subsidies sometimes argue that if the United States unilaterally “disarms,” it will have no leverage at the negotiating table. The recent history of trade liberalization, however, has proven that the United States can provide leadership at international talks by setting a good example. Specifically, the Information Technology Agreement and the agreements on telecommunications and financial services were all negotiated through the World Trade Organization at the urging of the United States, even though it already had a zero tariff rate for semiconductors and offered only to lock in current levels of openness in telecommunications and financial services. For export

subsidies, too, other countries will follow the United States because adopting sound policies is in their best interests and because U.S. promises to lock in current practices are considered valuable.

### **Limit Financing to Countering Official Competition as a First Step**

The most credible defense the Ex-Im Bank offers for its continued existence is that it neutralizes foreign subsidies. It thus seems reasonable to expect the Bank to carefully monitor exactly which loans and guarantees fill that role. Yet according to its representatives, the Bank keeps no detailed account of which financing commitments supposedly counter foreign export subsidies versus those that supposedly correct market failures.<sup>51</sup> Although the Bank reports that approximately one-third of the financing requests (by number of final commitment applications received) claim that they are in response to foreign government competition, “very few of those claims are investigated and confirmed.”<sup>52</sup>

That figure suggests that the Bank’s budget authorization could be radically curtailed without significantly affecting its ability to offset official foreign export financing. The first step should be to limit the Ex-Im Bank’s activities to directly offsetting foreign subsidies, and leave all other lending to private creditors. Even in cases in which foreign government subsidies are determined to exist, the Ex-Im Bank could be further restricted to merely countervailing the foreign subsidy rather than providing or guaranteeing the full amount of the financing. Restricting the Ex-Im Bank exclusively to this counter-subsidy role would dramatically reduce the cost to taxpayers and mitigate the unfair redistribution of economic resources that the agency engages in. Narrowing the Ex-Im Bank’s mission should be undertaken immediately, regardless of its long-term outlook.

### **Curtail Use of Foreign Policy Sanctions**

No discussion of export promotion should ignore the fact that the United States has handicapped its own companies through the

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profligate use of trade sanctions—especially unilateral sanctions—as a tool of U.S. foreign policy. Such sanctions have a poor record: they have deprived American companies of international business opportunities, punished domestic consumers, and hurt the poor and most vulnerable in the target countries. Also, they have not brought about the desired results. From Cuba to Iran to Burma, sanctions have failed to achieve the goal of changing the behavior or the nature of target regimes.

In 1997, the U.S. International Trade Commission counted at least 100 unilateral economic sanctions that were in force at that time. Many of those sanctions were relatively new and most of them are still in place today. According to the president's Export Council, the United States imposed more than 40 trade sanctions against about three dozen foreign countries since 1993. The Council estimates that those sanctions have cost American exporters \$15 billion to \$19 billion in lost annual sales overseas and caused long-term damage to U.S. companies—lost market share and reputations abroad as unreliable suppliers.<sup>53</sup> In other words, U.S. sanctions destroy more exports than the Ex-Im Bank claims it creates. Rethinking those sanctions would be far more productive than the continued subsidization of selected exporters.

## **Conclusion**

The Export-Import Bank was originally created for the express political purpose of lending money to the Soviet Union. The U.S.S.R. no longer exists, but the Bank lives on. And its mission is still political: to provide business subsidies that are not justified by economic logic.

None of the reasons offered for the Bank's continued existence are convincing. Private credit markets are far deeper and are more accessible than when the Bank was founded. Moreover, the Bank's resources are overwhelmingly used to assist large corporations that have no trouble obtaining financing on the open market. Export subsidies do not increase employment nor do they have any real impact on the balance of trade. Generous export sub-

sidies have not translated into better overall export performance for those countries that offer them. Finally, it is neither fair nor constitutional that taxpayer dollars are being used to support particular businesses.

If Congress wants to help U.S. exporters compete with foreign export subsidies, it could accomplish that task with a far smaller authorization than the Ex-Im Bank currently enjoys. The 25 percent cut requested by the Bush administration is a laudable proposal, but it does not go far enough. The first step should be to immediately restrict Ex-Im financing to only those cases in which an American exporter faces verifiable subsidized competition abroad. The next step should be to retire the Bank as soon as possible. Such corporate welfare programs have no rightful place on the U.S. trade policy agenda. In the meantime, negotiations to eliminate export subsidies worldwide should continue to be vigorously pursued.

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The mission of the Cato Institute's Center for Trade Policy Studies is to increase public understanding of the benefits of free trade and the costs of protectionism. The center publishes briefing papers, policy analyses, and books and hosts frequent policy forums and conferences on the full range of trade policy issues.

Scholars at the Cato trade policy center recognize that open markets mean wider choices and lower prices for businesses and consumers, as well as more vigorous competition that encourages greater productivity and innovation. Those benefits are available to any country that adopts free trade policies; they are not contingent upon "fair trade" or a "level playing field" in other countries. Moreover, the case for free trade goes beyond economic efficiency. The freedom to trade is a basic human liberty, and its exercise across political borders unites people in peaceful cooperation and mutual prosperity.

The center is part of the Cato Institute, an independent policy research organization in Washington, D.C. The Cato Institute pursues a broad-based research program rooted in the traditional American principles of individual liberty and limited government.

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