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No, The U.S. Doesn't Have to Subsidize Its Exports Because Other Countries Subsidize Theirs

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Today, the editors have a great piece about the most unnecessary "bank" in the United States: the Export-Import Bank. I have echoed many of the concerns that the editors raise about the bank in previous writings, but today I'd like to focus on one argument in particular made by Ex-Im boosters: that its subsidies are needed to counter the subsidized competition that U.S. firms sometimes face abroad.

Obviously, U.S. exporters prefer that their companies only had to compete on price and quality against unsubsidized foreign companies. Bad economic policy is hardly limited to the U.S., and many countries have indeed established their own export-financing agencies just like the Export-Import Bank. This does not justify the bank's existence, however.

For one thing, while the bank is less than transparent about publishing data about the share of its activities that counters other countries' export subsidies, we can expect that it is a small share of its overall activities. Sallie James of the Cato Institute writes:

The extent to which the Ex-Im Bank actually counters foreign export credits is unclear. While the bank previously was forthcoming about the share of its activities devoted to countering subsidized foreign competition, recent reports contain little information about this activity. Given the fall in export credit subsidies in the OECD, the need for countervailing activities likely has not increased since the late 1990s, when less than 20 percent of Ex-Im guarantees and insurance were for the purpose of countering officially supported foreign competition. – See more at:

In addition, the amount of U.S. exports backed by the Ex-Im Bank is so small (roughly 2 percent of all exports) that it's hard to argue that U.S. exports would be unable to compete without such support. If export subsidies were so important to compete abroad, how have the other 98 percent of U.S. exports succeeded? It's also hard to prove that export subsidies are actually very effective at boosting exports in the first place.

But the biggest problem with this argument is simple economics. Subsidies are a bad idea for everyone – even the beneficiaries of subsidies. The academic literature is brimming with papers that meticulously lay out why — economists can find many sources of disagreement on policy issues, but when it comes to subsidies, most economists think we should just say no.

Think about it this way: Government subsidies work by taking tax revenues procured from other businesses and redirecting them towards lucky targeted sectors and businesses, like agricultural

interests who benefit from the farm bill or, in the case of the Export-Import Bank, export-driven manufacturers like Boeing and Caterpillar. Politicians and subsidy recipients frequently justify the practice of subsidizing private industry with public revenues on the basis of "saving jobs," "stimulating industry," or "protecting domestic production," but in reality, subsidies lack support in both economic theory and in practice.

Here are the basic problems.

First, subsidies transfer resources away from low- and middle-income Americans and small businesses towards large, well-connected corporations. Sometimes, this regressive effect can be compounded by higher prices of the subsidized good. In the case of higher education, for example, tuition costs have been consistently rising in tandem with expansions of government loan subsidies to students. Universities take advantage of the knowledge that Uncle Sam will take care of the bill by raising tuition levels to the ultimate detriment of students.

Second, the subsidies can trigger waves of malinvestment by encouraging companies to invest in a subsidized area they wouldn't enter otherwise, or by encouraging a consumer to buy a subsidized good independently of its merits. In the process, critical market signals about the proper quality and quantity of goods demanded or supplied are lost. Consumers and producers must stagger about the economy as if guided by a drunken invisible hand.

Here's one example of the issue: Through its sordid menu of export subsidies, the Export-Import Bank creates an artificial demand for Boeing planes by encouraging non-credit-worthy borrowers to buy Boeing planes. The artificial subsidy masks important market factors about how many planes Boeing should actually be supplying, creating a risk that airplanes will be oversupplied. The idea of an Ex-Im-fueled airplane bubble is not as crazy as it sounds. In fact, the *Wall Street Journal* reported that airline industry executives believe that Export-Import Bank subsidies were fueling a jumbo-jet bubble way back in 2011

Third, subsidies trigger wasteful spending for political favors. Not only do subsidized industries use our tax dollars to make a profit, they use this leverage to push out of the market other honest businesses who don't enjoy these privileges. Economist William Baumol described how this "unproductive entrepreneurship" saps an economy of its engines of growth. Entrepreneurs and businesspeople have an incentive to procure government subsidies to stay afloat, which wastes more time and resources through the deadweight loss of unproductive lobbying spending. (Wouldn't Boeing dollars be better spent actually developing new planes that people want to buy without subsidies rather than paying off politicians?)

Fourth, subsidies dull recipients' competitive edge and may ultimately undermine their long-term viability. Subsidized businesses often grow complacent and lazy because they know they can rely on government assistance. When markets change and pressures mount, subsidized industries often find that they simply cannot keep up – so they come knocking to Congress for a bailout.

Little has changed since Adam Smith astutely observed more than two centuries ago in the *Wealth of Nations* that "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry,

employed in a way in which we have some advantage.” This logic holds whether or not foreign countries are producing goods more cheaply because of competition or subsidies. American consumers win either way.

Now, in the face of this evidence, I ask: Does the claim that we should pursue these self-destructive policies simply because other countries are doing so too make any sense to you? It doesn’t to me.

If the export-credit agencies of Germany and China and South Korea and Japan jumped off a bridge, would Ex-Im boosters do so as well? Maybe if Boeing built the bridge, they would!