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Perry Is Right: Kill Export-Import Bank, Cut Corporate Taxes

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Former Texas governor Rick Perry announced his candidacy for the 2016 GOP presidential nomination earlier today. Many recall his 2012 bid, which came to a rather spectacular end when Gov. Perry, on live television, forgot the name of the third federal agency he promised to eliminate if elected president. However, in a recent WSJ op-ed, Gov. Perry redeemed himself by offering a real candidate for elimination: the Export-Import Bank.

The Export-Import Bank (Ex-Im) provides financing and loan guarantees at below-market rates to foreign purchasers looking to buy products from American exporters. For example, if Emirates Air wants to buy planes from Boeing, Ex-Im can provide a loan guarantee, reducing the interest rate Emirates will pay, and thus incentivizing Emirates to buy from Boeing rather than Airbus.

Ex-Im's supporters claim that these subsidies create jobs and finance domestic economic growth. But, they fail to consider the ensuing downstream effects, which Bastiat termed "*ce qu'on ne voit pas"*–that which is unseen. As the Cato scholar Daniel Ikenson makes clear, every dollar Ex-Im provides to subsidize foreign purchasers of U.S.-produced products discriminates against U.S. consumers of the same products. For example, when Emirates receives a subsidy for planes because it is a foreign company, Emirates gets a leg up on Delta.

An edifying account of how this system works was presented many years ago by the late Prof. Yale Brozen in his foreword to Prof. Leland Yeager's classic *Proposals for Government Credit Allocation* (1977):

Whom you know and with whom you have influence becomes more important in obtaining capital than how productively you can use it. Capital is diverted from more productive uses to politically determined applications […]. The national income pie shrinks as an increasing proportion of our capital is allocated by the political process – not only because of its diversion from more productive uses but also because more and more of our resources are devoted to winning political influence, as that becomes the road to access to available capital and subsidies.

For the record, Ex-Im isn't small potatoes. In FY 2015, Ex-Im's loans and loan guarantees will total $30.9 billion, or 6.7% of all non-housing federal credit programs (see the accompanying chart). The Ex-Im's total cumulative loans and guarantees outstanding (read: credit exposure) currently sits at $112 billion. Because the loans are granted at below-market rates, the Ex-Im does not receive fair compensation for the $112 billion of risk it takes on.

Instead of adopting a policy that makes a few U.S. exporters winners at the expense of many losers, there is a way to make all U.S. firms more competitive: just lower the grueling corporate tax rate. Rick Perry also embraces this idea in his op-ed, mirroring what I have been advocating for years.

The message is clear: taxes on corporations increase costs, decrease margins, and often lead to price increases. The top U.S. corporate tax rate (excluding state taxes) currently stands at 35%.

When our sky-high corporate tax rates are the highest of any of the 34 member countries of the Organization for Economic Co-operation and Development, something is wrong. There is clearly a better way to unburden U.S. corporations than to sponsor a "bank" in which politicians and bureaucrats, not capital markets, choose winners and losers. Rick Perry is right: it is time to move away from a mercantilist view of trade towards one that puts the market back in control. Kill the Export-Import Bank and cut corporate taxes, please.

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