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Export-Import Bank costly to Pa. businesses

By Daniel Ikenson

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If you count yourself among the majority of Americans fed up with the unsavory, business-as-usual, backroom dealing that continues to define Washington, take heart in the fact that the charter of the scandal-prone U.S. Export-Import Bank is set to expire on June 30.

If you are among the misinformed or privileged few who support the bank's reauthorization, how do you justify the collateral damage that Ex-Im inflicts on companies in Pennsylvania and across the country?

Ex-Im is a government-run export credit agency that provides below-market-rate financing and loan guarantees to facilitate sales between U.S. companies and foreign customers. In 2013, roughly 75 percent of Ex-Im's subsidies were granted for the benefit of just 10 large companies - including Boeing, Bechtel, and General Electric - that easily could have financed those transactions without taxpayer assistance.

Supporters characterize the bank as a pillar of the economy, undergirding U.S. export sales that allegedly create more and higher-paying U.S. jobs. But a fatty sheath of willful ignorance has insulated the bank from the scrutiny it deserves. Like all Washington subsidy programs, Ex-Im gives to the few but takes from the many.

When the government subsidizes your competitor's sales but not yours, you are made worse off because your competitor can now offer lower prices or better sales terms than he could have otherwise. Call these the "intra-industry" costs.

Likewise, when the government subsidizes your suppliers' sales to your competitor, you are made worse off because your competitor's costs are artificially reduced, enabling him to charge lower prices or offer better sales terms than he could without the subsidy. Call these the "downstream" costs.

Ex-Im's management and its Washington-savvy supporters have been running a shell game, dazzling Congress with the shiny new export sales it finances while drawing policymakers' attention away from the costs those activities impose on everyone else.

Last year, Delta Airlines finally had enough and complained about Ex-Im loans to Air India, which were granted to enable the foreign carrier to purchase aircraft from Boeing. Delta officials demonstrated how those taxpayer subsidies, made for the benefit of Boeing's bottom line, put Delta at a competitive disadvantage by reducing Air India's capital costs, enabling it to lower fares and compete more effectively with Delta for international travelers. Why should taxpayer dollars be used to promote the interests of one U.S. company over another?

The problem isn't limited to Delta. A recent Cato Institute study estimated the net costs imposed on firms in downstream industries on account of Ex-Im subsidies to firms in supplier industries to be $2.8 billion per year. The study also showed that firms in 80 percent of U.S. manufacturing industries incur costs that exceed the total value of Ex-Im subsidies they may receive. In other words, the average firm in four of every five manufacturing industries is made worse off by the Export-Import Bank.

Pennsylvania is home to hundreds of companies in the industries that have been victimized in precisely the same manner as Delta. The commonwealth's manufacturers of aerospace products, automobile parts, computer network equipment, electrical products, machinery, semiconductors, telecommunications equipment, and more can be counted among the victims because their suppliers secured Ex-Im dollars to subsidize sales to foreign customers.

Here are a few examples of Pennsylvania businesses that bear the costs of Ex-Im's subsidies: Herley Industries, a search-and-navigation equipment manufacturer in Lancaster with more than 1,000 employees; Williamsport-based semiconductor manufacturer Primus Technologies, with about 470 workers; telecommunications equipment producer Compunetix, with 360 workers in Monroeville; and General Carbide Corp., a metalworking machinery manufacturer with 160 employees in Greensburg. There are many more.

According to the Cato study, the five broad manufacturing sectors incurring the largest downstream costs from Ex-Im's subsidies account for 40 percent of Pennsylvania's manufacturing economy. Included among the 10 most heavily burdened sectors are the state's first, second, fourth, and sixth most important manufacturing industries: chemicals; food, beverage, and tobacco; primary metals; and computers and electronics, respectively.

The Export-Import Bank temporarily benefits some companies in a conspicuous manner. But it does so by quietly burdening often unwitting American companies in downstream industries. Delta and others have cried foul. Pennsylvania's business victims should speak up as well.

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