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Daniel Ikenson: California businesses victimized by Ex-Im Bank

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 June 30. If you are among the misinformed or privileged few who support the Bank's reauthorization, how do you justify the collateral damage Ex-Im inflicts on companies in California and across the country?

Ex-Im is a government-run export credit agency, which 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 GE – that could easily have financed those transactions without taxpayer assistance.

Supporters characterize the bank as a pillar of the economy, undergirding U.S. export sales, which 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 otherwise could. 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 used to buy 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. 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’s subsidies to firms in supplier industries, to be $2.8 billion per year, and that firms in 80 percent (189 of 237) 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.

California is home to thousands of companies in the industries victimized in precisely the same manner as Delta. California’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.

Computer-storage device manufacturers Seagate Technology and Western Digital Corp., which together employ 120,000 workers in Cupertino and Irvine, and Fleetwood Motor Homes, an employer of 1,000 workers in Riverside producing motor homes, are just a few examples of California businesses that bear the costs of Ex-Im’s subsidies.

According to the Cato study, the five broad manufacturing sectors incurring the largest downstream costs from Ex-Im’s subsidies account for 32 percent of California’s manufacturing economy. Included among the top 10 most-burdened manufacturing industries are California’s first, second, fourth and fifth most important manufacturing industries: computers and electronics; chemicals; food, beverage and tobacco; and other miscellaneous manufacturing, respectively.

The Export-Import Bank temporarily benefits some companies in a conspicuous manner. But it does so by quietly burdening often unwitting U.S. companies in downstream industries. Delta and some others have cried foul. It’s time for California’s business victims to speak up as well.

Daniel Ikenson is director of the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies and author of the study: “The Export-Import Bank and Its Victims: Which Industries and States Bear the Brunt?”