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GUEST COMMENTARY: How U.S. Export-Import Bank taxes Indiana's manufacturers, workers

By Daniel Ikenson

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If you count yourself among the majority of Americans fed up with the unsavory, business-as-usual, back-room 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.

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 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’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.

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

According to the Cato Institute study, the five broad manufacturing sectors incurring the largest downstream costs from Ex-Im’s subsidies account for 39 percent of Indiana’s manufacturing economy. Included among the top 10 most heavily burdened manufacturing industries are Indiana’s first, fourth, fifth, and seventh most important manufacturing industries: chemicals; primary metals, other miscellaneous manufacturing, and food, beverage and tobacco, 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 some others have cried foul. It’s time for Indiana’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?” The opinions are the writer's.