THE HILL

The swept-under-the-rug costs of the Ex-Im Bank

By Daniel Ikenson

September 10, 2014

Like all federal subsidy programs, the Export-Import Bank of the United States has cultivated a loyal following of corporate patrons who have grown accustomed to Washington flipping the bill for certain routine business costs. That is why the debate over congressional reauthorization of Ex-Im's charter, which expires on Sept. 30, will reach a fever pitch this month. In the interests of fairness, free enterprise and economic growth, the Export-Import Bank should perish.

Ex-Im is a government-run export credit agency that arranges special financing to facilitate sales between U.S. companies and foreign customers. To many, that mission may seem benign, if not noble. Indeed, reauthorization supporters deploy the simple logic that since Ex-Im creates exports, and exports create growth and jobs, shuttering the bank will hurt the economy. But for those less easily seduced by such sleight of hand, there is more to the story. Ex-Im facilitates exports for some businesses, but at great cost to unsuspecting companies throughout the economy and across the 50 states.

There are opportunity costs, representing the growth that would have occurred had Ex-Im's resources been deployed optimally — or at least more efficiently — in the private sector. The "what-would-have-happened" counterfactual is difficult to estimate, however, as it requires a variety of assumptions about economic variables and their relationships. But it is a good bet that when government agencies make financing decisions based upon non-economic criteria, resources are not being used optimally.

There are also intra-industry costs — the relative disadvantages inflicted on direct competitors as a result of export subsidies flowing to a particular firm in the industry. If Ex-Im provides a $50 million loan to a foreign farm-equipment manufacturer to purchase steel from U.S. Steel Corporation, the transaction may benefit U.S. Steel, but it hurts firms like Nucor and the dozens of other domestic steel producers competing for the same customers at home and abroad. The $50 million "benefit" for U.S. Steel is a $50 million cost to the other steel firms. When government tilts the playing field in favor of a particular firm, it simultaneously penalizes the other firms in the industry and changes the competitive dynamics prospectively.

The downstream industry costs are borne by U.S. producers who compete with the subsidized foreign customer or who simply require the subsidized export for their own production. Ex-Im diverts domestic supply, possibly causing prices to rise and rendering U.S. customers less important to their U.S. suppliers. This is especially likely in industries with few producers and limited substitute products.

Consider an Ex-Im subsidy to a U.S. supplier who sells to both U.S. and foreign customers. Those customers compete in the same downstream industries in the U.S. and foreign markets. The U.S. supplier is thrilled that Ex-Im is providing his foreign customer with cheap credit, because it spares him from having to offer a lower price or from sweetening the deal in some other way to win the business. The foreign customer is happy to accept the advantageous financing for a variety of reasons, including that his capital costs are now lower relative to what they would have been and relative to the costs of his competitors.

Delta Airlines has been vocal in its objection to Ex-Im-financed sales of Boeing jetliners to foreign carriers such as Air India. Delta rightly complains that the U.S. government, as a matter of policy, is subsidizing Delta's foreign competition by reducing Air India's cost of capital. That cost reduction enables Air India to offer lower prices in its bid to compete for passengers, which has a direct impact on Delta's bottom line. This is a legitimate concern not limited to this example, but most of the time the downstream U.S. companies are unwitting victims of this gradual, silent cost-shifting.

According to findings in a new Cato Institute study, these downstream costs exceeded the benefits of Ex-Im subsidies for 189 of 236 manufacturing industries by an aggregate total of $2.8 billion per year between 2007 and 2013. The five industries incurring the largest net costs were producers of electrical equipment, appliances and components; furniture; food; non-metallic mineral products; and chemicals. Collectively, these industries account for 50 percent or more of manufacturing gross domestic product in seven U.S. states, and the top 10 of the 16 industry victims account for two-thirds or more of manufacturing GDP in 22 states.

Ex-Im reauthorization proponents studiously avoid discussion of these costs, but the fact of the matter is that Ex-Im financing helps two sets of companies (in the short run): U.S. firms whose export prices are subsidized by below-market rate financing and the foreign firms who purchase those subsidized exports. However, those same transactions impose costs on two different sets of companies: competing U.S. firms in the same industry who do not get Ex-Im backing, and U.S. firms in downstream industries, whose foreign competition is now benefitting from reduced capital costs courtesy of U.S. government subsidies.

Allowing the Export-Import Bank to expire will help reduce these unfair cost impositions and encourage more companies to abide economic — rather than political — signals, which more likely will spur innovation, growth and job creation.

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?"