Economic Issues

March 22, 2012

Expanding the Export-Import Bank's Mandate Is a Big Mistake

The Export-Import Bank has been focused throughout its existence almost exclusively on export assistance for American companies. Proponents justify this mandate through four chief rationales, yet each of these actually demonstrates the injurious nature of the bank, says Sallie James, a policy analyst at the Cato Institute.

- Supporters argue that by financing companies, the bank creates jobs; however, because it essentially diverts national savings away from market-selected projects toward specific niche goals, the bank is actually inefficient in job creation.
- It is also supposed that by improving exports, the bank helps correct America's trade imbalance; this fails to consider that the exports of products is only a small component of the trade balance, and that the resources to help some companies are allocated at the expense of others.
- Proponents emphasize that the bank provides assistance to companies when the private sector won't, but this line of thought actually emphasizes the inherent risk in the bank's objectives -- if the private sector won't step in, the risks likely outweigh the benefits.
- Finally, the bank is justified on the grounds that by subsidizing certain exports, it allows domestic exporters to compete fairly with foreign firms who receive their own subsidies.

This last justification is perhaps the most crucial. This is because it is so contrary to the stated trade goals of the United States, which seek to eliminate barriers to trade and free up international commerce. Thus, reactionary subsidies in response to foreign subsidies undermine American objectives.

Additionally, the Obama administration has stated in a recent press release that the president would like to expand this subsidized assistance to domestic sales as well, thereby compounding the creation of trade barriers and distorting free trade.

- Data provided by the bank show that between 2002 and 2010 just under 40 percent of its transactions by value were authorized to "meet competition."
- Given that these allocations constituted just 4 percent of the bank's transactions, it becomes clear that this financing is given in large amounts to a small number of firms.
- That the president wishes to expand this mandate would further exacerbate this problem, putting taxpayers at risk while allowing federal bureaucrats to pick winners and losers.

Source: Sallie James, "Expanding Ex-Im's Mandate Is a Big Mistake," Cato Institute, March 14, 2012.

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