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"Perspectives on the Export-Import Bank of the United States"

Michael R. Strain, Ph.D.
Deputy Director of Economic Policy Studies
& Resident Scholar
American Enterprise Institute

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* The views expressed in this statement are those of the author. The American Enterprise Institute for Public Policy Research does not hold institutional positions on any issues.

Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the Export-Import Bank of the United States. It is an honor.

I do not believe that the Export-Import Bank should be reauthorized. I will spend the next few minutes outlining why, with a special focus on the Ex-Im Bank's impact on jobs.

JOBS IN A GENERAL ECONOMY

In a healthy economy — one characterized by full employment — the Ex-Im Bank, an open-ended export credit agency that is properly described as offering export subsidies to selected firms, does not create jobs. This stands in stark contrast to the rhetoric of some of the Ex-Im Bank's supporters. But it is the correct conclusion, at least to a first approximation, for informing the Committee as it debates the appropriate course of action for the Ex-Im Bank.[1]

Imagine an economy like ours, with some firms that export goods abroad and many more firms that sell only within the United States. All labor resources are utilized. The government enters and subsidies the exporting firms. This will surely help those firms, and may even increase the number of jobs those firms can support. But as labor resources were already fully employed, these new jobs must come from somewhere. What the export subsidy is doing, in effect, is shifting jobs from firms that do not export to those that do.[2] This does not increase employment on the whole.

[1] Economist David P. Baron puts it succinctly in his book *The Export-Import Bank: An Economic Analysis* (Academic Press, 1983): Employment objectives "do not provide a sufficient justification for Eximbank [Ex-Im Bank] programs."

[2] Congressional Budget Office, "The Benefits and Costs of the Export-Import Bank Loan Subsidy Program," March 1981.

JOBS IN AN ECONOMY WITHOUT FULL EMPLOYMENT

Now, it must be said that there is considerable debate among economists as to whether the U.S. economy is currently characterized by full employment. Many economists believe we are quite close to full employment, but I am not among them. Despite a rate of unemployment that is rapidly approaching one at which the Federal Reserve may be properly concerned about inflation, it is still the case that employment rates among prime-age workers have not fully recovered from the Great Recession, the level of involuntary part-time work remains elevated, and wage growth is unsatisfactory.

In such an environment, it can be argued that export credit may help support jobs. To this argument I have three replies. The first is that the Congress should not reauthorize a permanent export credit agency in order to achieve the temporary goal of tightening a slack labor market. Monetary and fiscal policy are much better tools to tighten the labor market. The second is that even if the Congress chooses to offer financing to selected sectors to support employment, exports would not be high on the list of firms or industries to target. Finally, failing to reauthorize the Ex-Im Bank would not immediately terminate its existing financing arrangements, and the lives of those arrangements will likely run longer than our current labor market conditions.

THE ECONOMY AS A WHOLE: GENERAL EQUILIBRIUM CONCERNS

I will now turn from the employment impacts of the Ex-Im Bank to considerations of the broader economy. Textbook models of international trade for a large economy such as the United States predict that export subsidies will lower national welfare — will make the United States worse off — relative to a situation without the subsidies. In contrast, some (though far from all) more complicated models set in an oligopolistic market environment featuring particular forms of strategic competition do find situations in which export subsidies can make the nation better off.[3]

A unifying feature of these models, however, is that the government's policy towards exports requires an incredible amount of knowledge that the government almost surely does not possess in reality.

To illustrate this, consider some general equilibrium effects of a simple subsidy.[4] Much discussion of the Ex-Im Bank focuses on partial equilibrium effects — on the effects of the Ex-Im Bank on a single market, or on a single set of firms. But economic policy, including the decisions of the Ex-Im Bank, can affect many firms and many markets, and so general equilibrium considerations must be taken into account by the Congress when deciding whether to allow the Ex-Im Bank to continue providing export credit.

An export subsidy will give subsidized firms an advantage over their foreign competitors, increasing the demand for those firms' output. But this, in turn, will increase the demand for inputs to production among the subsidized firms, increasing the price of those resources faced by other sectors, and putting firms in those sectors — sectors that do not receive export credit — at a disadvantage relative to a situation without the export subsidy.

Even if the subsidy helps firms that receive it, then, the subsidy may hurt the overall economy. It is hard to imagine how the government could understand all the interlocking parts of

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3 See, for example: James A. Brander and Barbara J. Spencer, "Export Subsidies and International Market Share Rivalry," *Journal of International Economics*, vol. 18, 1985. Avinash Dixit, "International Trade Policy for Oligopolistic Industries," *Economic Journal*, vol. 94, supplement: conference papers, 1984. Jonathan Eaton and Gene M. Grossman, "Optimal Trade and Industrial Policy under Oligopoly," *Quarterly Journal of Economics*, vol. 101, no. 2, May 1986. For an excellent overview of this literature, see Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004.

4 Of course, the government also requires other knowledge in addition to that of general equilibrium effects to ensure that export subsidies are welfare improving. The type of competition in the industry, the appropriate design of the subsidy, and the reaction of other nations, to name a few, can be very difficult things for the government to know.

the economy well enough to know whether the subsidy is a net positive for the United States. The existence of capital market deficiencies and imperfections and the export-credit behavior of foreign nations do not nullify general-equilibrium concerns about information and uncertainty.

POLITICAL ECONOMY CONCERNS

Political economy presents other concerns as well. The default assumption should be that well-connected, influential corporations will be in a better position to exercise influence over whether they receive Ex-Im Bank financing than other, less-connected corporations. The default assumption should not be that political connections will not play a role in which firms receive export credit.[5] This creates important issues that the Congress cannot ignore.

CONCLUSION: "CORPORATE WELFARE" AND TRADE POLICY

To conclude, let me offer three final thoughts. First, it is reasonable to describe the Ex-Im Bank as dispensing so-called "corporate welfare." But the Ex-Im Bank is hardly the chief offender. After the Ex-Im Bank's fate is resolved, the Congress should oppose "crony capitalism" in other sectors of the economy (where its magnitude is often larger) as vigorously.

Second, in the realm of trade policy, future negotiations and arrangements should stress the need for foreign nations to limit export credit.

Finally, supporters of the Ex-Im Bank have a reasonable argument that there may be times when limited, temporary, strategic trade policy may be appropriate. But such policy should address specific, identifiable actions of foreign governments or other strategic goals in a targeted way. It should not be left to an open-ended export credit agency such as the Ex-Im Bank.

But regardless of progress on these three fronts, the Ex-Im Bank should not be reauthorized.

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[5] For example, Kishore Gawande and Usree Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics*, vol. 82, no. 1, February 2000.