

COMMENTS ON THE EX-IM BANK'S CURRENT ECONOMIC IMPACT PROCEDURES

VERONIQUE DE RUGY

Senior Research Fellow, Mercatus Center at George Mason University

Agency: Export-Import Bank of the United States

Comment Period Opens: September 9, 2019

Comment Period Closes: October 9, 2019

Comment Submitted: October 9, 2019

Docket No. 2019-6018

I appreciate the opportunity to submit a comment to the Export-Import (Ex-Im) Bank's current economic impact procedures. The Mercatus Center at George Mason University is dedicated to bridging the gap between academic ideas and real-world problems and to advancing knowledge about the effects of regulation on society. This comment, therefore, does not represent the views of any particular affected party or special interest group. Rather, it is designed to help the Ex-Im Bank as it considers revising its economic impact analysis procedures.

During her confirmation hearing to become the new president of the Ex-Im Bank, Kimberley Reed promised Senator Pat Toomey that she would improve protection for domestic companies from economic harm that might arise from the Ex-Im Bank financing their foreign competitors.

When viewed in the context of the existing literature on the ineffectiveness of export subsidies, however, the validity of the Ex-Im Bank's economic impact analysis methodology raises some questions. The Ex-Im Bank needs to adjust its calculations based on this literature and other facts, and it needs to be more transparent.

ECONOMIC IMPACT PROCEDURES: WHAT IS THE CONCERN?

The Ex-Im Bank, through its activities, reduces the borrowing costs of foreign companies. Testifying before the House Committee on Financial Services in 2014, Richard Anderson, who was at the time the head of Delta Airlines, noted that Ex-Im Bank support can reduce the borrowing cost of foreign airlines by \$20 million per plane, giving them a significant advantage over domestic companies.¹ Indeed, domestic companies have repeatedly argued that the Ex-Im Bank's

¹ Assessing Reauthorization at the Export-Import Bank: Corporate Necessity or Corporate Welfare?, Hearing before the H. Comm. on Financial Services, 113th Cong. 5 (2014) (statement of Richard H. Anderson, Chief Executive Officer of Delta Air Lines).

methodology for economic impact analysis inadequately takes into account US economic effects of transactions on the rest of the economy.²

The economic impact analysis methodology currently in place must find that the harm done to domestic companies is more than offset by the benefit that domestic companies such as Boeing derive from Ex-Im Bank financing to justify said financing deals. The implication is that without the Ex-Im Bank, Boeing planes and other American products would not be purchased.

This argument is hard to defend, considering that in the past four years, in spite of a significant reduction in export credit agency financing for commercial aircraft at home and around the world, Boeing has prospered as its clients have had no problem accessing private capital markets to continue buying American planes. Further, the data show that “Boeing now relies on private capital for 96% of its commercial deliveries. In the absence of Ex-Im financing for its foreign customers, the company in 2018 delivered 806 airplanes generating revenue of \$60.7 billion. Its backlog of orders at the end of last year totaled 5,900 commercial airplanes worth \$490 billion.”³ Innovation in this space has been noticeable.

This could signal that the current economic impact analysis procedures are biased in assessing the benefit to the US economy derived by Ex-Im Bank financing of Boeing and other American products abroad.⁴

There is also an extensive economic literature that shows that export subsidies are ineffective in changing the overall level of exports in a large economy like that of the United States.⁵ A country’s trade balance is driven largely by underlying macroeconomic factors, such as the ratio of savings to investment or the attractiveness of its investment climate.⁶ Economic impact analysis that finds significant positive value to the Ex-Im Bank’s activities through export promotion must therefore be taken with caution.

AREAS THAT SHOULD BE PART OF AN ECONOMIC IMPACT PROCEDURE

If Ex-Im Bank President Reed is serious about fulfilling commitments made to reformers like Sen. Toomey, the Ex-Im Bank should institute real changes that will guarantee that its activities are not hurting domestic companies. Specifically, the Ex-Im Bank should do the following:

² Kimberly Gianopolous, “Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets” (GAO Report GAO-14-642R, Government Accountability Office, Washington, DC, July 8, 2014), <http://www.gao.gov/products/GAO-14-642R>; Veronique de Rugy, Nita Ghei, and Michael Wilt, “Should the Export-Import Bank Be Reauthorized?” (Economic Perspectives, Mercatus Center at George Mason University, Arlington, VA, July 2015).

³ Diane Katz, “Export-Import Bank Is Not the Way to Fight China,” Commentary (The Heritage Foundation), May 1, 2019, <https://www.heritage.org/trade/commentary/export-import-bank-not-the-way-fight-china>.

⁴ Veronique de Rugy and Andrea Castillo, “The US Export-Import Bank: A Review of the Debate over Reauthorization” (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, 2014), 12–14; Assessing Reauthorization at the Export-Import Bank: Corporate Necessity or Corporate Welfare?, Hearing before the H. Comm. on Financial Services, 113th Cong. 5 (2014) (statement of Richard H. Anderson, Chief Executive Officer of Delta Air Lines).

⁵ “Export Promotion: Federal Programs Lack Organizational and Funding Effectiveness” (GAO Report No. GAO/NSIAD-92-49, General Accounting Office, Washington, DC, January 1992), 2; Sallie James, “Time to X Out the Ex-Im Bank” (Trade Policy Analysis No. 47, Cato Institute, Washington, DC, July 6, 2011); Douglas A. Irwin, “Historical Aspects of the U.S. Trade Policy,” *NBER Reporter* (Summer 2006): 16–19.

⁶ Gary Clyde Hufbauer and Zhiyao (Lucy) Lu, “Macroeconomic Forces Underlying Trade Deficits,” *Trade and Investment Policy Watch* (Peterson Institute for International Economics), March 31, 2016.

- Make public the economic impact analyses showing that each Ex-Im Bank deal is not hurting domestic businesses. That will help fulfill Reed's transparency commitment to Sen. Toomey made in the same hearing.
- Circulate its economic impact analyses to those domestic businesses affected by the Ex-Im Bank's activities.
- Adjust its analysis methodology to consider the vast academic literature on the impact of exports subsidies on exports and the economy.