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The Ex-Im Bank Fight and the Future of Global Competiveness

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by Ben W. Heineman, Jr.

If Congress doesn't act soon, the U.S. Export-Import Bank will hit its $100 billion credit exposure limit by May 1 and will stop issuing direct loans, loan guarantees and export-credit insurance in aid of American exports to risky markets. Then, on May 31, the legislation authorizing the Bank will expire, threatening the Bank's very existence.

The fight over Ex-Im's future in Washington is between laissez-faire conservatives who decry corporate welfare, and Bank proponents who say government has a role to play in international competitiveness.

But, this old Congressional debate, sparked by critics who want a return to smaller government, obscures the profound global economic issues which the U.S. must face in the future. In this case, specifically, what is the role of the government in leveling the international playing field for private companies, headquartered in market capitalism countries, which compete against new, powerful state-owned or supported corporations in systems of state capitalism?

The Ex-Im Bank was formed in the 1930s to help finance U.S. exports. Today, it provides financing support to exporters or to their customers overseas, when, per its charter, private credit is not readily available (locomotives to Kazakhstan, medical supplies to Viet Nam). It must have reasonable assurance its financial instruments will not lead to losses, and it requires 50% American content in products it supports. It does not now need appropriations from Congress but pays for operations and overhead with fees from its activities.

In 2011, according to Bank numbers, it used $32 billion to finance U.S. exports, helping secure 290,000 jobs at 350,000 U.S. companies (87% of the clients were small business, although they used only about 20% of the funds). Due to the fees and interest charged to borrowers, the Bank receipts exceed its costs, losses and reserves, and it returns money to the Treasury (more than $3 billion in last five years). It has a bad loan rate of less than 2%.

So, what is the problem? For Club for Growth, Heritage Foundation and Tea Party conservatives, there is the animus towards government programs summarized under the familiar rubric of "corporate welfare." They strongly oppose proposals in Congress to raise Ex-Im's credit authority to $140 billion and to re-authorize it for four years. The critics' arguments are now familiar and, in this instance, threadbare:

- "Ex-Im will add to the deficit" — *but* it returns money to the Treasury.
- "There is a risk that its guaranteed loans will go bad putting the onus on the U.S. taxpayer" (through the full faith and credit guarantee of the United States behind Ex-Im financial instruments) — *but* decades of practice show a low record of defaults.
- "Ex-Im will 'crowd out' private lending" — *but* the bank's charter authorizes lending when private funds are not available and after the 2008 crisis private lending for risky international business was sharply curtailed.
- "It reflects 'crony capitalism' because, in dollar terms, a significant proportion of its credit support helps huge multinationals like Boeing" (45 percent of outstanding credit exposure involves the air framer) — *but*, as noted, small businesses are nearly 90 percent of Ex-Im's clients.
- "It inappropriately picks 'winners and losers' which government should never do" — but, of course, Ex-Im's fundamental role today is to level the playing field against other nations who use export finance to win orders for their national champions.

The small government advocates live in a fantasy world if they think there is unfettered competition, untouched by policies of other governments, in the global economy. They barely acknowledge the "industrial policies" of other market capitalist nations much less mention the rise in the last 15 years of a new, potent form of state capitalism. Traditional business groups like the National Association of Manufacturers and the Chamber of Commerce do, however, support a four year authorization and higher credit limits for Ex-Im. Republicans like Richard Shelby (Alabama) and Lindsey Graham (South Carolina), whose states have Boeing facilities, do as well. Says Graham: "I wish we didn't need an Ex-Im Bank. But other countries have far more aggressive financing regimes in place. The United States cannot and should not unilaterally disarm."

The Ex-Im controversy is thus a reprise, for the umpteenth time, of a small government/big government debate inside the United States. But, the fundamental, long-term debate should be about how government in general, and "state capitalism" in particular, is distorting economic competition in the global market place, and what is the proper response for the U.S. government in aiding corporations playing by "market capitalism" rules, and in creating a fairer international economic system.

State Capitalism is characterized by companies owned in whole or in part by governments with the goal not just of maximizing profits but of advancing the interests of the state and perpetuating the political leadership. As Ian Bremmer argues in *The End of the Free Market*(Portfolio 2010), today' state capitalism is far different than sleepy, inefficient state-owned industries of a by-gone socialist order, but is instead a "system in which the state plays the role of leading economic actor and uses markets primarily for political gain." It operates through special state support of the national champions in the so-called private sector: through technology funding, choosing top company leaders, closing sections of the home markets, putting a thumb on the scale for local companies in local procurements, managed exchange rates, state-created overcapacity, soft loans, export subsidies, weak environmental, health and safety regulations, foreign acquisitions financed by sovereign wealth funds, and other government benefits to create national winners.

At one end of the spectrum are nations like China, Russia and certain Arab states — the symbols of current state capitalism — who practice an economic nationalism in an autocratic political system for the purpose of building a wealthy and powerful polity, using state regulation to amass wealth and power at the expense of other governments, and exploiting the openness of free markets. At the other end of the spectrum are nations like the U.S. and U.K., with corporations directed privately, albeit subject to various rules and regulations in a "mixed economy," to promote fair competition, protect needed social goods and build the fundamental infrastructure of society in which business can flourish. Along the spectrum are nations with varying degrees of government-directed industrial policy to assist corporate national champions to gain advantage in the global economy.

The impact of sovereign governments on international economic competition is significant. For example, state capitalism in an autocratic political system is far more capable of deceit: hiding protectionism in home markets, stealing intellectual property everywhere, and providing indirect (as well as up on the table) subsidies for state champions which may run afoul of regimes of international trade or other international law. U.S. trade representatives and global CEOs see the emergence of state capitalism as a threat to globalization and the post-war trading system.

The dynamism and variety of recent developments of governments putting their thumb on the scale to advantage corporations, cannot possibly be captured in a short piece. But state capitalism is on the march, and the topic is moving closer to the center of business and government leaders' attention. (Note recent pieces in *The Economist* and *The New York Times*.)

Unfortunately, the current Ex-Im debate looks at the problem of export support through the wrong end of the telescope, as if the debate really were between competing visions of laissez-faire, small government and mixed economy, larger government, between the 19th and 20th centuries. Instead, it is really a 21st century debate about how to achieve "fair international economic competition" when nation states, especially those practicing some form of state capitalism, actively promote, through direct and indirect means, national champions — in home markets, in the markets of competing nations and in emerging markets. And it is about understanding and facing the complex realities of the fast-paced, ever-changing and multi-faceted international markets.

From a U.S. perspective, this profound question involves defining what we mean by fair international competition in a multi-state world consistent with global social goods; assessing the governmentally spawned distortions in international commerce; determining whether existing policies and institutions (the WTO, the G20) can provide a remedy in the foreseeable future and, if not, what new policies or institutions are needed; and, most delicately, deciding whether interim U.S. actions are necessary that both level the playing field for U.S. companies and do not exacerbate competitive distortions (or run afoul of international agreements we support).

But, as with so many other profound questions for the American future, this set of issues cannot be discussed with a semblance of rationality in our polarized political system and partisan, sound-byte campaign year. Moreover, the international side of the equation — the state of international competition — is of equal importance.

So, let's get on with the small but important step of reauthorizing the Ex-Im Bank. But let's have a serious post-election analysis and debate about how the problems in the international competitive landscape impact the future of American business and the American economy — a discussion that flows from today's realities and does not rest on 19th century shibboleths about small government.