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How Disrupting the U.S. Export-Import Bank Harms National Competitiveness and Undermines Economic Stability

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When American companies want to export, they often turn to the Export-Import Bank, the official export credit agency of the United States. This independent, self-sustaining executive branch agency has the mission of supporting American jobs by facilitating the export of U.S. goods and services. Many major U.S. exporters rely on the Bank for export credit – loans, insurance and other forms of financing for exports provided at no cost to the American taxpayer. In fact, since the Export-Import Bank charges interest and fees for its services, it has earned $7 billion in revenue for the U.S. government over the past two decades.

Now the Export-Import Bank is caught in an ideological controversy. Recently, many countries have expanded their use of export credit to increase industrial exports and boost their economies. But for the past two years, U.S. exporters have had to go without government-backed export credit, because a powerful group of small-government, free-market advocates has blocked the work of the Bank.

The Rise of Ideological Opposition

A collection of ultra-free-market advocacy organizations financed by the billionaire Koch brothers have made the Export-Import Bank a target in their campaign to dramatically reduce the size of government and its role in the economy. By blocking its reauthorization, these small-government advocates successfully shut down the Export-Import Bank and halted its lending operations for five months in 2015. Although the Bank was subsequently reopened, the vast majority of its lending activity remains blocked, because free-market conservatives in the Senate have barred appointments to its board. This leaves the Bank without the minimum number of board members required to finance transactions over $10 million, which typically constitute 80% to 90% of its loans. Approximately $30 billion worth of transactions in the pipeline have been stalled.

President Trump has submitted five nominations to fill seats on the Bank's board. If approved by the Senate, these nominations could restore the Bank's required minimum number of board members and thus restore its full lending authority. However, Trump's appointment to head the Bank, former Republican congressman Scott Garrett, is a founding member of the Tea Party-aligned Freedom Caucus and one of the Export-Import Bank's fiercest critics. Many view Trump's appointment of Garrett as an intentional act of sabotage.

Free-market conservatives object to the Export-Import Bank because they view it as an unnecessary deviation from the free market. The Bank's critics contend that government support for exports is unnecessary and inefficient and the government should not intervene in markets. Considerable evidence, however, suggests that doing away with export credit is an act of economic self-sabotage, tying the United States' hands in the face of growing global economic competition and unstable financial markets.

Constraining Export Credit Hurts U.S. Manufacturing and Helps Foreign Competitors

In recent years, countries around the world have increased their use of export credit to ensure the competitiveness of their exports. By constraining its use of export credit, the United States has relinquished an important economic tool. Even short disruptions like those in recent years put American exports at a competitive disadvantage. Stalling the activities of the Export-Import Bank weakens the U.S. industrial base, shrinking advanced manufacturing and related activities. Large multinationals have adjusted by relocating production from the United States to countries that are willing to provide export credit.

Meanwhile, China is aggressively using export credit to upgrade industries, develop strategic sectors, and expand its firms globally. In the United States, manufacturing is centered in advanced industries that produce technology-intensive and high-value-added capital goods like aircraft, satellites, and sophisticated machinery and equipment. Yet these are precisely the sectors that China is targeting as it aims to become a major competitor to the United States. Chinese export credit is helping its industries become big players in almost every capital goods sector.

If President Trump or the Koch-supported free-market advocates successfully eliminate the Export-Import Bank, the United States would become the only major economy in the world without an export credit agency. Many capital goods industries will likely leave the country and key manufacturing sectors would shrink or collapse altogether.

The Vital Stabilizing Role of Export Credit

Beyond the important role it plays in sustaining U.S. export competitiveness, the Export-Import Bank helps to buffer economic downturns. Financial markets are volatile and subject to periodic crises. In a financial downturn, private credit often contracts, including financing for trade. Government-backed export credit helps to fill this gap, making agencies like the Export-Import Bank essential to buffer trade from disruptions in financial markets and minimize the effects of credit contractions on the real economy.

The global financial crisis in 2008 exemplified these realities. As commercial credit contracted dramatically, government export credit agencies played a critical role in keeping international trade moving and preventing the financial crisis from spiraling into a worldwide depression. In the United States, the volume of the Export-Import Bank's lending quadrupled, as the Bank stepped in to offset a major shortfall in commercial credit and prevent a devastating plunge in exports. At the height of the crisis, America's largest exporter, Boeing, relied on the Export-Import Bank for nearly 40% of its exports.

In sum, the elimination of the U.S. Export-Import Bank would put the United States at a disadvantage in relation to other industrial economies – both advanced industrial competitors and rising economies like China. What is more, during future financial crises, the absence of this self-correcting government mechanism would put the United States – and the world economy – at greater risk for devastating economic instability.