Etceteras . . .

Unmitigated Mercantilism

When my son was growing up, I lived in constant fear that one day he would come to me and ask, "Dad, why do we have an Export-Import Bank?" Fortunately for me, that day never came. If it had, I would have been compelled to make a painful choice: either to lie to him, telling him that we need the bank to promote U.S. exports and create jobs, or to offer him the bitter truth, telling him that the bank is just another contrivance to shift wealth from the politically weak and alienated to the politically strong and connected, while sanctifying the transfer with incantations of economic humbug.

James A. Harmon, the current chairman of the Export-Import Bank of the United States (Eximbank), has demonstrated that he possesses a high threshold for embarrassment. On the homepage of the Eximbank's Web site, he has declared for all the world to see, "Ex-Im Bank Is Vigorously Pursuing Its Mission To Support U.S. Exports and Sustain American Jobs By Offering U.S. Exporters The Loans, Guarantees And Insurance Products They Need To Compete In The Global Marketplace" (http://www.exim.gov). Well, okay, not everybody has had the opportunity to take Economics 101.

Someone who, one presumes, has mastered both elementary and advanced economics is U.S. Treasury Secretary Lawrence Summers. After all, Summers was awarded a Ph.D. in economics by Harvard University, and he taught at MIT before returning to Harvard to become the Nathaniel Ropes Professor of Political Economy in 1983 (*American Economic Review* 87, no. 6 [December 1997]: 498). It seems more than a little odd, therefore, that Summers has publicly praised the Eximbank for its stimulation of U.S. exports and its contribution to "our national economic defense." According to Summers, "The virtue of maintaining a strong and credible Export-Import Bank is that it can help to deter abusive subsidies by other countries" (*Bloomberg News,* May 16, 2000, posted on AOL, retrieved May 27, 2000). It makes you wonder: What are they teaching in the economics courses at Harvard these days?

U.S. exports have been running at nearly $700 billion annually in recent years (Council of Economic Advisers, *Annual Report* [Washington, D.C.: U.S. Government Printing Office, 2000], p. 422). According to the Eximbank's 1999

Annual Report, the bank "supported" in various ways U.S. exports valued at $16.7 billion in fiscal year 1999 (report posted at http://www.exim.gov, retrieved May 22, 2000). Therefore, exports supported by the Eximbank amounted to roughly 2 percent of U.S. exports. One strains to imagine how the exporters of the other 98 percent managed to arrange financing.

As for the job creation that the bank declares to be its very purpose, one need not pause long over the arithmetic. U.S. gross domestic product (GDP) is now approaching $10 trillion. Even if all of the workers required to produce the $16.7 billion of bank-subsidized exports were to become permanently unemployed—a highly unlikely outcome, especially in today's tight labor markets—the resulting increase in the U.S. rate of unemployment would be swallowed up in the rounding error. The repeated claim that the nation needs the Eximbank to create or maintain jobs is not just bad economics—the kind that disregards opportunity cost, among other things—it is also unimpressive arithmetic.

So what is the real story behind this economic train wreck? We can gain a better appreciation by examining the principal suppliers of the goods whose export the Eximbank effectively subsidizes. Looking through the 1999 *Annual Report* (pp. 20–27), one finds the names of such obscure and struggling enterprises as Brown & Root, General Electric, Hughes Space Communications, Westinghouse Electric, Bechtel International, Lockheed Martin Overseas, International Business Machines, Motorola, Federal Express, Case, Caterpillar, and Siemens Westinghouse Power. Would it be too much to expect that these multinational corporate powerhouses could line up financing for their overseas sales?

By far the most prominent corporate beneficiary, however, is the Boeing Company. Its name is attached to thirty-four of the eight-two deals for loans and long-term guarantees listed by country in the 1999 report. Moreover, for those same eighty-two deals, Boeing's deals accounted for 54 percent of the total amount of loans and 80 percent of the total amount of loan guarantees. Little wonder that the Eximbank has been called "Boeing's Bank" (Janice C. Shields, "Export-Import Bank," *Foreign Policy in Focus* 4, no. 18 [July 1999], p. 2, available at http://www.foreignpolicy-infocus.org/briefs/vol4/v4n18exim.html, retrieved May 30, 2000). Ten of Boeing's thirty-four deals involved sales of aircraft to Chinese airlines, although the company's biggest listed deals, totaling more than $2 billion of loan guarantees, involved sales of aircraft to Saudi Arabian companies. Well might one ask: Can the Saudis not get credit in the ordinary commercial market?

Gather round, children, and I will tell you in words you all can understand how the Eximbank works. (1) The government takes money from American taxpayers and gives it to the Eximbank. (2) The Eximbank gives the money to institutions that lend to the Chinese and Saudi Arabian companies that buy airplanes from the Boeing Company. (3) Boeing (maybe) sells a few more airplanes than it would have sold in the absence of the export-credit subsidies. (4) A few people work at the Boeing Com-

pany who otherwise would have worked elsewhere. (5) Boeing shareholders earn a little more income, which otherwise would have been earned (plus a bit more) by other producers. (6) The total amount of wealth created in the United States—and in the world as a whole—is less than it would have been had these financial shenanigans never taken place. (You kids will understand that last point after you take Economics 101.)

Naturally, any such economically absurd and politically predatory subsidy scheme has a high probability of having been created during the New Deal, and the Eximbank is no exception. Back in 1934, Franklin D. Roosevelt was seeking a way to finance U.S. exports to the Soviet Union. Private financiers, cognizant that the Communists had repudiated debts owed by the preceding regime, were unwilling to throw good money after bad. The New Dealers, on the other hand, relished such opportunities, and, as usual, well-connected business interests worked assiduously to get their snouts under the Treasury's tent. In a statement that applies just as well to yesterday as to 1934, historian James S. Olson explains, "American traders began calling for long-term government credit to businesses dealing in foreign markets, particularly since so many foreign governments spared little effort subsidizing their own companies doing business with the United States. . . . Some form of government insurance or direct lending [the traders argued] was absolutely necessary" (*Saving Capitalism: The Reconstruction Finance Corporation and the New Deal, 1933–1940* [Princeton: Princeton University Press, 1988], p. 149).

Although political complications sank the USSR loan project that had given rise to the creation of the Export-Import Bank, the bank's all-purpose political serviceability ensured its survival. The first transaction, in 1935, involved a loan that allowed Cuba to purchase silver, a deal that pleased the pressure groups perennially lobbying for subsidies to silver producers in the western states. Continuing to move in accordance with the law of political gravity, most of the bank's early loans "were short-term credit on tobacco and cotton. Commercial banks handled the loans but invariably sold them back. The Export-Import Bank also granted intermediate credit to capital goods exporters, primarily railway and heavy equipment, and advanced long-term credit to exporters and banks against obligations issued by foreign governments in settlement of claims arising out of blocked exchanges" (Olson, *Saving Capitalism,* p. 164). Later, congressional pressures led the bank to pretend it was helping small business and small- and medium-size exporters—in truth, mere dinghies bobbing in the wake of the Boeing battleship (Shields, "Export-Import Bank," p. 3). Successive administrations found the Eximbank useful in connection with such political-financial adventures as the Marshall Plan, the establishment of the State of Israel and, more recently, propping up friends in the successor governments of the old East Bloc and the Asian governments submerged in the financial crisis of the late 1990s.

Although calls for privatizing the Eximbank have been voiced from diverse positions on the political spectrum, the institution continues merrily along its resource-

squandering way (Shields, "Export-Import Bank," p. 4; Michael M. Phillips, "Ex-Im Chairman Says U.S. Firms Need More Aid to Vie with Foreign Rivals," *Wall Street Journal,* May 15, 2000). Recently, its ambitious chairman, Mr. Harmon, recognizing an opportunity to project his institution into the most politically correct of all causes, announced a campaign to provide Eximbank subsidies in connection with sales of AIDS drugs to African countries (Michael M. Phillips, "Ex-Im Bank to Help American Businesses Sell AIDS Treatments to African Nations," *Wall Street Journal,* July 19, 2000). According to a spokesman for Merck & Company, "If Ex-Im Bank really does work to make more resources available to those African countries, then it's very welcome" (ibid.).

Of course, for any political institution, it is important to be seen as doing good while actually doing what all political institutions do. Harmon, ever the aspiring bureaucrat, assures the public that "This country has never needed [Exim] Bank more than it will need it in the years ahead." And right behind him stands that renowned economist, Treasury Secretary Summers, attesting that "The U.S. government has both the responsibility and the tools in hand to protect U.S. exporters from unfair practices that undermine their competitiveness" (*Bloomberg News,* May 16, 2000). In short, as long as other governments use subsidies to injure their own economies, never doubt that the U.S. government will match them shot for shot in wounding the U.S. economy.

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Correction

In Volume V, Number 2, the article by Jonathan J. Bean, " 'Burn, Baby, Burn': Small Business in the Urban Riots of the 1960s," contains on p. 183 a reference to Caplovitz, David. [1967] 1973. *The Poor Pay More.* The correct dates for that reference are [1963] 1967. Also, in the same article on p. 171 and p. 175 appear citations of a work by Caplovitz published in 1973. In those cases the citation pertains to a source not given in the list of references: Caplovitz, David. 1973. *The Merchants of Harlem: A Study of Small Business in a Black Community.* Beverly Hills, Calif.: Sage.