THE BASELINE

NTUF NATIONAL TAXPAYERS UNION FOUNDATION

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Leave Foreign Subsidies and Overseas Product Promotion to the Private Sector

Recently, NTUF's Matthew James and Demian Brady reviewed a few domestic corporate welfare programs and found that terminating the Hollings Manufacturing Extension Program, the Economic Development Administration, and the Rural Business-Cooperative Service would save taxpayers $6.5 billion over the next decade.[1] This paper examines three similar corporate welfare programs created to subsidize trade.

The International Trade Administration, the Export-Import Bank, and the U.S. International Development Finance Corporation use billions of taxpayer dollars to promote American products overseas as well as provide subsidies to foreign companies that purchase U.S. products. Worse, current budget scoring rules do not properly account for the risks present in these agencies' credit and loan activities.

American taxpayers should not carry the burden of risky overseas investments that provide little in return and distort the market. In addition, there are multiple trade programs across seven executive departments, the Executive Office of the President, and among six independent agencies and administrations.[2] Terminating these three programs would save at least $9.8 billion over a decade.

Key Facts:

- The federal government is home to a variety of taxpayer-funded corporate welfare programs created to subsidize trade, a function that would be better left to the private sector.
- Terminating programs like the International Trade Administration, the Export-Import Bank, and the U.S. International Development Finance Corporation would save at least $9.8 billion over a decade.
- Current budget scoring rules do not assess the full market risk exposed to taxpayers in these agencies' credit and loan activities. Implementing fair-value accounting standards would provide a more accurate assessment of these programs' budgetary impact.

[1] Brady, Demian and James, Matthew. "Wasteful Corporate Subsidy Programs Should be Eliminated." National Taxpayers Union Foundation. (July 20, 2021). Retrieved from: https://www.ntu.org/foundation/detail/wasteful-corporate-subsidy-programs-should-be-eliminated.

[2] Congressional Research Service. (December 3, 2020). *U.S. Trade Policy Functions: Who Does What?* Retrieved from https://fas.org/sgp/crs/misc/IF11016.pdf.

The International Trade Administration

The International Trade Administration (ITA) was established within the Department of Commerce on January 2, 1980, to promote trade and investment, including providing taxpayer-funded subsidies for businesses to promote their products overseas.[3] The ITA is also responsible for enforcing compliance with trade agreements by monitoring practices in other countries and by conducting antidumping and countervailing duty investigations.

President Trump proposed reductions to the ITA in his final budget request.[4] This proposal recommended rescaling ITA's Global Market trade promotion programs by closing a total of 50 ITA offices and reducing its funding to $280.3 million (saving $52.7 million compared to its FY 2020 funding). Congress did not adopt the proposed cuts, and instead boosted funding to the Global Markets unit to $348.0 million, which was $67.7 million (24.1 percent) more than the Administration's request.

Last year's *Toward Common Ground* report jointly released by NTUF and the U.S. PIRG Education Fund recommended terminating the ITA arguing that many of its activities were similar to other programs. The report also recommended that any taxpayer-funded recruitment program for foreign buyers, sales reps, and business partners to trade shows should be left to the private sector.[5]

In FY 2021, Congress appropriated $530 million to the ITA, and for FY 2022, the administration requested $559 million.[6] The Congressional Budget Office (CBO) estimated that terminating the ITA's trade promotion activities would save taxpayers $3 billion over ten years.[7] CBO pointed out that there are already several federal agencies that engage in trade development and promotion, yet the ITA receives the largest discretionary appropriations.

The Export-Import Bank

Similar to the ITA, the Export-Import (Ex-Im) Bank provides taxpayer funded subsidies to foreign firms and governments that purchase American exports.[8]

- There are a slew of problems with the Ex-Im Bank. In a previous issue brief, NTUF highlighted a few persistent core problems such as:[9]
- The bank consistently grants loans to a handful of already successful domestic companies such as Boeing, Caterpillar, and General Electric.
- In FY 2020, small-business authorizations *declined* by $177 million.[10]
- Ex-Im has minimal impact on the overall level of U.S. exports.
- The Ex-Im Bank's subsidized loan program for foreign buyers creates an unfair playing field for some industries in the United States.

[3] International Trade Administration. (2021). International Trade Administration. Retrieved from: https://www.trade.gov.
[4] Congressional Research Service. (September 3, 2020). *Trade-Related Agencies: FY2021 Appropriations, Commerce, Science, Justice and Related Agencies (CJS)*. Retrieved from https://crsreports.congress.gov/product/pdf/R/R46512/2.
[5] Brady, Demian et al. "Toward Common Ground." National Taxpayers Union Foundation and U.S. Public Interest Research Group. (June 5, 2017). Retrieved from: https://www.ntu.org/library/doclib/Toward-Common-Ground-2017.pdf.
[6] Department of Commerce. (2021). International Trade Administration Budget Estimates. Retrieved from: https://www.commerce.gov/sites/default/files/2021-06/fy2022_ita_congressional_budget_justification.pdf.
[7] Congressional Budget Office. (December 13, 2018). Eliminate the International Trade Administration's Trade-Promotion Activities. Retrieved from: https://www.cbo.gov/budget-options/2018/54834.
[8] Export-Import Bank of the United States. (2021). Export-Import Bank of the United States. Retrieved from: https://www.exim.gov.
[9] Brady, Demian and Perez, Sophia. "The Role of Fair Value Accounting in Promoting Accountability at the Export-Import Bank. National Taxpayers Union Foundation. (July 8, 2021). Retrieved from: https://www.ntu.org/foundation/detail/the-role-of-fair-value-accounting-in-promoting-accountability-at-the-export-import-bank.
[10] Export-Import Bank of the United States. (2021). Office of the Inspector General FY 2021 Congressional Budget Justification. Retrieved from: https://www.exim.gov/sites/default/files/oig/fy-2021-exim-oig-cbj.pdf.

The 2020 *Toward Common Ground* report recommended terminating Ex-Im, noting that the Bank is "an example of cronyism, where large corporations that have the ability to lobby the government for subsidies have an advantage against other American firms that do not have these abilities."[11]

For FY 2021, Ex-Im was appropriated $110 million for administrative expenses.[12] In the bank's FY 2020 portfolio, outstanding loans and guarantees were $47 billion, down from previous years. However, this amount may increase in coming years. The biggest risk surrounding the Ex-Im Bank is that it relies on American taxpayers to carry the financial burden if a company defaults on its loan. Setting aside the scoring issues in the Bank's loans and credit activities (see below), terminating the program would save taxpayers at least $1.1 billion over a decade based on its administrative funding levels.

U.S. International Development Finance Corporation

The "sister" organization to Ex-Im is the U.S. International Development Finance Corporation (DFC).[13] Senator Bob Corker's (R-TN) Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) created the DFC by consolidating the former Overseas Private Investment Corporation (OPIC) with overlapping programs managed by the U.S. Agency for International Development (USAID).[14] Under the BUILD Act, the DFC was authorized through 2025 and its risk exposure increased to $60 billion, compared to OPIC's former $29 billion exposure cap.

The DFC aims to promote private investment in developing countries with financial support activities backed by the full faith and credit of the U.S. government. Not only did the DFC assume the functions of OPIC, including providing insurance coverage of up to $1 billion against losses due to political risks (such as terrorism, political violence, or currency issues), as well as financing and special projects, it also took over some USAID activities (technical assistance, enterprise funds), and gained new responsibilities under the BUILD Act, including an equity investment program for new companies.[15]

Regardless of the reason, taxpayers should not bear the risk of private investment decisions. Taxpayers should not be subsidizing exporters to level the playing field simply because other nations have similar bad trade subsidy programs in place. Rather than allocate more funding to these programs, policymakers should focus on reforms that make the U.S. economy a more appealing place to invest in and purchase goods and services from.

Under the federal government's control, these export agencies waste taxpayers' dollars through inefficiency and duplicative activities. Even though the BUILD Act consolidated some programs, there are still similar programs under the Department of Agriculture, the Department of Commerce, the Department of State, the Department of Treasury, the Office of the U.S. Trade Representative, and the Small Business Administration.[16]

The 2017 edition of NTUF and U.S. PIRG Education Fund's *Toward Common Ground* report recommended terminating the DFC's predecessor, OPIC, noting that its programs "provide funding for various activities to promote trade and exports, such as paying for private advertising abroad. Though well-intended, these programs often fund profitable companies or their trade associations. Taxpayers should not be bearing the cost of their export promotions."[17] These problems persist under the newer DFC.

[11] Brady, Demian et al. "Toward Common Ground." National Taxpayers Union Foundation and U.S. Public Interest Research Group. (June 5, 2017). Retrieved from: https://www.ntu.org/library/doclib/Toward-Common-Ground-2017.pdf.
[12] Congressional Research Service. (February 4, 2021). Export-Import Bank of the United States. Retrieved from: https://crsreports.congress.gov/product/pdf/IF/IF10017.
[13] Congressional Research Service. (January 12, 2021). U.S. International Development Finance Corporation. Retrieved from: https://crsreports.congress.gov/product/pdf/IF/IF11436.
[14] Library of Congress. (February 27, 2018). S.2463-Build Act of 2018. Retrieved from https://www.congress.gov/bill/115th-congress/senate-bill/2463.
[15] U.S. International Development Finance Corporation. (December 1, 2020). DFC Announces Direct Equity Request for Applications. Retrieved from: https://www.dfc.gov/media/press-releases/dfc-announces-direct-equity-request-applications.
[16] Ikenson, Daniel. "Trade Promotion Agencies and U.S. Foreign Policy." Cato Institute. (May 19, 2015). Retrieved from: https://www.cato.org/testimony/trade-promotion-agencies-us-foreign-policy.
[17] Brady, Demian et al. "Toward Common Ground." National Taxpayers Union Foundation and U.S. Public Interest Research Group. (June 5, 2017). Retrieved from: https://www.ntu.org/library/doclib/Toward-Common-Ground-2017.pdf.

In FY 2021, Congress appropriated $569 million to the DFC from a Treasury account of collections from fees for services, interest earnings, returns on investments, and other transfers.[18] Of that amount, $119 million is for administration expenses and $450 million for program funding. For FY 2022, the DFC requests a boost to $134 million for administrative expenses and $700 million in program funding.[19] Based on its current funding level (and disregarding the current impacts of its loan activities) terminating the program would save taxpayers up to $5.7 billion over the decade.

Allowing the private sector to adopt these programs would streamline their operations and improve the quality of services they provide to the American people. At the very least, should Congress continue to leave these programs to the public sector, they ought to adopt private sector fair-value accounting principles that better assess risks.

It's Time to Adopt Fair Value Accounting

Supporters of DFC and the Ex-Im Bank cite the agencies' positive returns to the Treasury. However, this argument ignores the inherent risk of their investments. These agencies invest where the private sector wouldn't, often pursuing political objectives rather than financially responsible ones. Dismissing the risk assessment of these agencies is dangerous and invites significant harm to taxpayers. While both programs currently have a positive subsidy rate, this has not always been the case.

Unfortunately, current budget scoring rules do not fully assess the unnecessary risk exposed to taxpayers in these agencies' activities because the CBO must use methods prescribed under the Fair Credit Reform Act of 1990 (FCRA).[20] Under the FCRA, the value of cash flow is based on the projected yields of Treasury securities.

As NTUF wrote recently, this method underestimates the value of loans or guarantees because it does not accurately consider the market risk of loans.[21] Contrary to this method, fair-value accounting creates estimates based on the market rate of interest that a private entity would have to pay. Fair-value accounting principles provide a more comprehensive and accurate assessment of risk.

Last month, CBO released a paper exploring fair-value budgeting and found that, compared to accounting methods mandated under the FCRA, fair-value accounting was a more comprehensive measure of cost for government activities.[22] In the report, the CBO stated "fair-value cost estimates avoid the impression that the government can reduce deficits by purchasing risky financial assets at market prices." They also found that estimating fair value would require more concrete approaches for revenue and many other mandatory programs.

Should Congress seek to adopt fair-value accounting, a legislative vehicle already exists to do so. Adopting H.R. 3785, the Fair-Value Accounting and Budget Act would address these accounting disparities.[23]

Conclusion

It is significant that versions of these programs were included in the recent *Toward Common Ground* reports jointly produced by NTUF and U.S. PIRG Education Fund. The goal of this ongoing project is to break

[18] Congressional Research Service. (January 12, 2021). U.S. International Development Finance Corporation. Retrieved from: https://crsreports.congress.gov/product/pdf/IF/IF11436.
[19] U.S. International Development Finance Corporation. (2021). Congressional Budget Justification. Retrieved from: https://www.dfc.gov/sites/default/files/media/documents/FY2021_DFC_CBJ-Final-04222020.pdf.
[20] U.S. Department of the Treasury. (1990). Federal Credit Reform Act of 1990. Retrieved from: https://www.ntu.org/foundation/detail/the-role-of-fair-value-accounting-in-promoting-accountability-at-the-export-import-bank.
[21] Brady, Demian and Perez, Sophia. "The Role of Fair Value Accounting in Promoting Accountability at the Export-Import Bank. National Taxpayers Union Foundation. (July 8, 2021). Retrieved from: https://www.ntu.org/foundation/detail/the-role-of-fair-value-accounting-in-promoting-accountability-at-the-export-import-bank.
[22] Congressional Budget Office. (July 2021). Fair-Value Budgeting: Practical Issues. Retrieved from: https://www.cbo.gov/system/files/2021-07/57264-Fair-Value-Budgeting.pdf.
[23] Library of Congress. (June 8, 2021). H.R.3785-Fair-Value Accounting and Budget Act. Retrieved from: https://www.congress.gov/bill/117th-congress/house-bill/3785/text?q=%7B%22search%22%3A%5B%22congressId%3A117+AND+billStatus%3A%5C%22Introduced%5C%22%22%5D%7D&r=19&s=1.

through the ideological divide that too often frames unproductive policy debates. This report offers a pathway that can address the nation's fiscal problems by identifying mutually acceptable deficit reduction measures. The most recent edition detailed nearly $800 billion in savings.

Ending the three trade promotion programs examined in this paper would save taxpayers at least $6.5 billion over the decade. The government should not be picking winners and losers in the marketplace. This idea is best encapsulated in testimony to the Subcommittee on Economic Policy by Daniel Ikenson, former director of Cato's Center for Trade Policy Studies. In his testimony, Ikenson stated:

> To nurture the promise of our highly integrated global economy, policymakers should stop conflating the interests of exporters with the national interest and commit to policies that reduce frictions throughout the supply chain — from product conception to consumption. Why should U.S. taxpayers underwrite — and U.S. policymakers promote — the interests of exporters, anyway, when the benefits of those efforts accrue, primarily, to the shareholders of the companies enjoying the subsidized marketing or matchmaking? There is no national ownership of private export revenues.

Ideally, these agencies' credit and subsidy activities would be left to the private sector, but at the very least Congress should implement fair-value accounting reforms to better account for risks present in their overseas activities.

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