THE MARKET, THE STATE, AND THE EXPORT-IMPORT BANK OF THE UNITED STATES, 1934–2000

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CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge CB2 2RU, UK
40 West 20th Street, New York, NY 10011-4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa

http://www.cambridge.org

First published 2003

Printed in the United States of America

Typeface Sabon 10.25/14 pt. *System* LaTeX 2_ε [TB]

A catalog record for this book is available from the British Library.

Library of Congress Cataloging in Publication Data

Becker, William H.
The market, the state, and the Export-Import Bank of the United States, 1934–2000 /
William H. Becker, William M. McClenahan, Jr.
p. cm.
Includes bibliographical references and index.
ISBN 0-521-81143-0
1. Export-Import Bank of the United States. 2. Export credit – United States.
3. United States – Commercial policy. I. McClenahan, William M. II. Title.
HG3754.U5 B43 2002
332.1′54′0973–dc21 2002066521

ISBN 0 521 81143 0 hardback

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INTRODUCTION

The Export-Import Bank of the United States is the government's official export credit agency (ECA). Throughout its history the Bank has promoted the financial needs of American exporters, but it has also served the goals of policy makers in the White House, as well as the Departments of the Treasury, State, and War (later Defense). In that sense, Ex-Im was not atypical when compared to the ECAs of other governments. What has been unusual in Ex-Im's history was the need to compete with foreign ECAs, which were the products of different political economies, serving governments that often had domestic and foreign agendas unlike those of the United States. Ex-Im has avoided competing with private sector institutions. That stricture, a part of its early congressional mandate, has shaped a government institution keenly attuned to the practices of financial market institutions. Additionally, the Bank focused on market principles because of the requirement that its lending be based on the assumption of a reasonable assurance of repayment.

Franklin D. Roosevelt created the Export-Import Bank in 1934 during the New Deal's earliest zeal for planning and building the power of the state. It now exists in an environment where leaders extol market solutions to economic growth and development in most places in the world. As this transformation suggests, Ex-Im has long conducted its business in an ever-changing realm defined by the shifting demands of both the state and the market. The Bank's experience over the last sixty-five years provides a telling perspective on the achievements, failures, and future possibilities of a public institution committed to operate by the rules of the market. Ex-Im's history tells us much about the use of market principles over many decades to attain the objectives of the American state.

Belying the common image of sclerotic public institutions, Ex-Im proved itself flexible, indeed entrepreneurial, in addressing the shifting relationships between the power of the state and of the market. Some of the shifts – such as the end of the Bretton Woods fixed exchange system in 1971 – were of tectonic proportions. So the required adjustments were not accomplished without tension and difficulty; nor did they all work out as Ex-Im would have liked. But overall, the Bank and its leaders were adroit in continuing to serve the financial needs of American exporters *and* the public policy interests of the United States. This was as true throughout the depression of the 1930s, as during post–World War II European reconstruction, the initial sponsorship of Third World economic development in the 1950s, the Alliance for Progress in the 1960s, the oil shocks of the 1970s, the international debt crisis of the 1980s, the aftermath of the disintegration of the Soviet Union in the 1990s, and the Asian financial collapse of 1997–8.

As the United States' export credit agency, the Bank's supporters and critics measured it against similar bodies in other industrial countries. Ex-Im's history, as such, provides a comparative perspective on ECAs, a key twentieth century international economic institution. Roosevelt had created the Export-Import Bank in part to provide American exporters with services comparable to those available from the government ECAs of competing industrial powers. After the early 1950s, how Ex-Im's services stacked up against those of the United States' European and Japanese competitors became a vigorously contested policy issue. This was especially true in the heated debates over the causes of America's declining competitiveness in the 1970s and 1980s.

At the same time, Ex-Im joined in the United States' campaign to liberalize international trade and finance. Since the 1970s, Bank officials have helped represent the United States in Organization for Economic Cooperation and Development (OECD) negotiations to level the global playing fields. Practically, the resulting OECD agreements helped American businesses breach international trade barriers in the financing of exports.

Sustaining the Bank throughout its history has been an unusual organizational culture for a public institution. Key Ex-Im leaders – including, among others, Jesse H. Jones, Warren Pierson, William McChesney Martin, Walter Sauer, William J. Casey, Jr., and Henry Kearns – fostered businesslike values among the Bank's staff. Together they embraced the standards of the financial marketplace in analyzing risk, structuring loans, and scheduling payments. Ex-Im earned profits and paid dividends to the U.S. treasury through the 1970s.

Initially, the Roosevelt administration designed the Bank for two purposes. It was to serve as the government's agent in trading with the Soviet Union, which the United States recognized in 1933. Second, Ex-Im was to cope with the "market failure" of a commercial banking sector, which was unable during the Great Depression to offer sufficient export financing. For the most part, Ex-Im during its history extended credit, or guaranteed the extension of credit, to foreign purchasers of American exports. In making its loans, the Bank by statute had to avoid competing with commercial banks while still expecting a reasonable assurance of repayment. It was not to be a concessional lender nor an aid-giving institution.

This core market orientation has been tested many times during the Bank's history. For much of this time, but certainly in its first decades, government officials treated Ex-Im's export support activities as fundamentally an instrument of American foreign policy. Its responsibility as the U.S. agent for a hoped-for large trade with the USSR was only the first in a number of instances in which the Bank served the needs of diplomacy. The demands of high-level foreign policy on occasion conflicted with the Bank's basic principles. Ex-Im did not always prevail in these struggles. Acting against its market principles at times caused the Bank both political and financial problems. But out of the conflicts grew an extraordinarily resilient and flexible – indeed at times entrepreneurial – institution. These qualities equipped Ex-Im to adjust itself not only to the demands of the American foreign policy establishment but also to the agendas of the Department of the Treasury, presidents of the United States, and powerful members of Congress. These organizational traits also prepared Ex-Im to confront other transformations in its environment – shifts in the domestic and international economy, changing relationships between market and state power, and the United States' varying role in the postwar economic order.

Ex-Im's record was entwined with the United States' growing private and public role in the international economy since the 1930s. Its history demonstrates how American exports influenced the country's foreign policy toward countries on almost every continent. Beginning in the 1930s, Latin America became an important focus of the Bank's activities, which both complemented and at times conflicted with Roosevelt's "Good Neighbor Policy." During World War II, the Bank financed Latin America's acquisition of American capital goods, purchases used to produce strategic materials sold back to the United States. Because of its experience in making and administering these large-scale loans, Harry Truman drafted Ex-Im to begin European reconstruction immediately after the war. Between 1945 and 1948, the Bank served as a crucial bridge between the end of lend–lease and the beginning of the Marshall Plan. This role created great tensions within the Bank. The Truman administration expected the Bank to satisfy the huge capital needs of countries in situations that frequently did not meet the Bank's prudential standards for lending.

In the 1950s and the 1960s, Ex-Im focused more intently on Latin America. Its lending complemented a growing foreign policy interest in economic development there and in other underdeveloped regions. Ex-Im's interest in development was not new. Indeed, the Bank's leadership in the 1930s had articulated one of the earliest policy rationales for promoting economic development. Ex-Im preferred to finance the overseas sale of capital goods used in development projects. The latter, the Bank's leaders believed, contributed to the development of an industrial base that in turn later would promote markets for U.S. goods.

The Department of State embraced the Bank's development arguments, as Cold War tensions between the United States and the Soviet Union spilled over into the Third World. Thus, initial skepticism about Ex-Im in the early Eisenhower administration's Department of the Treasury was balanced and then was subsumed by support in John Foster Dulles' State Department. Organized exporter and banker groups pressed Congress to protect Ex-Im from treasury's budget cutters. In Dulles' view, the Bank's promotion of exports, and the private foreign firms that at times received credits to purchase them, helped counter growing leftist movements in Latin America.

Radical changes in the 1960s and especially the 1970s changed the United States' standing in world trade and finance. Ex-Im had to adjust itself accordingly. Western Europe and Japan had recovered from the destruction of WW II. Increasingly, their exports entered the American market, eventually ending the United States' trade surpluses. Trade deficits – and the balance of payment deficits that followed – unnerved American officials. Many of them now extolled the Bank's promotion of exports as helping address the country's balance of payments problems. In addition, because the Bretton Woods system of fixed exchange rates artificially kept the relative value of the dollar high – increasing the foreign cost of American goods – policy makers saw Ex-Im lending to foreign purchasers as offsetting the negative consequences of the expensive dollar.

President Richard M. Nixon revolutionized international finance when he abandoned the Bretton Woods' fixed-exchange-rate regime in 1971. This policy decision fundamentally altered the international economic environment in which the United States had operated since the end of World War II. By 1973, the rates of exchange among the major currencies floated. Floating currencies – at least in the minds of economic theorists and some treasury officials – challenged the traditional rationale for the Bank's promotion of exports. Because ending Bretton Woods led to a devaluation of the dollar, in theory a cheaper American currency would lower the price of exports, making them more attractive to foreign buyers. In fact, currencies did not float freely, as governments intervened in currency markets to influence rates of exchange.

In the 1970s, the importance of exports increased dramatically in many countries following OPEC's tripling of oil prices in 1973–4. Overnight, oil importing countries – including the United States – saw the costs of imports explode. In response, foreign export credit agencies upped assistance to their exporters through highly subsidized financing. Such practices heightened competition for export markets. They added some urgency to Congress' 1971 mandate that Ex-Im play a direct role in helping American exporters cope with heavily subsidized foreign competition. One aspect of the Bank's new responsibility involved participating in Organization for Economic Cooperation and Development (OECD) negotiations. These discussions focused on the devices governments used to assist their countries' exporters. The United States' goal has been to establish a common ground of standards on interest rates, length of credits, levels of concessionary lending, and so on. By helping level the playing field, the Bank became a key instrument in the United States' effort to promote fairer and larger international trade in the last thirty years.

Also sharply influencing the Bank were changes in the domestic economic situation in the 1950s, 1960s, and 1970s. Beginning with the economy-minded Eisenhower administration and carrying through the era of persistent and increasing federal deficits that began in the late 1960s, budget officials attempted to reduce the government's borrowing. As a result, the treasury and the Office of Management and Budget (OMB) pressed Ex-Im to cut its reliance on the treasury for funds. Ex-Im responded innovatively to these demands after 1960 by encouraging partnerships with commercial banks offering export financing. These efforts increasingly employed Bank guarantees to back up private lenders by reducing their risks and initiated a partnership with foreign credit insurers where the Bank assumed significant liability exposure.

The impact of other economic shifts, however, was not so easily managed. Boom conditions in the 1960s gave way in the 1970s to "stagflation" – declining growth rates accompanied by increasing inflation and unemployment. These circumstances confounded both the Republican and Democratic administrations in the 1970s, neither of which devised economic policies able to cope with this unprecedented economic problem. At times, the Federal Reserve met increasing inflation by raising interest rates. This boosted the cost of the Bank's funds, along with those of other financial institutions. As a result, the Bank during the 1970s lent funds – increasingly to meet the practices of other ECAs – at rates below its own cost of capital. The Bank thus jeopardized its profitability – it abandoned paying a dividend in 1980. Moreover, this policy opened the Bank to persistent criticism about offering subsidies, defined by its critics as the difference between the rates it paid on borrowed funds and the rates it charged to lend money.

Subsidization became a contentious political issue in the 1970s. Part of the criticism's sting was a result of the small number of firms that seemed to benefit most from the Bank's lending. Late in the 1960s, Ex-Im focused on American capital goods with comparative advantage. These included the "high-tech" products of the time – jet aircraft, nuclear power stations, and the ground facilities for satellite communications – that required substantial financial support to foreign purchasers. Consequently, by the 1970s, almost half of the Bank's lending bolstered exports from these industries. Because these goods were manufactured by large, profitable companies – Boeing, McDonnel Douglas, Lockheed, General Electric, Westinghouse – antagonists in Congress questioned the Bank's large expenditures for such money-making enterprises in a period of budget deficits and fiscal restraint. The Bank defended itself by arguing that financing high-tech exports boosted employment in key industries and helped the U.S. balance of payments. These arguments, of course, resonated among exporters and members of Congress whose districts included the favored companies and their employees. But criticism of Ex-Im's subsidies did not subside in the 1970s, as academics and journalists joined several prominent members of Congress in probing how and why the Bank did business.

Critics had much to complain about in the 1980s. By then, Ex-Im was losing substantial sums of money because of a high level of business in the late 1970s and early 1980s financed at "subsidized" rates. With the arrival of the Reagan administration in 1981, the Bank faced an additional challenge. The administration espoused an ideology opposed to large government programs. That mind set, along with the fact that the Bank was losing money, weakened Ex-Im's position. So too did the domestic and international economic situation in the 1980s. Reagan and the Fed purged inflation out of the domestic economy. The result was a strong dollar, which in turn depressed exports. In addition, the Latin American debt crisis of the 1980s dampened demand and reduced economic activity in that region and elsewhere.

Consequently, Bank losses and nonperforming loans increased. The period from the mid-1980s through 1990–1 was characterized by dramatically reduced demand for Ex-Im products (credits, guarantees, and insurance). The Bank, however, was able to use this period to begin to realign its institutional relationships with the finance and insurance industries and to adjust its own internal policies and procedures to this new environment.

In 1990, Congress overhauled the way the federal government budgeted its credit operations in the wake of the domestic savings and loan crisis. Credit reform and continuing budget pressures presented challenges to traditional assumptions about how the Bank could best perform its function of complementing, not displacing, private markets. Vexing problems about the Ex-Im's relationship with the private sector were also a factor in the decision in 1992 to end its thirty-year relationship with a consortium of private insurers. In addition, the maturation of the OECD arrangements and the increasing sophistication of international capital markets ensured that the mix of Ex-Im activity would be primarily loan guarantees and not credits.

During the 1990s, the environment for the financial services of the Ex-Im again underwent a dramatic transformation. Early in the decade, the levels of Bank activity had increased dramatically over the doldrums of the mid to late 1980s and exceeded those of the mid 1970s. OECD negotiations led in 1991 to an arrangement to limit concessional finance in export credits, a practice that had begun to challenge the Bank in the 1980s. By 1997, participants in OECD bargaining also had reached an accord on setting minimum risk premium fees for dealing with country and sovereign risk. The collapse of the Soviet Union increased demands on Ex-Im resources, as did the increasing role of market-based solutions (as opposed to sovereign guarantees) for development outside of the former Soviet bloc. Commercial and investment banks remained cautious participants in trade finance, even though new sources of investment capital became available in international markets. Despite the widening of capital resources, traditional providers fled Asia following the 1997 crisis in the region. Ex-Im then provided a substantial amount of the short-term credit needed to cope with the harrowing consequences of private capital flight.

At the beginning of a new century, the Bank again faced how to position itself between the state and the market. While private investment capital returned to Southeast Asia following the crisis of 1997–8, traditional export financing did not for the most part. Consequently, the Bank had to determine how it would cope with the risks in that region and in those other parts of the world – such as Sub-Saharan Africa and Russia – where traditional commercial export finance was likely to be scarce. It also had to decide whether to follow or counter Canadian and German government agencies that were directly competing with the private sector for business. That trend, which accelerated during the 1990s, challenged the United States' commitment to creating an orderly foreign export credit regime through OECD understandings. However that issue is resolved, Ex-Im will also probably need to reaffirm its role as a provider of credit – a lender of last resort – a task it will need to take up again when the next international financial crisis further drives private commercial finance from export markets.

In the book that follows, we turn in Chapter 1 to the founding of the Bank, its early lending, and the beginnings of a distinct business-oriented culture. The chapter that follows (Chapter 2) traces Ex-Im through World War II and its role in postwar reconstruction. Chapter 3 discusses how the Cold War influenced the work of the Bank and the next chapter (Chapter 4) explores how Ex-Im increasingly used guarantees and insurance to meet the needs of its customers and the United States government. In Chapter 5, we examine how the end of the Bretton Woods system and the oil crisis of the 1970s changed the international economy, which in turn had profound effects on Ex-Im's business and the role Congress mandated for the Bank. Chapter 6 investigates how the Bank managed its business in the face of troubled domestic and international economic conditions, especially after the onset of the international debt crisis in the 1980s. The last chapter (Chapter 7) focuses on how the economic boom of the mid and late 1990s, the opening of new overseas markets for the United States, and the Asian financial crisis yet again required Ex-Im to adjust its practices to meet rapidly changing circumstances. Lastly, the epilogue takes stock of how the Bank has responded to rapid economic change, both in the United States and overseas, and the issues and conditions it faced at the beginning of a new century.