



The Alleged Failure of Austerity, Plus the Ex-Im Bank

Guest: Veronique de Rugy

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Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University.

WOODS: Let's start off with a topic that some people may think is dull, and I don't know—maybe it is. But for the sake of completeness I want to cover it. There's been some talk in the media recently, and in our circles in particular about something called the Export-Import Bank.

DE RUGY: Yes.

WOODS: First of all, what is the Export-Import Bank, and why now? Why is there so much commentary about it right now?

DE RUGY: The Export-Import Bank is a New Deal-era government agency that was created and that continues to basically dole out loans to foreign companies to buy American stuff—mostly Boeing products, and that's the reason why many of us call it the Boeing Bank. The reason why there's so many talks about it right now is because its reauthorization is coming up in September and because somehow it seems that finally some Republicans in Congress have come to realize it shouldn't exist, that even though it's a small agency that very few people have heard of, it is a quintessential illustration of everything that is wrong with corporate welfare, everything that is wrong with government intervening in capital markets, and everything that is wrong with political allocation of capital.

WOODS: Well, you're right that there is this one company, Boeing, that we overwhelmingly associate with the Export-Import Bank. They are the ones who more than everybody else put together benefit from it.

DE RUGY: Oh, yeah, absolutely, so to give you an idea. All that Boeing is getting from Ex-Im are loan guarantees. So foreign companies get loans guaranteed to a really good deal in exchange for buying Boeing goods, and of that part of the program Boeing benefits; 66% of the loan guaranteed expended go to benefit Boeing. Overall, the overall activity—over a third of the bank's activity goes to benefit Boeing. It's huge. But more impressive, some 75% of the bank

activity goes to benefit only 10 giant companies. And people say, well, why? Yeah, it's a very good question. Why? Especially considering that those foreign buyers for the most part are either people who really shouldn't be getting access to capital or companies who actually have full access to capital and are just getting a super sweet, sweet, deal. And while in good times it doesn't cost us that much, in fact, it may even be returning money to the Treasury, which isn't clear, but let's assume it is, taxpayer exposure is gigantic. It's like there's over \$140 billion of liability that could fall on our laps, and part of it could fall in our laps during hard times.

WOODS: What a company like Boeing might come back with against you is to say that other countries are going to be giving special benefits to their companies. So we're just trying to level the playing field here, and you free-market ideologues are going to make it completely impossible for us to compete.

DE RUGY: Well, yes, they say this all the time, but okay, so there are two main reasons why this argument doesn't hold water. The first one is when you hear this type of argument, you would think that all that the bank does is to counteract these foreign subsidies. Well, when you look at how the bank actually justifies its activity, only a third of what it does goes to doing this, to level the playing field—I hate using this word in the case of government—but against foreign subsidies. So 70% of what the bank does has nothing to do with this.

The other thing is, we have 200 years of economic literature that tells us that protectionism, which is what Ex-Im does, is bad even when other countries are doing it. In other words, it is in the US's interest to stop subsidizing exporters, only a handful of exporters. Even if other countries don't do it because when we subsidize exporters, sure, their bottom lines, the few ones who are doing this, their bottom lines are getting padded and is improving. But there's a gigantic cost to U.S. consumers, to other U.S. companies who aren't getting these types of benefits, and these costs to these unseen victims is overwhelmingly bigger than the teeny benefit that the well-connected companies are getting from this political privilege.

WOODS: Why would the Export-Import Bank continue if overwhelmingly the benefits accrue to just one company? Is Boeing really giving that much money to the politicians?

DE RUGY: Well, yes. And the other thing is you know that story, Tom. It's the typical Public Choice story. The beneficiaries of the Export-Import Bank are very visible. They are very big. They are very loud. They are very well connected. They have a lot of money. So they can put a lot of pressure on politicians. The victims, on the other hand, are spread out throughout the U.S. Often they pay a price, and they can't really realize, don't really realize, why it is that the price of plane tickets are so expensive, or they don't even know that actually, without the Export-Import Bank, their plane tickets would be less expensive. The guy who gets laid off doesn't necessarily make the connection, but the reason why he got laid off is because a competitor company is actually getting a handout from the government and making the environment they compete in just totally unfair to the point that he has to lay off his employees. And so the unseen, all the victims throughout, or even the few who realize that

they are getting screwed, basically, by government intervention, they're not represented in Washington, they don't have lobbyists lobbying for them, they don't have access to a press office, and so this is the reason why it continues.

WOODS: All right, let's shift now to the subject of austerity, which you've written about. First of all, tell us what your definition of austerity would be and what the definition of austerity that, let's say, Paul Krugman uses or that is used in a lot of other situations to make it seem like we've actually had austerity when maybe we have not, and when I say we, I mean the whole Western world.

DE RUGY: Well, actually there's three definitions I'm going to give you. I'm going to give you mine, which I expect is your definition of austerity. The only true austerity we want to see is one where the size of government goes down. Basically it's cutting spending. That's what austerity means when you're in the red with your family, that's what you do if you cut your expenses rather than essentially try to bully your boss to give you a higher pay. That would be my definition of austerity. Unfortunately, the way that austerity is defined in the economic literature and the way people talk about it is any attempt to reduce our debt-to-GDP ratio, and that can be achieved by reducing spending, increasing taxes, or doing a mix of both, and what Krugman has been doing, and a lot of the people who have been talking about austerity is assuming that any of the attempts that have been put in place in Europe or anywhere else has actually taken the form of reducing spending when, in fact, when you look at the data what most of them have done is raise taxes.

WOODS: And you have looked at the data. You have compiled some information on this, and what was it that you found? What conclusion did you draw?

DE RUGY: Yeah, so for instance, looking at European countries, one of the things that you see is that the vast majority of them have implemented fiscal adjustment packages that are mostly based on tax increases, and not at all on spending cuts. In fact, spending has continued to go up, [even if] it actually has grown a little slower than it used to in the past, which is hardly what you and I would call austerity, and we know that this is absolutely the wrong way to approach reducing this debt and growing your economy. We have 25 years of economic literature. We have a lot of empirical work that shows the best way to reduce your debt-to-GDP ratio in the short term and obviously the long term, is to adopt austerity packages that are made of spending cuts. And which type of spending cuts? Mostly what in America we would call entitlement spending and also the size and pay of government.

WOODS: Now, of course, there isn't going to be any government out there whose policies are going to satisfy us completely, but just looking around the world who has done the relatively best job, and how is that or how are those economies doing?

DE RUGY: I think, as you say, no country is pure at all, and none of them are really doing what you and I would like them to do, and it's not because it's a preference, again, it's because it's sound economics. But the Swedes, strangely, have actually been pretty good. They have cut

spending. They have reduced taxes in some areas. Also, because they are not part of the EU, they have done pretty sound monetary policy. They have also liberalized to some extent their labor market, and so they have done really a much better job, and it's paid off. On the other hand, if you want me to tell you who is one of the countries who is our role model for what not to do, I will tell you the French—obviously, not a surprise. They have raised taxes. It is quite astonishing that you can continue raising taxes, and raising taxes, and raising taxes, and not get it that this is why your country is actually shrinking.

WOODS: Yeah, now are you are a French national?

DE RUGY: Yeah, I'm also an American, but yes, I am French.

WOODS: So this is particularly a difficult pill to swallow, although I suppose France has been on a path like this for quite some time.

DE RUGY: Yeah, it would be a tough pill to swallow if I haven't given up on France. (laughs) But in fact, I find France to be really useful in a sense. You need to have a country that you can always point to as look, look what the government does. Look what happens when you increase taxes like this all of the time. But it is really stunning how they've been wrong. Their instincts are always wrong, and their policies just really have a devastating effect.

WOODS: Now, when you came out with your data on austerity, you got attacked by Paul Krugman. What was his problem?

DE RUGY: Actually he attacked me several times, and he wasn't alone. There were a lot of attacks on me. But Krugman was actually the least constructive one because he would just drop my name in the middle of a blog posting, that when are people going to understand that she is just a hack, and he didn't even look at my work or say what was wrong with my work. But the bottom line is he was really, really annoyed at me pointing out that these European countries, to the extent that they implemented austerity, they didn't implement public austerity in the form of cutting spending. They implemented private austerity in the form of high taxes. But you know what? For all his screaming, and yelling, and calling us names, in the end I have noticed that he started actually acknowledging that Europeans have raised taxes. He started actually addressing the tax issue. One of the things I kept saying is, how is it possible that those hardcore Keynesians like Paul Krugman and a lot of other people are not outraged at what's going on in Europe? Because as you know, the Keynesian theory tells you that in time of recession you need to increase spending—I don't buy that, but you need to increase spending, and you need to cut taxes. And certainly you shouldn't be raising taxes. That's really bad. The Keynesian theory tells you this. So they should be totally outraged about what the Europeans were doing. They should actually have been the first one writing editorials bashing the Europeans for their policies. They didn't.

WOODS: I agree, and I think it's because egalitarianism trumps the pure theory of Keynesianism, but that's just a theory of my own.

DE RUGY: Or politics. You know? It is quite astonishing to look at how people are willing to change their position or overlook what they claim they believe in just in the name of when it's convenient politically. You see this in examples we just talked about where the Democrats used to be totally against the Export-Import Bank because it's corporate welfare, and now they're all for it. They're carrying water for big corporations, and suddenly they've forgotten that they were against it for decades.

WOODS: I had somebody comment on my blog just the other day that Krugman, after all, is an award-winning economist, and very smart, and everything he has predicted has come true. And now, I don't know about all his predictions—I'm sure Bob Murphy has got them all memorized—but what I do know is that if you say we need to lower interest rates to spur housing, and then you turn around and say, you know, I think there might be a housing bubble brewing, well, I don't think that's such a feather in your cap given that you called for the very conditions that made a housing bubble inevitable. Turning around and predicting it really isn't all that impressive.

DE RUGY: I agree with you. The other thing that he does is he changes the goal as he goes along. If you remember during the stimulus stage, the administration had said unemployment was going to go up above 8.8% if we didn't pass the stimulus. When that turned out not to be true, suddenly no one was talking about that prediction, and they had moved the dialogue somewhere else.

WOODS: Yeah, in fact, because what did happen was we did get the stimulus and unemployment went even higher than they said it would have gone without the stimulus, so of course they have to run away.

DE RUGY: Absolutely. I totally agree with you. So I don't know to whether—I hate to actually make assumptions about what people do and why they do it, but I will say, and I have said that to some of my liberal critics, that I don't want to be walking around saying things that are not true, and everyone makes mistakes, but when they actually show me that I've made an argument in a way that's sloppy, or I've said something that's not true, I will stop doing it. And also, I try to be consistent in the case I make for freedom. I really try to. I see that the other side doesn't have some standards of intellectually honesty. Dishonesty is usually present, just put it this way.