WINTER SEMINAR OF THE
COALITION FOR EMPLOYMENT THROUGH EXPORTS
Friday, February 5, 1988
Washington, D. C.

I am pleased to be here. CEE is the most important voice for exporters in Washington, a voice that we all need to listen to today when expanding exports is so critical to the continued health of the U.S. economy.

I want to say a few words about the trade bill, but first I want to discuss the prospects for U.S. exports and present some proposals to give U.S. exporters the tools they need to compete.

To set the context, I think we can all agree that the global market is increasingly dominated by government-sponsored economic nationalism. This nationalism taks many forms -- government direction of resources into export industries, barriers to imports at home, performance requirements, subsidies, use of aid programs for commercial gain. Some governments seem to have redefined their role of maximizing national welfare to mean maximizing international market share at their trading partner's expense.

The challenge of the period we are now entering is to restore market-based discipline to the trading system. Without it, trade flows will continue out of balance, and growth will slow down. That will leave the United States with two policy choices -- both of them bad.

We can opt for protectionism -- not a percentage point rise in the tariff schedule or a temporary quota here or there, but abandonment of international competition on a scale not even contemplated in the so-called "protectionist" trade bill.

Or we can become like everyone else -- and bring Uncle Sam into the firm as your business partner. Only the short-sighted can believe this is the solution to our trade problem. Government bureaucracy is by nature risk-averse and wary of entrepreneurship. Put your business planning in their hands and tell me you believe the result will be a resurgence of U.S. competitiveness.

To avoid these choices, we must find a way to restore free markets and market discipline. This is a challenge for both government and business -- for government to impose the fiscal discipline necessary to get our twin deficits -- budget and trade -- under control. For business to understand that market discipline can only work across-the-board, not just in export finance. Subsidies and barriers to imports are equally distorting and must be attacked with equal enthusiasm.

We have begun those efforts. The dollar is finally at a level that makes the exports we must sell more competitive and the imports we cannot afford more expensive. 1987 trade data shows better than 10

percent growth of U.S. exports after three years of flat performance. But the United States still bought $170 billion more than it sold in 1987. Coming all the way back is going to require better balance in our trade with the developed countries and substantial progress in restoring LDC markets.

That means not only maintaining a competitive dollar but also obtaining far better cooperation from our trading partners in providing open markets for our exports, as those shifts may be. These changes must come. If they do not, the reaction and the adjustment later on will only be worse.

The developing world may be the bloodiest battlefield in the fight to restore market discipline. The fight for deals and market share is especially intense in markets badly contracted by the debt crisis. Our developed trading partners are prepared to make unlimited use of official credit and gladly misuse aid programs to win sales. Governments will support deals that make no economic sense in the hope of securing future markets.

On this LDC battleground, U.S. exporters are operating at a substantial disadvantage. Finally able to sell at prices competitive with our major trading partners, we find markets now closed for lack of credit, sales lost to foreign aid financing or mixed credits. The financing window is always open for our competitors -- on generous terms. Meanwhile, U.S. banks are closing their international windows, and our lender of last resort, the Export-Import Bank, is underfunded and on the ropes.

Solving these problems demands a joint government-business effort. <u>First</u>, we must get a better grip on the debt problem. The Treasury and U.S. regulators must increase pressure on debtors and creditors to get back to the bargaining tables to work out recovery programs. Made complacent by the weaker dollar, the Reagan Administration does not understand the urgency of addressing the debt problem. It must receive a top priority by not only Jim Baker but the President as well.

<u>Second</u>, as a tactical matter, we must use our aid programs to full commercial advantage in LDC markets. The Commerce Department and our representatives at the multilateral banks must help our exporters get their share of bank procurement. And we must ensure that AID dollars that buy LDC imports should support U.S. commercial sales.

<u>Third</u>, we must also <u>directly</u> combat abusive financing practices. Several years ago, in the face of Administration indifference to our export financing problems, I proposed the so-called "mixed credit warchest" to combat predatory financing practices. Subsequently, the Administration embraced it, and the results are a matter of record.

The warchest was key to U.S. success in achieving a tied-aid credit agreement in the OECD. That agreement will be fully implemented this July and will require a 35 percent grant element in all mixed credits. This is a notable achievement, even though it fell short of our 50 percent goal, and even though we know how difficult it will be to fully end this pernicious practice.

The warchest expires this September, only a few months after the

OECD agreement goes into effect. It may have been a modest step, but I'd rather have one cop on my street during a crime wave than take my chances alone with the thugs. We still need our cop on the beat; and, therefore, I will propose an extension of the warchest authority for an additional two years so that funds already authorized can be used to continue the fight for market discipline. I urge you to lobby the Administration to support this effort.

Finally, we must make sure trade financing is there when and where our exporters need it. A healthy Eximbank is not the entire solution, but it must be a part of it. It is an important factor in riskier LDC markets and cannot be left in its present weakened condition.

You all know the problems:
-- Its capital is well on its way to exhaustion.
-- It has become the "whipping boy" of the budget process, with direct loan authority 90 percent below levels in the early 1980s.
-- Its guarantee authority is ineffective in the LDC markets where Exim support is most needed.

To deal with these problems, I will propose legislation to put the Bank on a sound financial footing, provide a sensible basis for its future funding, and strengthen its guarantee to make it a "reserve currency" that will keep commercial banks in export financing.

Let me take a minute to elaborate.

The first element of the bill will preserve the Bank's capital base by permitting it to refinance old debts with the Federal Financing Bank at face value. Losses on past bank loans could be eliminated from the Bank's books if the FFB would permit the Bank to refinance its debt without penalty. This has no effect on the federal deficit.

Under my bill, the Secretary of the Treasury would be required to buy additional Bank stock to compensate for any losses in capital caused by prepayment penalties.

The second element of the bill would put the Bank on a pay-as-you-go basis through annual appropriation of the subsidy cost of its programs. This goal is best achieved through comprehensive credit reform as proposed in my bill, S. 218. The Senate adopted credit reform in 1987; the President's 1988 budget is based on this concept; and I look forward to its early adoption. It must be a part of the overall budget reforms we know are needed.

In the meantime, my bill would authorize annual subsidy appropriations and require that the amount of the subsidy be appropriated and added to Bank capital. This will make clear just how good a value the Bank is, with benefits far in excess of its modest subsidies. In addition, Bank management can stop worrying about balancing its export mission against its capital base.

Finally -- and this is my last finally -- my bill will ensure that Eximbank guarantees work. It will permit the Bank to increase principal and interest cover of its guarantees to 100 percent if necessary to make the guarantees acceptable to commercial banks in all

markets. Exim would also be permitted to extend its guarantee to cover pooled guaranteed loans sold in the secondary market. We authorized full transferability of bank guarantees in 1986. This additional authority would give real meaning to transferability.

These changes will expand the availability and lower the cost of export credit. They will ensure that Eximbank can maintain export credit to key U.S. markets where the commercial banks have lost their nerve.

Adequate export financing should be no less a national priority than affordable housing credit or a viable farm credit system. The Export-Import Bank must have the tools to put the full faith and credit of the U.S. Government behind our export drive. The task of the business community is to join with me in creating "an FHA of export finance" and returning the U.S. economy to a self-financing basis. As you know from painful experience, this legislation will not pass by itself. It needs the active and committed support of exporters to educate Congress about their problems and to advocate effective solutions. CEE has met that challenge before. I hope you will do so again.