Executive Memorandum

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OPIC-ING THE TAXPAYER'S POCKET

When it returns from its August recess, the House of Representatives is expected to consider H.R. 3759, the Exports, Jobs, and Growth Act of 1996, which authorizes appropriations for the Trade and Development Agency (TDA) and export programs of the International Trade Administration (ITA) for fiscal years 1997 and 1998. But the heart of the Act extends the authority of the Overseas Private Investment Corporation (OPIC) to engage in new commitments through 2001 and doubles the statutory limits on OPIC's insurance and financing activities.

OPIC insures overseas investments by U.S. businesses against loss to expropriation, political instability, and unforeseen contingencies, such as currency inconvertibility. It also issues investment guarantees and direct loans to U.S. businesses for international investments. The agency was created by the Foreign Assistance Act of 1961 to complement the federal government's trade policy and development activities. Specifically, OPIC is charged with increasing U.S. exports and assisting American private capital in the development of less developed countries (LDCs) and countries in transition from non-market to market economies.

Strangely, no one seems to notice the irony of using a government-run program to encourage other countries to end government interference in their economies. Congress should not expand OPIC's funding and authority. OPIC is another form of corporate welfare and accomplishes nothing that cannot be performed better in the private sector, without risk to U.S. taxpayers.

✗ **OPIC could cost U.S. taxpayers billions of dollars.** Proponents insist that OPIC makes a profit and actually decreases the deficit. But while OPIC did make $167 million in profits last year, largely from revenues of U.S. treasury bonds, this figure does not take into account the amount that U.S. taxpayers are obligated to pay as underwriters of OPIC-insured investments. In 1995 alone, OPIC issued policies covering $8.6 billion of investment. The accumulated value of insured investments is many times this amount. American taxpayers typically are liable for 90 percent of the insured investment in the event the policy must be paid.

Additionally, beginning in 1987, OPIC began dabbling in venture capital, one of the riskiest areas of the financial industry. Starting with the Africa Growth Fund, OPIC began creating numerous funds to encourage investment in less developed countries. These funds have several things in common: They are involved in the world's riskiest markets, are subject to little control or oversight by OPIC, and rarely turn a profit. These funds also have been growing precipitously, from $70 million at the beginning of the Clinton Administration to over $814 million last spring.

✗ **OPIC "socializes" risk while privatizing profits.** Foreign investment is an important avenue for development in LDCs. U.S. foreign direct investment totaled $612 billion in 1994, with nearly one-third invested in the developing world, a total far exceeding the U.S. foreign aid budget. OPIC insured a very modest portion of this investment; the rest was insured by private businesses. Yet business and political advocates continue to argue that developing nations would not receive foreign direct investment without OPIC. The truth is that OPIC has become a corporate welfare program that subsidizes investment insurance and loans for private businesses. *Fortune* 500 companies realize large profits while the taxpayer buys the insurance to offset their investment risk in less developed countries.

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✗ **OPIC's development agenda has been ignored.** H.R. 3759 uses export promotion to justify increasing OPIC's insurance and lending authority, but discussion of OPIC's second mission—its development agenda—is curiously absent. This is because OPIC actually works against the best interests of LDCs. Representative Sonny Callahan (R-AL) claims that "as long as these countries, such as India, do not have a track record of adherence to free market principles, OPIC is needed." In fact, however, OPIC is not needed. It encourages countries to maintain harmful economic policies, such as refusing to guarantee property rights, engaging in harmful regulatory policies, demanding oversight of investments, and insisting on government ownership of whole sectors of the economy. It simply is not wise to engage in business in such an environment. To attract foreign investment, countries need to enact free-market economic policies. Hong Kong, Singapore, Taiwan, Chile, and the Czech Republic have done so with marvelous success. However, OPIC continues to encourage investment in less developed countries regardless of their economic climate.

✗ **OPIC does not promote exports effectively.** Not one country receiving OPIC insurance policies or loans is among the top 10 destinations of U.S. exports, despite the fact that four of the top ten (Mexico, South Korea, Taiwan, and Singapore) are developing nations. OPIC focuses on countries that cannot attract foreign investment on their own because of their poor economic policies and dangerous instability. Instead of letting these countries reap what they sow, OPIC rewards them with investments underwritten by American taxpayers.

Additionally, OPIC employs many restrictions on its lending and insuring practices that have nothing to do with the viability of the investment. For example, many countries that fit the normal criteria for OPIC political insurance and loans are ineligible because they do not meet U.S. standards in such areas as human rights, environmental concerns, and workers' rights. Countries that are excluded from OPIC lending for these reasons include South Korea, China, Hong Kong, and Mexico. In other words, political correctness is more important than maximizing the return on taxpayers' money.

✗ **OPIC competes with the private sector.** One of the justifications for OPIC is that there supposedly are no alternatives in the private sector. But numerous private-sector businesses specialize in political risk insurance, including American International Group (AIG), EXEL Ltd., and Mid Ocean Ltd. OPIC competes directly with these private-sector institutions and offers advantages beyond the resources of privately held companies. OPIC political risk insurance is backed by the U.S. government, whose resources far exceed those of a private insurer. OPIC offers subsidized insurance premiums at rates far below market rates. OPIC policies extend for 20 years, while the private sector in most instances cannot issue policies for longer than three or seven years for reasons of risk. OPIC continues to compete unfairly with the private sector, despite the fact that its authorizing language instructs it specifically to promote the development of private-sector political risk insurers.

At the very least, OPIC should be required to limit its activities to those which complement rather than undermine the activities of private-sector political risk insurers. OPIC, for example, could supplement private political risk insurance by issuing policies for the time window beyond that typically offered by the private sector. Ideally, however, OPIC should be eliminated and its commitments privatized.

Proponents claim that OPIC cannot easily be privatized. To bolster this claim, they cite an independent study which estimated that privatization would cost American taxpayers between $500 million and $700 million. This is a large sum, but it pales in comparison to the potential cost to U.S. taxpayers if major economic or political upheavals occur in areas of the world with OPIC-insured projects. The potential liability to the U.S. is in the billions—in effect, a global version of the savings and loan debacle of the 1980s, for which the American taxpayer is still paying.

The U.S. government should not intrude in areas where the private sector is willing and able to do the job, can do it more efficiently, and can do it without forcing American taxpayers to underwrite risky ventures. Encouraging foreign investment is an admirable goal, but it should not come in the form of government subsidies to private U.S. firms—subsidies that discourage economic reform in the target countries and put the American taxpayer at risk.

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