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TESTIMONY

TESTIMONY ON THE US EXPORT-IMPORT BANK

BY VERONIQUE DE RUGY

House Committee on Financial Services

June 25, 2014

INTRODUCTION

In gathering to discuss the past and uncertain future of the US Export-Import Bank, we have a rare opportunity to reconsider the assumptions, mission, and activities of the federal government's official export credit corporation ahead of the reauthorization vote. In order to make the best decision, however, policymakers must know all the facts.

Before delving into the weeds of export credit finance, there are two fundamental realities to keep in mind.

First, export promotion programs, like Ex-Im finance, are not critical to US exports. Second, the Bank's mission is inherently contradictory.

First, Ex-Im yields a minuscule influence on US exports. At most, Ex-Im can claim to influence roughly 2 percent of both the value of total US exports and the total number of export-related jobs.[1] Since the Bank's methodologies have been criticized by the General Accounting Office and its own inspector general, the Bank's true influence is likely smaller.

Second, Ex-Im's mission refutes itself. The Bank's charter instructs administrators to extend assistance to projects that cannot find financing in private markets; these projects must also provide a reasonable chance of repayment. If a project cannot find private finance, it is probably too risky to repay the borrowed funds. But if a project has a good chance of repayment, it should easily find private finance. Any single project the Bank finances cannot meet both conditions of its charter.

This tension results in a bifurcation of the Bank's portfolio: profit-generating projects, like those involving Boeing, make up for losses in other areas. Ex-Im supporters likewise can either argue that (1) the Bank makes strong profits for the Treasury, or (2) the Bank provides needed but risky finance to important export opportunities. But if the Bank is making profits, that is an argument for privatization. If the Bank is suffering losses, that is an argument for shutting it down. Neither scenario supports federal government involvement.

1. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.

For more information or to meet with the scholar, contact
Chad Reese, (703) 993-8921, creese@mercatus.gmu.edu
Mercatus Center at George Mason University, 3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

With these heavy caveats in place, I will now contribute to this conversation by providing contextual information about the Bank's history, processes, and portfolio, adapted from a forthcoming Mercatus Research paper on the Bank that I coauthored with the Mercatus Center's Andrea Castillo.

I will then consider the claims made by both Ex-Im supporters and critics. Specifically, I will examine the validity of arguments that the Export-Import Bank

1. plays a critical role in promoting US exports;
2. maintains or creates US jobs;
3. substantially benefits small business;
4. levels the playing field for US companies that compete against foreign companies that receive benefits from their countries' export credit agencies; and
5. is a good deal for taxpayers.

I conclude that a close examination of its activities and outcomes shows that the Export-Import Bank does not meet the standards of its own criteria, and the facts do not support these popular arguments for the continued activities of the Bank.

EX-IM BANK BASICS

The Export-Import Bank has evolved since it was created in 1934 by President Franklin Delano Roosevelt. While its original purpose was to provide immediate trade financing with the Soviet Union, the Bank's focus shifted throughout the years, gradually changing from post-WWII reconstruction tool, to development bank for impoverished nations, to foreign policy tool, and eventually to export-promotion corporation.[2] Ex-Im's mission today is to "aid in financing and to facilitate exports of goods and services, imports, and the exchange of commodities and services" between the United States and foreign countries and "in so doing, to contribute to the employment of United States workers" as described in the current charter that was last amended in 2012.[3]

This 116-page document contains guidelines and proscriptions for the many pet programs that have developed in its 80-year history, including instructions regarding small business lending, green energy projects, engagement with sub-Saharan Africa, and prohibitions against aiding "Marxist-Leninist countries" or financing "defense articles."

The main tools[4] provided to the Bank to achieve these ends are[5] (1) loan guarantees, (2) working capital guarantees, (3) direct loans, and (4) export credit insurance.

Through loan guarantees, which presently constitute the largest portion of Ex-Im financing, the Ex-Im Bank assumes the majority of the repayment risk of the foreign buyer's debt obligations. The Working Capital Guarantee program guarantees short-term working capital loans made to qualified US exporters, through which the Ex-Im Bank assumes almost all the risk to lenders, which are usually commercial banks. The Ex-Im Bank's direct loan program provides loans directly to foreign buyers of US exports; if the foreign borrower defaults, the Ex-Im

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2. John H. Boyd, "Eximbank Lending: A Federal Program That Costs Too Much," *Federal Reserve Bank of Minneapolis Quarterly Review* 6 (1982): 1–17.
3. Ex-Im Bank, "The Charter of the Export-Import Bank of the United States," updated August 30, 2012, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
4. The Bank also engages in a number of special financing programs dedicated to boosting exports in a particular industry, like its aircraft finance program, or providing an unusual financial technique, like "project finance" plans for long-term infrastructure projects.
5. For a detailed overview of Ex-Im products, see Shayerah Ilias, "Export-Import Bank: Background and Legislative Issues," *Congressional Research Service Report No. R42472* (Congressional Research Service: Washington, DC) April 2, 2012.

Bank will be responsible for the total value of the outstanding principal and interest on the loan. Finally, the Ex-Im Bank's export credit insurance program issues insurance policies to US exporters, often small businesses, which provide credit to the exporter's foreign buyer.

The Export-Import Bank's gradually expanding mission and authority produced a large but little-known federal corporation whose activities far exceed its original purpose.

Total Ex-Im authorizations, or the total amount of funding that the Bank commits to finance a higher total value of exports, increased from $12.37 billion in FY 2007 to $35.73 billion in FY 2012 before dropping a bit to $27.2 billion in FY 2013. The Bank claims that this $27 billion in authorizations supported $37.4 billion worth of US exports worldwide during the same year.[6] These amounts, however, significantly understate the financial risk that the Bank, and therefore taxpayers, are exposed to.

The total amount of exposure—defined by the Bank as "authorized outstanding and undisbursed principal balance of loans, guarantees, and insurance" plus "unrecovered balances of payments made on claims . . . under the export guarantee and insurance programs"[7]—has grown consistently over time. Total Ex-Im Bank exposure grew from $57.42 billion in 2007 to $113.83 billion in 2013—without ever dropping, even when the corresponding level of authorizations dropped.

What benefits do US taxpayers receive from the Export-Import Bank's many activities? Do they outweigh their costs? I now turn to the five most popular claims made by supporters of the Ex-Im Bank.

Claim 1: The Export-Import Bank promotes exports

This claim has two branches: that the Ex-Im Bank improves the trade balance by filling an important "financing gap" in supporting US exports, and that it supports a significant share of exports. Neither has merit.

Some high-value projects go unfunded, the argument runs, because unusual or untenable investment risks scare off private financiers. The federal government should step in and fund the projects that the private market rejects. Without this federally provided export finance, US exports would be significantly dampened.

The assumptions behind this argument are inherently flawed because private investors are not likely to leave value on the table. It is proper that high-risk projects should not always find financing. Prohibitively high risk rates serve as a signal that investment funds could be more effectively spent elsewhere. As a CBO report on the Export-Import Bank notes, "The mere absence of a loan offer from the private market at terms desired by the borrower does not prove that capital markets are imperfect. Many borrowers are too risky or too small to finance their credit needs in bond markets and must instead go to banks; some borrowers are so risky that even banks will not lend them the amounts they desire."[8]

Instead of making the difficult case that the Bank should subsidize losing projects, Ex-Im supporters prefer to use euphemistic language about "financing gaps" and "leveling the playing field." Nothing changes the fact, however, that these projects failed to attract private capital because their profit opportunities did not warrant investment.

Second, the data do not bear out the claims that the Export-Import Bank supports a substantial portion of US exports.

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6. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

7. Ibid.

8. Heywood Fleisig and Catharine Hill, "The Benefits and Costs of the Export-Import Bank Loan Subsidy Program," *Congressional Budget Office Report* (Congressional Budget Office: Washington, DC) 1981, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11311/1981_03_export.pdf.

Export data from the Census and the Export-Import Bank from 2000 to 2010 show that Ex-Im-backed activity accounts for approximately 2 percent of all US exports during that time.[9] The same is true when looking at any individual year. In 2012, for instance, total US exports were $2.2 trillion, while the estimated export value of Ex-Im activity was about $50 billion, or around 2.2 percent of activity. What's more, it is possible that the private market could better employ these funds to support the same or even a higher level of exports. In 2013, for instance, the total value of all US exports increased, while the total value of Ex-Im-backed exports decreased. There are no grounds to claim that Ex-Im activity is critical to US exports.

It is has long been known that export credit corporations cannot substantially influence broader national trade outcomes. The GAO stated back in 1992 that "export promotion programs cannot produce a substantial change in the US trade balance, because a country's trade balance is largely determined by the underlying competitiveness of US industry and by the macroeconomic policies of the United States and its trading partners."[10]

Reforming the broader macroeconomic policies that are more likely to harm our trade position will help our exports far more than anything the Ex-Im Bank could do.[11] The United States maintains the highest national statutory corporate tax rates among all OECD nations, with an average rate of 35 percent.[12] Once state rates are added to this federal average, the number bumps up to 39.2 percent. The rate remains relatively high, even after corporations lower their effective tax burdens with tax credits for the share of the taxes paid to foreign governments or by keeping their foreign revenue abroad. Reforming our punishing corporate tax rate would be one easy and feasible policy change that would pack a powerful punch[13] without distorting markets and exposing taxpayers to risk, as the Export-Import Bank does.

Claim 2: The Export-Import Bank maintains and creates jobs

Supporters of federal programs often point to tangible outcomes, like the number of jobs created through federal spending, to justify their existence. Immediate employment effects are easily seen and therefore provide a potent shield against claims of ineffectiveness or waste. However, as the French economist Frédéric Bastiat first astutely pointed out over 150 years ago, good economists and students of public policy must also consider the *unseen* effects of government interventions to accurately perform a cost-benefit analysis.[14]

The Export-Import Bank is keen to trumpet the seen effects of its interventions. A February 2014 press release is typical, claiming that in the last year, the "Bank approved more than $27 billion in total authorizations to support an estimated $37.4 billion in US export sales and approximately 205,000 American jobs in communities across the country."[15]

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9. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.
10. Allan I. Mendelowitz, "Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness," *Government Accountability Office Report No. GAO/NSIAD-92-49* (Government Accountability Office: Washington, DC) January 1992, http://www.gao.gov/assets/220/215530.pdf.
11. Veronique de Rugy, "The Right Way to Help Exporters: Kill Ex-Im, Reform the Corporate Income Tax," *The Corner Blog at National Review Online*, April 30, 2014, http://www.nationalreview.com/corner/376826/right-way-help-exporters-kill-ex-im-reform-corporate-income-tax-veronique-de-rugy.
12. Veronique de Rugy, "Updated: Corporate Income Tax Rates in the OECD," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 1, 2014.
13. Jason Fichtner, "Increasing America's Competitiveness by Lowering the Corporate Tax Rate and Simplifying the Tax Code," *Testimony before the Senate Committee on Finance*, January 31, 2014, http://mercatus.org/publication/increasing-america-s-competitiveness-lowering-corporate-tax-rate-and-simplifying-tax.
14. Frédéric Bastiat, *Selected Essays on Political Economy*, trans. Seymour Cain (Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc.) 1995. Library of Economics and Liberty [Online] available from http://www.econlib.org/library/Bastiat/basEss1.html; accessed 20 June 2014.
15. Lawton King, "U.S. Exports Support a Record 11.3 Million Jobs in 2013," *Press Release*, February 24, 2014. http://www.exim.gov/newsandevents/releases/2014/US-Exports-Support-Support-a-Record-11-Million-Jobs-in-2013.cfm.

This job creation claim is correct in the narrowest of senses. Indeed, it is hard to imagine how a government program could spend billions of dollars without yielding *some* kind of immediate gross employment effect. In the case of the Export-Import Bank, lending money to a foreign company to buy US products that it otherwise would not have purchased will necessarily increase the US firm's revenue above what it would have earned without government assistance. This will, in turn, expand the company and create new jobs in the short term. This statement amounts to little else than an admission that taxpayers funds were, indeed, spent.

Even if we take the Ex-Im Bank jobs claim at face value, the Bank influences a negligible number of export jobs. Since there were 11.3 million total export-related jobs in the United States in 2013, that means that the 205,000 jobs that Ex-Im claims to have created or supported represent only 1.8 percent of total export-related jobs. This is consistent with the small share of exports supported by Ex-Im.

Furthermore, this claim only represents the "seen" side of the story. To get a complete picture of the true economic effects of the Export-Import Bank's interventions, we must consider what would have happened if the Export-Import Bank did not spend money in this way. Would American citizens have spent their own funds in a more productive manner than their government did after taxing and distributing funds to the corporations that they chose? Might those decisions have created even more jobs than the ones for which the Export-Import Bank claims credit? There are a few reasons to think this could be the case.

First, foreign companies that receive Ex-Im financing are not necessarily purchasing *more* goods from US firms, but often simply buying different *kinds* of goods. Ex-Im interventions shift resources away from unsubsidized projects and toward artificially cheaper projects that the Bank subsidizes. Many of the jobs the Bank claims to "create" are in reality redirected from unsubsidized firms. The Export-Import Bank disadvantages employees of unsubsidized companies for the benefit of employees of subsidized companies.

This creates a cascading effect. A government-subsidized company becomes an artificially safe asset that attracts more private capital than it would have if simply judged on its merits. Capital therefore becomes less available to unsubsidized projects that might have had higher probabilities of success. This only amplifies the downward pressure on job creation for unsubsidized firms.

Financiers, in other words, are unseen beneficiaries of Ex-Im activity as they have access to artificially protected and inexpensive investment opportunities. Under the loan guarantee system, lenders can extend large, extremely low-risk loans to subsidized projects since the government assumes the risks of 85 percent of the loan value. Lenders can collect handsome fees from borrowers and enjoys the value of an interest rate on 100 percent of the value of the loan. These risky profits are privatized to political allies while any risk of losses is socialized to the American public.

These unfortunate consequences have long been known to Washington. A Congressional Budget Office (CBO) report from 1981 explains that under normal economic conditions "subsidized loans to exporters will increase employment in export industries, but this increase will occur at the expense of non-subsidized industries: the subsidy to one industry appears on other industries' books as increased costs and decreased profits."[16]

These increased costs and decreased profits take place through different channels. First, nonprivileged exporters lose when their competitors get help, and so do non-exporters. Second, anyone who competes with the privileged foreign buyers loses market share. Third, consumers trying to buy the good whose demand is artificially high must pay a higher price. Finally, as previously mentioned, anyone trying to obtain capital loses since lenders are likely to prioritize demand for capital from borrowers with a government guarantee independently of the merits of the project.

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16. Heywood Fleisig and Catharine Hill, ³The Benefits and Costs of the Export-Import Bank Loan Subsidy Program,² Congressional Budget Office Report (Congressional Budget Office: Washington, DC) 1981,http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11311 /1981_03_export.pdf.

This argument forms the basis of a suit by Delta Airlines employees against the Export-Import Bank.[17] The plaintiffs in the suit allege that the Bank's lack of proper economic analysis results in a portfolio that disproportionately favors mega-manufacturer Boeing and puts other US corporations and employees at a competitive disadvantage.

Indeed, Ex-Im did not earn its nickname, "Boeing's Bank," for nothing: an astounding 66 percent of the Bank's portfolio of loan guarantees was awarded to Boeing during FY 2013.[18] A spokesman for Delta Airlines argues that the Bank "does not consider or address the harm Ex-Im financings for widebody aircraft do to US airlines and their employees."[19] The Bank's newly published guidelines exempt at least 85 percent of aircraft-related deals from thorough economic analysis.

In that sense, the 205,000 jobs claimed by the Bank are not net-new jobs, as they do not incorporate the negative dynamic secondary effects that intervention often creates. From the perspective of Delta Airlines employees, these 205,000 jobs come at the expense of their own livelihoods. In fact, the real question is, Does the Bank create more jobs than it destroys or redirects? Given Ex-Im's lax commitment[20] to detailed economic analyses of all transactions, the Bank is in a poor position to answer.

Moreover, there is no reason to believe the Bank's assumption that these 205,000 jobs could not have existed without its intervention. Indeed, from 2012 to 2013 the total number of export-related jobs in the United States *increased* while the total number of Ex-Im-backed export jobs simultaneously *decreased*.[21] If Ex-Im assistance were critical to maintaining robust export employment, we would not expect to observe this divergence.

As we will see later, despite the talk about "financing gaps," most of the loan value backed by the Bank benefits large and well-established companies[22] that have ample alternative financing options.[23] Even small businesses that receive support were often profitable well before Ex-Im operatives came knocking.[24]

Washington has long known about the Bank's tendency to favor familiar firms. President Reagan's former Office of Management and Budget (OMB) director, David Stockman, had more than a few run-ins with the Export-Import Bank and its well-connected corporate beneficiaries as he tried to retire or reform the Bank in the early 1980s. In his words, the idea that export subsidies will create jobs or increase GDP is yet another example of "the single-entry-bookkeeping mentality that has larded the federal budget" with so many subsidies and payments to special interests.[25] Despite its economic illiteracy, it is, for some, a powerful argument to maintain the status quo.

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17. "Delta sues Ex-Im Bank over loan guarantees for foreign airlines," Reuters, April 4, 2013, http://www.reuters.com/article/2013/04/04/us-delta-eximbank-lawsuit-idUSBRE93305B20130404.
18. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus Center Chart Series (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014.
19. Delta Air Lines, "Delta Issues Statement on Export-Import Bank," PR Newswire Press Release, April 8, 2014, http://www.marketwatch.com/story/delta-issues-statement-on-export-import-bank-2014-04-08.
20. In the Bank's most recent annual report following the GAO job methodology criticisms, for instance, the Bank does provide details about the flaws in their calculations, but they bury this information several pages into the report and far away from the dataset that it qualifies. See *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
21. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.
22. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014.
23. A managing director of Boeing's finance arm, for instance, told the Wall Street Journal that he was "confident the company could find alternative funding sources for customers that wouldn't require it to boost its support of aircraft sales." See Doug Cameron, "Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank," *Wall Street Journal*, August 7, 2013, http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.
24. Katerine Rosario, "Export-Import Bank: A Microcosm of Washington's Cronyism," *The Forge Blog*, April 1, 2014, http://heritageaction.com/2014/04/export-import-bank-microcosm-of-washingtons-cronyism/.
25. David Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* (Harper & Row: New York City, NY) 1986.

Last but not least, the federal government's own GAO finds that the Bank's job calculation method leaves much to be desired. A May 2013 report criticized the Bank for concealing the many methodological weaknesses that underlie its attractive "205,000 jobs" number.[26] The GAO reports that Ex-Im extrapolates its numbers from the Bureau of Labor Statistic data product that measures how much of the output (revenue) of an industry goes into the input (production) of another industry and its employment equivalent. There are many limitations to this methodology such as the fact that it does not distinguish between full-time, part-time, and seasonal employment, thus painting a rosier, but inaccurate, picture.

Additionally, Ex-Im does not control for selection effects wherein Ex-Im-supported firms or industries may differ from the "average" firms or industries that the Bank purports to similarly benefit. Finally, and most critically, GAO criticized the Bank for not considering the unseen counterfactual of how many jobs would have existed without any intervention at all. Putting all these weaknesses together, the Bank's pretty "205,000 jobs" number is far from a true reflection of sound economic analysis and transparent data methods.

If the Export-Import Bank truly believes that it provides substantial benefits to US employment, it should not fear implementing the GAO's suggested improvements. In its response to the report, the Bank committed to discussing the assumptions and shortcomings of its jobs calculation methodology more explicitly in its FY 2013 report. However, the Bank continues to use the old jobs calculation methodology that the GAO criticized, with all its attendant shortcomings.[27]

All this evidence suggests that the Export-Import Bank is not "pro jobs," per se, but rather "pro jobs for certain corporations."

Claim 3: The Export-Import Bank supports small businesses

The Export-Import Bank frequently boasts of its outreach and support to small businesses, but these claims are very misleading. The Bank selectively emphasizes portfolio numbers to overstate small business activities, employs an extraordinarily expansive definition of the term "small business," and disperses the majority of its largesse to large, established corporations.

In May 2014, Ex-Im released the results of its Small Business Customer Survey to great fanfare.[28] Of the 2,100 small business customers that responded, the Bank reports that 95 percent would recommend Ex-Im to another exporter, 64 percent reported that their companies' revenues increased over the past five years, and another 64 percent believed that Ex-Im had helped to expand their exports over the past five years.[29] Strikingly, nearly 45 percent of respondents either strongly agreed or agreed that they would be just fine without Ex-Im.

Ex-Im's FY 2013 Annual Report states that "the Bank approved a record 3,413 transactions, or 89 percent, for small businesses."[30]

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26. "Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency," *Government Accountability Office Report* No. 13-446 (Government Accountability Office: Washington, DC) May 23, 2013, http://www.gao.gov/products/GAO-13-446.
27. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
28. Steve Horning, "Ex-Im Bank Releases Results of Small Business Customer Survey," *Press Release*, May 19, 2014, http://www.exim.gov/newsandevents/releases/2014/Ex-Im-Bank-Releases-Results-of-Small-Business-Customer-Survey.cfm.
29. "The Export-Import Bank of the United States Small Business Exporter Customer Survey," *Summary Results* (Export-Import Bank of the United States: Washington, DC) May 15, 2014, http://www.exim.gov/about/library/reports/otherreports/upload/2014-Small-Business-Survey-Results-For-Publishing.pdf/.
30. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

This statement is curiously incomplete. It is true that 89 percent of the total number of deals involved firms that fit the Bank's definition of a "small business." However, when you look at the total *amounts* that the Bank distributes, the picture is decidedly different. During FY 2013, for instance, only $5.2 billion of the $27.3 billion in total authorization amounts, or 19 percent, was designated as "small business" activity on the Ex-Im Bank's annual report.[31] This is concerning, as the Bank's own charter mandates that no less than 20 percent of total authority for each fiscal year be directly made available to small business concerns.[32]

Additionally, the Bank employs a rather unconventional definition of "small business." While the term invokes images of mom-and-pop stores and enterprising startups, Ex-Im's definition is considerably more expansive than that of the Small Business Administration (SBA). With few exceptions, the SBA sets its "small business" threshold at firms with fewer than 500 employees and no more than $7 million in average annual receipts—criteria much stricter than the Bank's. Ex-Im's definition of "small" includes manufacturing and wholesale firms that employ anywhere from 500 to 1,500 workers,[33] general construction firms that earn anywhere between $13.5 million and $17 million a year, and in other sectors, firms with annual revenues of up to $21.5 million.[34] Other government institutions, like the Federal Reserve, adhere to the SBA's definitions,[35] which raises the question of why the Ex-Im Bank in particular found it necessary to create its own standards.

According to the Bank's data for FY 2013, much of its direct and indirect subsidies benefit giant manufacturers and well-connected exporters. For instance, America's number one exporter, the Boeing Corporation, received roughly 66 percent of the value of all loan guarantees last year. The Bank reports that Boeing was designated primary exporter for 55 deals, valued at roughly $8.3 billion in total assistance. This means that upwards of 30 percent of the value of all Export-Import Bank assistance in 2013 directly benefited the Boeing Corporation. Additionally, the top 10 exporter beneficiaries of Ex-Im assistance—among whom we find General Electric, Dow Chemical, Bechtel, Caterpillar, and John Deere—received a combined total of roughly 75 percent of the value of total assistance last year.[36]

The Export-Import Bank may proudly publicize the small business deals that it brokers, but the Bank's own financial statements clearly show that big business is its main business.

Claim 4: The Export-Import Bank levels the playing field for US exporters competing with foreign corporations subsidized by their own governments

Another popular argument is that the Export-Import Bank is necessary to counteract the competitive disadvantages posed by the export credit agencies of foreign nations. Since foreign firms enjoy the benefits of their own national export subsidy organizations, the argument goes, US firms would struggle to compete internationally if our federal government did not provide similar aid. The US Export-Import Bank is a necessary, although perhaps unfortunate, weapon in this international export subsidy arms race.

Few would disagree that it would be much preferable if US exporters only had to compete on price and quality against unsubsidized foreign companies. However, the fact that other countries choose to engage in bad economic policy does not immediately justify the United States following suit. This argument might hold water if (1) a sub-

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31. Ibid.
32. Sec. 2(b)(1)(E)(v), *Ex-Im Charter*, Ex-Im Bank, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
33. "Small Business Defined," Export-Import Bank of the United States, accessed June 20, 2014, http://www.exim.gov/smallbusiness/policies/Small-Business-Defined.cfm.
34. Ibid.
35. "Summary of Size Standards by Industry Sector," Small Business Administration, accessed June 20, 2014, http://www.sba.gov/content/summary-size-standards-industry-sector.
36. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.

stantial portion of the Export-Import Bank's portfolio is indeed dedicated to counteracting the effect of foreign export credit agencies; (2) a substantial portion of total US exports depend on Ex-Im assistance to successfully compete on a global scale; and (3) engaging in suboptimal policies because other countries do so makes economic sense.

If the Export-Import Bank were truly a critical tool in counteracting the activities of foreign export credit agencies, the bulk of the Bank's portfolio should to be dedicated to this purpose—which is not the case.

For a long time, the Bank did not specify the exact purpose of each transaction in its reports, so it was difficult to determine how much of its portfolio was dedicated to which goals. However, Congress recently obliged the Bank to provide more explanations for certain portfolio transactions as a condition of its most recent reauthorization in 2012.[37] While the Bank does not provide justifications for all transactions in its portfolio, the Bank's current charter now compels Ex-Im to at least provide explanations in broad categories for all loans and long-term loan guarantees in its annual report.

According to the Bank's 2013 Annual Report,[38] only $12.2 billion of the $37.4 billion portfolio—that is, less than one-third—was dedicated to counteracting competitive disadvantages wrought by foreign export credit agencies.[39]

What's more, the United States is far from a victim in the world of export credit subsidies. A recent CRS report on the Ex-Im Bank shows that the United States is actually the largest export credit subsidizer among G-7 nations. Ex-Im's $31.3 billion in medium- and long-term loan assistance constituted 42.4 percent of the total assistance given by G-7 nations in 2013.[40] Only China exceeded the United States in loan assistance last year, with a reported $45 billion in assistance. The data show that Ex-Im assistance is globally aggressive, and not defensive, in nature.

Additionally, much of this financing goes to large corporations that are unlikely to be incontrovertibly harmed by foreign export credit agencies. For instance, roughly 66 percent of the value designated to "meet competition from a foreign, officially sponsored export-credit agency" went to the Boeing Corporation, whose own financial director publicly admitted it could "find alternative funding sources"[41] without the Export-Import Bank.

And, as previously mentioned, if export subsidies were truly so critical to competing abroad, then we would expect far more than 2 percent of total US exports to receive Ex-Im assistance. Yet somehow, the other 98 percent of unassisted US exports thrive and successfully compete in the global marketplace.

Subsidies may seem like a good deal for those benefiting from them.[42] In the case of Ex-Im, the list includes the private lender who gets to collect high fees and extend a loan at very low cost, the foreign company that receives the loan guarantee, the domestic company whose goods are purchased with the borrowed money, Ex-Im bureaucrats, and the politicians who defend the Bank in exchange for financial support from other Ex-Im beneficiaries.

However, in most cases, economists have found that subsidies end up being a bad deal for everyone, including the so-called beneficiaries.[43] The unseen costs of export subsidies negatively impact normal Americans, unsubsidized

37. Export-Import Reauthorization Act of 2012, H.R. 2072, 113th Cong. (2012), http://www.gpo.gov/fdsys/pkg/BILLS-112hr2072enr/pdf/BILLS-112hr2072enr.pdf.
38. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
39. Veronique de Rugy, "Key Argument for Export-Import Bank Invalid," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 11, 2014, http://mercatus.org/publication/key-argument-export-import-bank-invalid.
40. Veronique de Rugy, "Key Argument for Export-Import Bank Invalid," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 11, 2014, http://mercatus.org/publication/key-argument-export-import-bank-invalid.
41. Doug Cameron, "Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank," *Wall Street Journal*, August 7, 2013, http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.
42. Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism," *Mercatus Research* (Mercatus Center at George Mason University: Arlington, VA) 2012, http://mercatus.org/sites/default/files/Mitchell-Pathology-March-2014.pdf.
43. Arvind Panagariya, "Evaluating the Case for Export Subsidies," *World Bank Policy Research Working Paper* (World Bank: Washington, DC)

businesses, and even subsidized businesses in a number of unpleasant ways. As mentioned before, subsidies can trigger waves of malinvestment by encouraging companies to make marginal investments in a subsidized activity without regard to its true opportunity costs, or by encouraging consumers to buy a subsidized good without accounting for its true cost. Tax revenues are siphoned from productive businesses and their employees and directed to others with political clout. In addition, subsidies hurt consumers since they usually artificially increase the price of the subsidized good.

Subsidies also trigger wasteful spending for political favors.[44] Not only do subsidized industries use domestic tax dollars to make a profit, the existence of subsidies creates incentives to use resources for lobbying rather than productive investment. Economist William Baumol described how this "unproductive entrepreneurship" saps an economy of its engines of growth.[45] Entrepreneurs and businesspeople have an incentive to procure government subsidies to stay afloat, which wastes more time and resources through the deadweight loss of unproductive lobbying spending.[46]

Ironically, subsidies also damage recipients in the long run by dulling their competitive edge.[47] Subsidized businesses often grow complacent and lazy because they know they can rely on government assistance. When markets change and pressures mount, subsidized industries find that they simply cannot keep up—so they come to Congress for a bailout.

Most importantly, subsidizing exports actually harms US consumers and helps foreign consumers. Indeed, this is one of the selling points of Ex-Im programs.[48] When foreign export agencies subsidize their exporters, they actually help US consumers at the expense of their own citizens. In subsidizing our own exports in response to foreign subsidies, the Export-Import Bank actually hurts US consumers more.

Little has changed since Adam Smith astutely observed more than two centuries ago in the *Wealth of Nations* that "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."[49] This logic holds whether or not foreign countries are producing goods more cheaply because of competition or subsidies: American consumers win either way. When governments use national wealth to subsidize the artificially cheap consumption of foreign nations, on the other hand, domestic citizens lose and foreign consumers win.

The fact that others engage in an activity is never *prima facie* evidence that one should do the same. Despite the apparent fashion of export subsidies, the economics is clear that these policies harm national consumption in exchange for tiny, short-term benefits to a few connected companies. Supporters of the Export-Import Bank should heed the sage question posed by their mothers: "If China and Russia and Japan and Germany jumped off a bridge, would you do it too?"

2000, http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-2276.

44. See Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5 (1967): 224–232; Richard Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy* 83 (1975): 807–827; Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974): 291–303..

45. William J. Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98 (1990): 893–921.

46. Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism," *Mercatus Research* (Mercatus Center at George Mason University: Arlington, VA) 2012, http://mercatus.org/sites/default/files/Mitchell-Pathology-March-2014.pdf.

47. Harvey Leibenstein, "Allocative Efficiency vs. 'X-Efficiency,'" *American Economic Review*56, no. 3 (June 1966): 392–415.

48. Ex-Im administrators often implicitly acknowledge this bias towards foreign consumption in their press statements. For instance, current Ex-Im Chairman Fred Hochberg recently remarked, "Sending our exports abroad is critical to creating jobs here at home. And the Export-Import Bank is a critical link in that chain, connecting America's small businesses to the 95% of the world's customers that live outside our borders." See Lawton King, "U.S. Exports Reach $192.5 Billion in January," *Press Release*, March 4, 2014, http://www.exim.gov/newsandevents/releases/2014/US-Exports-Reach-192-Billion-in-January.cfm.

49. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan, (London: Methuen & Co., Ltd.) 1904. Library of Economics and Liberty [Online] available from http://www.econlib.org/library/Smith/smWN13.html; accessed 20 June 2014.

Claim 5: The Export-Import Bank is a good deal for taxpayers

Defenders of the Export-Import Bank often point out that the agency does not cost anything to taxpayers; in fact, they argue, the Bank actually generates profits for the US Treasury.[50] In FY 2013, for example, Ex-Im claimed to return over $1 billion in profits to the Treasury.[51] Regardless of whether the federal government should or must operate an export-credit agency, the fact that the Export-Import Bank reports profits to the government is enough of a reason for many to support it.

If this is indeed the case that the Bank makes robust profits, then it contradicts the claim that its activities do not compete with private capital because it is correcting a market failure (i.e., the absence of private capital) and that it takes a conservative approach to lending and finance. The reality, however, is not as straightforward. One part of the Bank's activities (aircraft) is indeed profitable while others aren't and are being subsidized. In other words, it is likely that none of the transactions financed by the Ex-Im Bank actually meet the Bank's dual criteria.

Let me illustrate this point with an example. The large commercial aircraft guarantee program does generate a lot of cash flow. Let's say that on average, Ex-Im authorizes $10 billion in large aircraft guarantees. Under rules established in the 2011 Aircraft Sector Understanding (ASU)[52] among OECD nations, Ex-Im must collect exposure fees up-front at the issuance of the guarantee.[53] Let's say on average, those fees amount to 10 percent of the guarantee. Then for any given year in recent history, the large aircraft guarantee program collects approximately $1 billion in fees per year. According to Ex-Im's financial statements, its operating costs are relatively small, roughly $100 million a year. In other words, if Ex-Im makes money, it is exclusively due to its aircraft portfolio. The rest of its portfolio must be losing money, but the Bank's creative accounting obscures the effects.

That means that profitable Bank projects, like its healthy aircraft portfolio, should have no problem finding private financing. This portion of the Bank's activities should be privatized. On the other hand, if the private sector won't finance the other activities offered by the Bank, the money-losing activities, it is a signal that taxpayers shouldn't be exposed to the risk, either.

Furthermore, even if the Bank were profitable today, we could not rely on the Bank to earn profits for American taxpayers for years to come. The Bank ran a deficit several years in a row in the 1980s and was reported to have considered requesting a $3 billion bailout in 1987.[54] This could happen again.

Financial projections are only as sound as the methodologies employed to produce them. Many have been skeptical of the Bank's risk analyses, default assumptions, and accounting methods for years, as Heritage regulatory fellow Diane Katz notes.[55] Some of the most vociferous criticisms have come from within the Export-Import Bank itself, as well as from the GAO and CBO. The errors that these criticisms reveal undercut Ex-Im supporters' claims of profitability and sustainability and in fact reveal that the Bank exposes taxpayers to the risk of "severe portfolio losses," in the words of the Bank's own inspector general.[56]

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50. Christopher Matthews, "The Federal Agency That Makes $1 Billion for Taxpayers and the Fight to Abolish It," *Time*, October 24, 2013, http://business.time.com/2013/10/24/the-federal-agency-that-makes-1-billion-for-taxpayers-and-the-fight-to-abolish-it/.
51. Jamie Radice, "Ex-Im Bank Announces More Than $1 Billion in Revenues Generated For Taxpayers in FY 2013," Press Release, October 23, 2013, http://www.exim.gov/newsandevents/releases/2013/Numbers-Release.cfm.
52. Dean N. Gerber, "The 2011 Aircraft Sector Understanding: Calming Turbulent Skies," *The Air & Space Lawyer* 24 (2011): 1, 14–17, 23.
53. Current rates can be found at the OECD website, see: "2011 ASU: Quarterly Update of MRS and of Resulting MPR – Q2/2014," Organisation for Economic Co-operation and Development, accessed June 20, 2014, http://www.oecd.org/tad/xcred/(4-2014-MRS-en)%20updates%20of%20MRS_website-en-Q2-2014.pdf.
54. Clyde H. Farnsworth, "U.S. Export Bank Seeks $3 Billion," *New York Times*, December 21, 1987, http://www.nytimes.com/1987/12/21/us/us-export-bank-seeks-3-billion.html.
55. Diane Katz, "The Export–Import Bank: A Government Outfit Mired in Mismanagement," *Heritage Issue Brief* No. 4208 (Heritage Foundation: Washington, DC) April 29, 2014, http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement.
56. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General Report No. OIG-INS-12-02* (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.

An alarming 2012 report from the Inspector General of the Export-Import Bank reveals that the Bank does not employ adequate risk analyses.[57] The Bank's unique position as a governmental export credit insurer and underwriter exposes it to a number of unusual risks. In addition to balancing normal market considerations and operational boundaries imposed through legislation, the Bank must also adequately calculate and mitigate taxpayer exposure to credit risks, political risks, currency risks, and various concentration risks riddling its vast portfolio. The inspector general warns that "Ex-Im lacks a systemic approach to identify, measure, price, and reward" these many portfolio risks.[58] This improper loss reserve methodology may have "resulted in the systematic under-reserving and underpricing of the portfolio risk," which significantly limits the predictive veracity of the Bank's projections.

The methods that Ex-Im does have in place are likewise inadequate to reflect the Bank's underlying portfolio.[59] The Inspector General also warned that the Bank "does not reserve or price for the incremental risk deriving from its portfolio concentrations."[60] In other words, the Bank's loss credit methodology does not account for the potential co-variance of risks among asset classes. Aircraft transactions represent over 51 percent of the total value of the Ex-Im portfolio, but new airline transactions are priced and structured according to the same guidelines as any other transaction. If the aircraft industry were to slide into a downturn,[61] the Bank's portfolio would be far more exposed than its numbers currently predict. The Inspector General also reports that the Bank does not perform portfolio stress tests, thus leaving administrators in the dark when trying to effectively manage this concentration risk.[62]

Even when more appropriate processes are in place, the Inspector General reports that "loan officers and bank personnel did not always document sufficient evidence for borrower statements regarding the need for financing."[63] In many cases, employees did not even perform background checks to determine borrower eligibility before disbursing funds. Federal regulators would not tolerate this kind of carelessness from private institutions. It is all the more unacceptable coming from a federal steward of taxpayer money like the Export-Import Bank.

Additionally, the Bank's default assumptions vastly obscure the Bank's true financial position. A May 2013 report from the Government Accountability Office describes Ex-Im's unusual internal performance measures in detail.[64] To begin with, the Bank employs an unjustifiably narrow definition of "default" that only includes unpaid past-due loans and claims paid to privately insured transactions.[65] The Inspector General points out that the Bank does not even have access to the proper empirical data on the impaired assets in its portfolio, much less employ the proper modeling techniques on these assets.[66] What's more, the GAO found that the Bank did not even use its own default

57. Ibid.
58. Ibid.
59. Administrators that manage politically induced market interventions often underestimate the many silent risks that accumulate beneath the surface. For a detailed treatment of this topic, see Nassim Nicholar Taleb, The Black Swan: The Impact of the Highly Improbable (New York: Random House) 2010.
60. Thorum, "Report on Portfolio Risk," 2012..
61. There is evidence that the Bank's activities are inflating a bubble in the aircraft finance and manufacturing industry. Forthcoming.
62. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General Report No. OIG-INS-12-02* (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.
63. Rebecca Sharek, "Export-Import Bank's Management of Direct Loans and Related Challenges," *Export-Import Bank of the United States Inspector General Report No. OIG-AR-13-05*, 02 (Export-Import Bank of the United States: Washington, DC) September 26, 2013, www.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf.
64. Lawrence L. Evans, Jr., "Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources," *Government Accountability Office Report No. GAO-13-620* (Government Accountability Office: Washington, DC) May 30, 2013, http://www.gao.gov/products/GAO-13-620.
65. Diane Katz, "The Export–Import Bank: A Government Outfit Mired in Mismanagement," *Heritage Issue Brief No. 4208* (Heritage Foundation: Washington, DC) April 29, 2014, http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement.
66. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General*

data to calculate program costs and exposure. This oversight is negligent and alarming. The Export-Import Bank exposed taxpayers to a massive $130 billion risk limit during 2013 based on the Bank's misleading financial statements.[67] The GAO warned that this inadequate accounting would fail to accurately predict risk exposure, default rates, and program costs in the future. Accordingly, the Export-Import Bank's previous projections that employed this subpar methodology should also be viewed with a critical eye.

Improper accounting may yield impressive illusions in the short term but will not prevent financial disaster in the event of an unexpected downturn. For many years, Ex-Im skeptics could only point to the dire pleadings of the GAO and Inspector General to bolster their case that the Bank's "profits" may be a misleading accounting fiction. The collapse of the US housing market, prompted partially by the risky underwriting of federal mortgage corporations Freddie Mac and Fannie Mae, provides another cautionary tale.

It was once also common to support Fannie Mae and Freddie Mac on the grounds that they were profitable. While we now know these profits were illusory, many industry and government analysts raised alarms about brewing fiscal mischief years before the housing collapse overwhelmed the GSEs' mismanaged portfolios. In an eerie parallel to the Export-Import Bank's current position, a 2006 audit performed by the Office of Federal Housing Enterprise Oversight (OFHEO) of Fannie Mae's portfolio and practices from 1998 to mid-2004 reported that the "smooth growth" reported by the federal corporation were "illusions deliberately and systematically created by . . . senior management with the aid of inappropriate accounting and improper earnings management."[68] Policymakers did not heed this warning in time, but there still may be time to attend to the improper accounting of the Export-Import Bank.

We do not need to wait for an economic collapse to reveal the financial fallout of the Export-Import Bank's phony accounting. A new CBO report from May of 2014 confirmed the GAO's worst suspicions. The analysis compared the cost projections for FY 2015 through FY 2024 yielded by the Export-Import Bank's unusual accounting practices to those calculated by the CBO's own "fair value" method. The CBO found that the Export-Import Bank's promised budget savings of over $14 billion over the next decade are illusory. The CBO's more accurate accounting method shows that that these Export-Import Bank programs will actually *cost* taxpayers $2 billion over the next decade. The authors report,

> If Ex-Im Bank's activity in 2015 matches the President's budget request for that fiscal year, CBO estimates that $37.6 billion in new loans would be made or guaranteed in the bank's six largest credit programs, with savings totaling $1.4 billion on a FCRA [Federal Credit Reform Act] basis and costs totaling $0.2 billion using the fair-value approach. Thus, the 10-year effects would be savings of $14 billion using FCRA methodology and costs of $2 billion using the fair-value approach, a difference of $16 billion. The average subsidy rate under the FCRA approach is estimated to be negative 3.8 percent for all of the bank's programs combined, whereas the average fair-value subsidy rate is estimated to be positive 0.4 percent.[69]

The CBO notes that administrative and servicing costs were not included in their analysis because they did not have access to those figures. The fiscal picture of Export-Import Bank financing programs could look even worse once those costs are included.

To understand why fair value methods are a better accounting tool for the cost of Ex-Im activities, we need to understand the difference between the two accounting methodologies. Jason Delisle provides the following explanation:

Report No. OIG-INS-12-02 (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.

67. Pub. L. No. 112-122, § 3, 126 Stat. 350, 351 (2012).

68. "Report of the Special Examination of Fannie Mae," *Office of Federal Housing Enterprise Oversight (OFHEO) Report* (OFHEO: Washington, DC) 2006, http://www.concernedshareholders.com/CCS_OfheoReport.pdf.

69. "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," Congressional Budget Office Report (Congressional Budget Office: Washignton, DC) May 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf.

> . . . official rules value government loans as if the estimated performance of the loan (repayment rate, defaults, recovery rates, delinquencies, deferments, etc.) is certain to occur as projected. In contrast, fair-value accounting uses the *exact same estimates of loan performance* as the current rules (repayment rate, defaults, recovery rates, delinquencies, deferments, etc.), but it assumes that the estimated performance is not certain and that taxpayers bear a cost for assuming the risk that the loans will cost more than expected. The CBO explains that this is "market risk," which is the risk that defaults will be higher and more costly in times of economic stress and that the federal government bears it when making loans just as any private lender would.[70]

The bottom line is that supporters of the Export-Import Bank can no longer truthfully claim that the Bank's programs are guaranteed to yield a profit to the federal coffers.

CONCLUSION

The data provide no support for the most popular arguments for the Export-Import Bank.

The Export-Import Bank cannot be shown to "maintain or create" any number of US jobs because the Bank's job calculation methodology is so weak that the GAO had to provide an in-depth audit to shake the Bank into reform. While the Bank at least now includes a brief exposition of these weaknesses deep in its Annual Reports, it insists on continuing to use the old, flawed methodology. Even this flawed job measure constitutes only around 2 percent of the total number of export-related jobs each year. What's more, for every job the Bank can claim to have "created," there are numerous employees of unsubsidized competing firms who can claim to have been hurt by this action.

The Bank cannot claim to play a "critical role in promoting US exports" as the total export value of its annual portfolio only accounts for roughly 2 percent of the total value of US exports each year. The Bank cannot claim to be filling the purported "financing gap," either, as most of its portfolio assists large, connected firms that would have no trouble procuring alternative financing. Finally, economists have long known that export credit agencies have, at best, a tiny effect on national exports compared to potent broader economic trends.

The Bank does not substantially benefit small businesses but disproportionately benefits large corporations like Boeing and General Electric. Supporters like to point to the number of deals given out to small businesses, but in terms of dollar amounts, huge multinational corporations are the clear winners. Even the "small businesses" that Ex-Im claims to support are not exactly "small": Ex-Im's definition of "small business" is far more expansive than the one employed by most federal offices and can include businesses that receive up to $21.5 million in revenues each year.

The Bank cannot claim to level the playing field for US companies that compete against foreign subsidized competition, either. For one, the United States is the number two export credit subsidizer in the world, beaten only by China. The Bank's own records report that only 30 percent of the estimated export value in its total portfolio goes toward this kind of activity. Even if the Bank's entire portfolio were turned to this purpose, this position is economically untenable. By subsidizing exports, the Export-Import Bank helps foreign consumers and hurts American consumers, taxpayers, and borrowers.

The Bank cannot point to profits for taxpayers because its internal reporting is significantly flawed and CBO analyses show that the Bank will actually cost taxpayers billions of dollars over the next decade. What's more, numerous audits by the CBO, the GAO, and the Bank's own Inspector General show that the Export-Import Bank's internal risk management and accounting practices are woefully inadequate and leave taxpayers exposed to massive liabilities.

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70. Jason Delisle, "Fair-Value Accounting Shows Switch to Guaranteed Student Loans Costs $102 Billion," *Ed Money Watch Blog of the New America Foundation*, March 23, 2012, http://edmoney.newamerica.net/blogposts/2012/fair_value_accounting_says_switch_back_to_guaranteed_student_loans_costs_102_billion-.

The Export-Import Bank fails on each count. An entity that neglects to meet even its supporters' own criteria simply has no justification for existence and no claim to reauthorization. The Bank has long outlived its purpose and cannot manage to meet the standards of the new missions that have been developed to validate its existence. For policymakers who have the facts, the choice is clear: the Export-Import Bank must go.

ABOUT THE AUTHOR

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the US economy, the federal budget, homeland security, taxation, tax competition, and financial privacy. Her popular weekly charts, published by the Mercatus Center, address economic issues ranging from lessons on creating sustainable economic growth to the implications of government tax and fiscal policies. She has testified numerous times in front of Congress on the effects of fiscal stimulus, debt and deficits, and regulation on the economy.

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