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THE US EXPORT-IMPORT BANK
A Review of the Debate over Reauthorization

by Veronique de Rugy and Andrea Castillo

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ABSTRACT

THE EXPORT-IMPORT BANK of the United States is a government-owned bank that provides taxpayer-backed financing to private exporting corporations. Supporters of the bank argue that it is a critical tool to promote exports, create jobs, support small businesses, improve competitiveness, and protect taxpayers. We review the data and conclude that none of these arguments holds true. Rather, the Export-Import Bank is a protectionist agency that provides political privileges to well-connected firms at the expense of all other citizens. The federal government should not be trying to pick winners and losers through credit markets at taxpayers' risk. The charter of the bank should be allowed to expire.

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THE EXPORT-IMPORT BANK of the United States (Ex-Im Bank)—the federal government's export-credit agency—faces an uncertain future. With the bank's charter soon to expire, Washington has become the scene of a fierce battle over whether to continue funding this obscure, Depression-era government bank.

This paper provides a brief overview of the history and operations of the Ex-Im Bank, followed by an examination of the key justifications for the bank's continued authorization. Specifically, the paper considers the veracity of claims that the bank (1) plays a critical role in promoting US exports, (2) maintains or creates US jobs, (3) substantially benefits small businesses, (4) levels the playing field for US companies competing against foreign companies that receive benefits from their countries' export-credit agencies, and (5) is a good deal for taxpayers. The paper concludes that the Ex-Im Bank's activities and outcomes do not meet its own supporters' standards and recommends that the bank's charter be allowed to expire.

A BRIEF HISTORY AND OVERVIEW OF THE EXPORT-IMPORT BANK

LIKE MANY OTHER federal programs, the Ex-Im Bank has evolved considerably since the days of its formation. Created by President Franklin Delano Roosevelt in 1934, the bank's original mission was to "aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other Nations or the agencies or nationals thereof."[1] Conceived to provide immediate financing of trade with the Soviet Union, the bank was housed in various federal departments before the Export-Import Bank Act of 1945 officially established it as the independent agency it is today.[2]

The act invested the bank with the power to "make loans, to discount, rediscount or guarantee notes, drafts, bills of exchange, and other evidence of debt, or participate in the same" to facilitate international trades for US businesses, and

1. Exec. Order No. 6581, 12 C.F.R. 401 (1934), available at http://www.presidency.ucsb.edu/ws/?pid=14772.
2. 12 U.S.C. § 635 (2012), http://www.law.cornell.edu/uscode/text/12/635.

with the authority to "issue notes, debentures, bonds, or other obligations" for the Department of the Treasury to purchase. So long as the bank took care to "supplement and encourage, and not compete with, private capital"[3] and provided an annual report to Congress on its operations, the federal government provided the bank with a capital stock of $1 billion and gave it the green light to pursue its mission.

Today, the Ex-Im Bank's mission 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.[4] The 116-page document now contains guidelines and prescriptions for the many pet programs that have developed in its 80-year history, including instructions regarding small business lending, green-energy projects, and engagement with sub-Saharan Africa and prohibitions against aiding "Marxist-Leninist countries" or financing "defense articles."[5]

The main tools provided to the bank to achieve these ends are (1) loan guarantees, (2) working capital guarantees, (3) direct loans, and (4) export-credit insurance.[6]

Loan guarantees presently constitute the largest portion of Ex-Im Bank financing. Ex-Im Bank loan guarantees allow foreign and domestic lenders to finance foreign buyers of US exports at a reduced risk. The bank charges the foreign buyer of US exports a fee based on the length, size, and risk level of the loan. Lenders, then, are guaranteed that the bank will cover up to 85 percent of the contract value of the outstanding principal and interest on the loan in the event that the foreign buyer of US exports defaults on the loan. In other words, 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, many of which are small businesses seeking to export their goods. The working capital guarantees can be made on a one-time basis or as a revolving line of credit. Borrowers are charged a fee based on the duration, size, and riskiness of the loan. The Ex-Im Bank guarantees that it will pay up to 90 percent of the outstanding balance of the working capital loan to the lender (usually a commercial bank) in the event that the borrower defaults.

3. Export-Import Bank of the United States, "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. Ibid.
5. Ibid.
6. For a detailed overview of Ex-Im Bank 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). The bank also engages in a number of special financing programs dedicated to boosting exports in a particular industry, such as its aircraft finance program, or providing an unusual financial technique, such as "project finance" plans for long-term infrastructure projects.

The Ex-Im Bank's direct loan program provides loans directly to foreign buyers of US exports, covering up to 80 percent of the US contract value. If the foreign borrower defaults, the Ex-Im Bank will be responsible for the total value of the outstanding principal and interest on the loan. If US exporters face competition from foreign export-credit agency subsidies, their buyers may qualify for special fixed-rate financing through the bank's Intermediary Credit Program. Direct loans come with favorable fixed interest rates established by the Organisation for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Credit Exports.[7] There is no maximum or minimum loan amount, but loans rarely exceed $10 million. While direct loans were the bank's chief financing vehicle before 1980, legislative changes have shifted financial focus to other vehicles, and in recent years low interest rates have depressed demand for these loans.

Additionally, the Tied Aid Capital Projects Fund provides direct loans to projects that face direct competition from foreign export-credit agencies. Informally known as the "war chest," the fund attempts to sway foreign governments to approve US projects rather than another country's subsidized projects by offering below-market financing rates. This program is more often used to tie agricultural and military aid to US exports than to promote US exports.

Finally, there is the Ex-Im Bank's export-credit insurance program. Under this program, the bank issues insurance policies to US exporters, often small businesses, which provide credit to the exporter's foreign buyer. The exporter must pay a fee that serves as an insurance premium to the Ex-Im Bank. The amount charged is determined by the duration, size, and riskiness of the policy. Should the foreign buyer default, the Ex-Im Bank will pay the outstanding balance owed to the exporter if certain predetermined conditions are met. Unlike loan guarantees, in which the Ex-Im Bank agrees to unconditionally cover outstanding balances in the event of a default, credit insurance policies will only pay outstanding balances if the default meets requirements laid out in the terms of the policy agreement.

The Export-Import Bank's gradually expanding mission and authority produced a large, but little-known, federal corporation whose current activities have, to a great extent, diverged from its original purpose.

7. As part of its role as an international economic coordination organization, the OECD has overseen export-credit agreements since the 1970s that establish common rules for lending interest rates and terms among participating member countries. While these agreements tended to be informal in the beginning, terms were officially established with the adoption of the 1992 Arrangement on Officially Supported Export Credits. The most recent version states that its purpose is to "provide a framework for the orderly use of officially supported export credits" and "foster a level playing field for official support . . . to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions." See "Arrangement on Officially Supported Export Credits," OECD Trade and Agriculture Directorate TAD/PG(2014)1 (Organisation for Economic Co-operation and Development, Paris, January 15, 2014), http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2014)1.

Today, the Ex-Im Bank's main focus is US exports. Total Ex-Im Bank 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 fiscal year (FY) 2007 to $35.73 billion in FY 2012, before dropping slightly 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.[8] However, this picture is incomplete without considering the outstanding financial risk that the bank undertakes in order to produce these results.

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"[9]—has likewise grown consistently over time. In layman's terms, this is the amount of risk for which taxpayers are on the hook. Total Ex-Im Bank exposure grew from $57.42 billion in 2007 to $113.83 billion in 2013—never dropping once during this period, even when the corresponding level of authorizations dropped.

Defenders of the bank repeat a number of arguments to justify these interventions in US trade policy. Five popular purported benefits are that the Ex-Im Bank (1) promotes exports, (2) creates or supports jobs, (3) helps small businesses, (4) levels the playing field for US exporters competing with foreign competitors subsidized by their own governments, and (5) is a good deal for taxpayers. We will now review each of these claims.

CLAIM 1: THE EXPORT-IMPORT BANK PROMOTES EXPORTS

The claim that the Ex-Im Bank promotes US exports rests on two contentions: first, that it improves the trade balance by filling an important "financing gap" in supporting US exports, and second, that it supports a significant share of exports. Neither contention has merit.

Filling the "Financing Gap"

Supporters claim that the Ex-Im Bank fills an important "financing gap" by supporting US exports. Some high-value projects go unfunded, they argue, because the riskiness of the investments scares off private financiers—but that is no excuse to leave value on the table. These Ex-Im Bank advocates want the federal government to step in and fund the projects that the private market rejects.

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

Without this federally provided export finance, they conclude, US exports would be significantly dampened.

The logic in this argument is inherently flawed because private investors are not likely to leave value on the table. 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 the 1981 Congressional Budget Office (CBO) report on the Ex-Im 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.[10]

That high-risk projects with low chances of repayment often cannot find finance is a feature, not a bug, of capital markets—it is a signal that these are projects that are simply too risky to finance, when other projects are available.

Instead of making the case that the bank should subsidize losing projects, Ex-Im Bank supporters rely on arguments concerning issues such as "financing gaps" and "leveling the playing field." However, credit market imperfections of the kind the Ex-Im Bank claims it is necessary to counteract are quite rare, and the bank generally does not attempt to show that the projects it funds fall into this category. Trade economists who study the Ex-Im Bank note that "without solving a market imperfection, such practices can only redistribute income away from nonsubsidized citizens and toward domestic exporters or citizens of a borrowing country."[11] Rather, the real financing gap is the difference between the profits exporters would obtain without assistance and the profits they are able to obtain through government-granted privileges. The federal government should not be in the business of providing cheap financing for politically connected corporations.

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10. *The Benefits and Costs of the Export-Import Bank Loan Subsidy Program* (Washington, DC: Congressional Budget Office, March 1981), p. viii, https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11311/1981_03_export.pdf.
11. Heywood Fleisig and Catharine Hill, "The Benefits and Costs of Official Export Credit Programs," chap. 9 in *The Structure and Evolution of Recent U.S. Trade Policy*, ed. Robert E. Baldwin and Anne O. Krueger (Chicago: University of Chicago Press, 1984), 321–58, available at http://www.nber.org/chapters/c5839.pdf.

The Ex-Im Bank Supports about 2 Percent of US Exports

Claims that the Ex-Im Bank supports a substantial portion of US exports are not supported by the data, which reveal that 98 percent of US exports take place without the assistance or facilitation of the bank.[12]

Export data from the US Census Bureau and the Ex-Im Bank between 2000 and 2010 show that Ex-Im Bank–backed activity accounts for approximately 2 percent of all US exports during that time.[13] The same is true when looking at any individual year. Take 2012, for instance: total US exports were $2.2 trillion, while the estimated export value of Ex-Im Bank activity was about $50 billion, or around 2.2 percent of activity. The data reveal that the Ex-Im Bank influences a negligible portion of total US exports. What is more, it is possible that the private market could better employ these funds to support the same or even a higher level of exports. The bank cannot credibly claim that it is critical to maintaining the level of US exports.

It has long been known that export-credit corporations alone cannot substantially influence broader national trade outcomes.[14] Sallie James, trade policy analyst at the Cato Institute, notes, "Export promotion programs for certain goods—marketing programs for certain commodities, say—may have beneficial effects for that industry but cannot affect the trade balance overall."[15] The Government Accountability Office (GAO) stated back in 1992, "Export promotion programs cannot produce a substantial change in the U.S. trade balance, because a country's trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners."[16]

Reforming the broader macroeconomic policies that are more likely to harm the US trade position will help US exports far more than anything the Ex-Im Bank could do.[17] The United States maintains the highest national statutory corporate tax rates

12. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im–Backed Projects Constitute Tiny Portion of Total US Exports," Mercatus chart series, Mercatus Center at George Mason University, June 24, 2014, http://mercatus.org/publication/jobs-and-export-value-perspective-ex-im-backed-projects-constitute-tiny-portion-total-us.

13. Ibid.

14. For a detailed exposition of the flawed economic arguments in favor of export subsidy schemes, see Arvind Panagariya, "Evaluating the Case for Export Subsidies" (World Bank Policy Research Working Paper, World Bank, Washington, DC, 2000), http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-2276.

15. Sallie James, "Time to X-Out the Ex-Im Bank" (Cato Institute Trade Policy Analysis No. 47, Cato Institute, Washington, DC, July 6, 2011), http://www.cato.org/publications/trade-policy-analysis/time-x-out-exim-bank.

16. Allan I. Mendelowitz, "Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness," GAO/NSIAD-92-49 (Washington, DC: Government Accountability Office, January 1992), http://www.gao.gov/assets/220/215530.pdf.

17. Veronique de Rugy, "The Right Way to Help Exporters: Kill Ex-Im, Reform the Corporate Income Tax," *The Corner* (blog), *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.

among all OECD nations, with an average rate of 35 percent.[18] Once state rates are added to this federal average, the number rises to 39.2 percent.[19] 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 the punishing corporate tax rate would be one easy and feasible policy change that would help all American producers[20] without exposing taxpayers to risk as the Ex-Im Bank does.

CLAIM 2: THE EXPORT-IMPORT BANK MAINTAINS AND CREATES JOBS

Supporters argue that the Ex-Im Bank plays a crucial role in job promotion by pointing to the number of jobs the bank's annual reports claim it has assisted. These claims are weak because they fail to consider how many jobs would have existed in the absence of Ex-Im Bank intervention and because they understate the competitive disadvantage that Ex-Im Bank subsidies impose on employees of unsubsidized firms and industries.

Considering Seen and Unseen Effects

Supporters of federal programs often point to tangible outcomes, such as the number of jobs created through federal spending, to justify the programs' existence. Immediate employment effects are easily seen and therefore provide a potent shield against claims of ineffectiveness or waste. However, as economist Frédéric Bastiat astutely pointed out more than 160 years ago, good economists and students of public policy must also consider the *unseen* effects of government interventions to accurately perform a benefit-cost analysis.[21] The Ex-Im 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 U.S. export sales and approximately 205,000

18. Veronique de Rugy, "Updated: Corporate Income Tax Rates in the OECD," Mercatus chart series, Mercatus Center at George Mason University, April 1, 2014, http://mercatus.org/publication/updated-corporate-income-tax-rates-oecd.
19. The effective rate for individual firms, however, can be lower due to tax loopholes. See Government Accountability Office, GAO-13-520, *Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate* (May 2013), http://www.gao.gov/assets/660/654957.pdf.
20. 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.
21. Frédéric Bastiat, "What Is Seen and What Is Not Seen," in *Selected Essays on Political Economy*, trans. Seymour Cain (Irvington-on-Hudson, NY: The Foundation for Economic Education, 1995 [1850]), available at http://www.econlib.org/library/Bastiat/basEss1.html.

American jobs in communities across the country."[22] But just as important, or even more important, are the unseen effects of this expenditure—for example, in in the form of displacement of employment in unsubsidized industries.

This claim of job creation is accurate according to the Ex-Im Bank's reporting standards, but it is not very meaningful. 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 Ex-Im 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 more than an admission that taxpayers' funds were indeed spent.

However, this claim only concerns the "seen" side of the story. To get an accurate picture of the true economic effects of the Ex-Im Bank's interventions, it is necessary to consider the unseen effects of government action. It is not enough merely to know that the government spent money somewhere. Observers must also determine whether what economists call the "opportunity costs"[23] of these actions outweigh the purported job benefits that the bank claims.

The Ex-Im Bank Can Damage Job Creation in Unsubsidized Firms

What would have happened if the Export-Import Bank had not provided assistance as it had? Would firms that do not currently benefit from Ex-Im Bank export credits have been able to compete more effectively and provide better products at lower prices? Might those decisions have created even more jobs than the ones for which the Ex-Im Bank claims credit? There are a few reasons to think this could be the case.

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

But these shifts produce a cascading effect. For instance, once the government subsidizes a company, that company becomes a relatively safe asset that then

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22. Export-Import Bank of the United States, "U.S. Exports Support a Record 11.3 Million Jobs in 2013," news release, February 24, 2014, http://www.exim.gov/newsandevents/releases/2014/US-Exports-Support-Support-a-Record-11-Million-Jobs-in-2013.cfm.

23. An opportunity cost is the value of the next-best alternative forgone in making a certain decision. In the case of the Ex-Im Bank, the opportunity cost of providing a certain loan would be the highest value alternative use that those funds could have gone to instead. In other words, is there some alternative use of these funds that might have generated even more jobs than the one that the Ex-Im Bank chose?

attracts private capital independently of the merits of its projects. This capital is then unavailable for unsubsidized projects, even if they have much higher probabilities of success and more promising business plans.

The incentives facing the private lenders reinforce this effect, since these lenders also receive a subsidy through the loan guarantee. Under the loan guarantee system, the lender gets to extend a large loan with an extremely low risk, since 85 percent of the value of the loan is risk free. However, it gets to collect large fees from the borrowers and interest on the entire value of the loan.

This unfortunate consequence has long been known in Washington. A 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."[24]

These increased costs and decreased profits manifest themselves through different channels: First, nonprivileged exporters lose when their competitors get help, and so do nonexporters. 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 mentioned above, 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 their projects.

This is the underlying argument in a pending legal action by Delta Air Lines and its employees against the Ex-Im Bank.[25] Delta and the Air Line Pilots Association, a pilots' union, allege that the bank's failure to perform proper economic analyses results in a portfolio that disproportionately favors Boeing and puts other US corporations and employees at a competitive disadvantage.

Indeed, the Ex-Im Bank earned its nickname, "Boeing's Bank," fairly: an astounding 66 percent of the bank's portfolio of loan guarantees was awarded to Boeing during FY 2013.[26] A spokesperson for Delta Air Lines argues that the Ex-Im Bank "does not consider or address the harm Ex-Im financings for widebody aircraft do to U.S. airlines and their employees."[27] 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 jobs, as they do not incorporate the negative secondary effects that intervention often creates. From the perspective of Delta Air Lines employees, these "205,000 jobs" come at

24. *Benefits and Costs of the Export-Import Bank Loan Subsidy Program*.
25. Delta Air Lines, "Delta Issues Statement on Export-Import Bank," press release, April 8, 2014, http://www.marketwatch.com/story/delta-issues-statement-on-export-import-bank-2014-04-08.
26. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus chart series, Mercatus Center at George Mason University, April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.
27. Delta Air Lines, "Delta Issues Statement on Export-Import Bank."

the expense of their own livelihoods. In fact, the real question is, Does the bank create more jobs than it destroys or redirects? Given the Ex-Im Bank's lax commitment to detailed economic analyses of all transactions,[28] which is examined closely in the next section, the bank itself is in a poor position to answer this question.

Moreover, the Ex-Im Bank presumes that these 205,000 jobs could not have existed without its interventions,[29] as explained below. There is little reason to believe that this is true. As we will show later, despite a lot of talk about financing gaps, most of the loan value backed by the bank benefits large and well-established companies[30] that do not lack alternative financing options.[31] Even small businesses that receive support were often profitable well before Ex-Im Bank operatives came knocking.[32]

Federal Reports Dispute the Ex-Im Bank's Job Calculation Methodology

Finally, the Ex-Im Bank's numbers must be taken with a healthy dose of skepticism. 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.[33] GAO reports that the bank extrapolates its numbers from the Bureau of Labor Statistics data product that measures how much of the output (revenue) of an industry goes into the input (production) of another industry, and its effect on employment. 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, the Ex-Im Bank does not control for selection effects wherein Ex-Im Bank–supported firms or industries may differ from the "average" firms or industries that the bank purports to similarly benefit. Finally, and most critically, the GAO report criticizes the bank for not considering how many jobs would have

28. Government Accountability Office, GAO-13-446, *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency* (May 2013), http://www.gao.gov/products/GAO-13-446.
29. Ibid.
30. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus chart series, Mercatus Center at George Mason University, April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.
31. 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.
32. Katherine Rosario, "Export-Import Bank: A Microcosm of Washington's Cronyism, *The Forge* (Heritage Foundation), April 1, 2014, http://heritageaction.com/2014/04/export-import-bank-microcosm-of-washingtons-cronyism/.
33. Government Accountability Office, GAO-13-446, *Export-Import Bank*.

existed without any intervention at all.[34] Considering all these weaknesses, the bank's "205,000 jobs" number is far from being a true reflection of sound economic analysis and transparent data methods. The GAO report concludes, "Because of a lack of reporting on the assumptions and limitations of its methodology and data, Congressional and public stakeholders may not fully understand what the jobs number that Ex-Im reports represents and the extent to which Ex-Im's financing may have affected U.S. employment."

If the Ex-Im Bank truly believes that it provides substantial benefits to US employment, it should not fear GAO's suggested improvements. After all, the bank should be glad to prove its claims beyond a reasonable doubt. In its response to the report, the bank has committed to more explicitly discussing the assumptions and shortcomings of jobs calculation methodology in its FY 2013 report. However, the bank continues to use the old jobs calculation methodology that GAO criticizes, with all its attendant shortcomings.[35]

CLAIM 3: THE EXPORT-IMPORT BANK SUPPORTS SMALL BUSINESSES

The Ex-Im Bank frequently boasts of its outreach and support to small businesses, but these claims are misleading due to the bank's extraordinarily expansive definition of the term "small business" and the fact that much of its funding going to large firms.

In May 2014, the Ex-Im Bank released the results of its small business customer survey to great fanfare.[36] The bank reports that, of the 2,100 small business customers that responded, 95 percent would recommend the Ex-Im Bank to another exporter, 64 percent reported that their companies' revenues increased over the past five years, and another 64 percent believed that the bank had helped to expand their exports over the past five years.[37] The bank does not separate responses for "strongly agreed" and "agreed," so there is no way to determine the respective magnitude of these responses. Additionally, nearly half of respondents—45 percent—thought they would be just fine without assistance from the Ex-Im Bank. Given the strong incentives that pressure firms to protect received government privileges, these small business owners' lukewarm endorsement of the program is remarkable.

The bank's FY 2013 annual report states that "the Bank approved a record 3,413 transactions, or 89 percent, for small businesses."[38] This statement is incomplete.

34. Ibid.
35. Export-Import Bank of the United States, *Annual Report 2013*.
36. Export-Import Bank of the United States, "Ex-Im Bank Releases Results of Small Business Customer Survey," news release, May 19, 2014, http://www.exim.gov/newsandevents/releases/2014/Ex-Im-Bank-Releases-Results-of-Small-Business-Customer-Survey.cfm.
37. Export-Import Bank of the United States, "The Export-Import Bank of the United States Small Business Exporter Customer Survey: Summary Results," May 15, 2014, http://www.exim.gov/about/library/reports/otherreports/upload/2014-Small-Business-Survey-Results-For-Publishing.pdf.
38. Export-Import Bank of the United States, *Annual Report 2013*.

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, looking 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.[39] This is concerning because it is in violation of the bank's own charter, which mandates that no less than 20 percent of the total amount authorized to finance exports directly for each fiscal year be made available to small business concerns.[40]

Additionally, the bank employs a rather unconventional definition of "small business." While the term invokes images of mom-and-pop stores and enterprising startups, the Ex-Im Bank'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.[41] The bank's small business size standards include manufacturing and wholesale firms that employ anywhere from 500 to 1,500 workers, 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.[42]

Other government institutions, like the Federal Reserve, adhere to the SBA's definitions, which raises the question of why the Ex-Im Bank found it necessary to create its own standards. According to the bank's data for FY 2013,[43] much of its direct and indirect subsidies benefit giant manufacturers and well-connected exporters. For instance, America's number-one exporter, Boeing, 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 Ex-Im Bank assistance in 2013 directly benefited Boeing. Additionally, the top 10 exporter beneficiaries of Ex-Im Bank assistance—among which were 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.[44]

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

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39. Ibid.
40. Export-Import Bank of the United States, "Charter of the Export-Import Bank of the United States."
41. "Summary of Size Standards by Industry Sector," Small Business Administration, accessed June 20, 2014, http://www.sba.gov/content/summary-size-standards-industry-sector.
42. "Small Business Defined," Export-Import Bank of the United States, accessed June 20, 2014, http://www.exim.gov/smallbusiness/policies/Small-Business-Defined.cfm.
43. Export-Import Bank of the United States, *Annual Report 2013*.
44. De Rugy, "Biggest Beneficiaries of the Ex-Im Bank."

CLAIM 4: THE EXPORT-IMPORT BANK LEVELS THE PLAYING FIELD FOR US EXPORTERS

Another popular argument is that the Ex-Im Bank is necessary to counteract the competitive disadvantages posed by the export-credit agencies of foreign nations.[45] Since foreign firms enjoy the benefits of their own national export subsidy organizations, the argument goes, US firms would struggle to compete internationally if the US government did not provide similar aid. Regardless of whether the Ex-Im Bank makes economic sense in a perfect world, the reality is that foreign competitors are engaging in these practices. Therefore, supporters conclude, 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 be valid if (1) a substantial portion of the Ex-Im 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 Bank assistance to successfully compete on a global scale, and most important, (3) engaging in suboptimal policies because other countries do so makes economic sense.

Most of the Ex-Im Bank Portfolio Is Dedicated to Purposes Other Than Counteracting Competition Subsidized by Foreign Governments

If the Ex-Im Bank were truly a critical tool in counteracting the activities of foreign export-credit agencies, one would expect the vast majority of the bank's portfolio

45. A new webpage on the Ex-Im Bank's website states,

> All major exporting countries, including America's fiercest competitors in the global marketplace, have their own export credit agencies (ECAs), which support their respective countries' exports. In fact, nearly 60 countries operate an ECA. Many of the world's ECAs provide larger levels of financing than Ex-Im Bank, without being subject to the rules and restrictions that Ex-Im Bank follows. For example, China financed more than $100 billion of Chinese exports in 2013, compared to Ex-Im Bank's support of $37.4 billion worth of U.S. exports last year. Likewise, it is estimated that South Korea, which has an economy that is less than one-tenth the size of the U.S. economy, also finances more than $100 billion per year to support exports from South Korea. In contrast, Ex-Im Bank steps in, only when needed, to help level the playing field against aggressive financing by foreign governments so U.S. companies and workers can compete on the basis of the price and quality of their goods and services.

See "The Facts about Ex-Im Bank," Export-Import Bank of the United States, last updated June 24, 2014, http://www.exim.gov/newsandevents/the-facts-about-ex-im-bank.cfm.

to be dedicated to this purpose. However, the bank's records show that this is not the case.

For a long time, the Ex-Im Bank did not specify the exact purpose of each transaction in its reports, so it was hard to determine how much of its portfolio was dedicated to which goals. As recently as 2012, Sallie James of the Cato Institute speculated, "Given the fall in export credit subsidies in the OECD, the need for countervailing activities likely has not increased since the late 1990s, when less than 20 percent of Ex-Im Bank guarantees and insurance were for the purpose of countering officially supported foreign competition."[46]

However, Congress obliged the bank to provide more explanations for certain portfolio transactions as a condition of its most recent reauthorization in 2012.[47] While the bank does not provide justifications for all transactions in its portfolio, the bank's current charter now compels it to at least provide categorical explanations for all loans and long-term loan guarantees in its annual report.

According to the Ex-Im Bank's FY 2013 annual report, roughly \$7.9 billion in estimated export-valued loans and \$10.7 billion in estimated export-valued long-term loan guarantees, or a combined estimated export value of \$18.7 billion, must be categorized as Congress legislated. Transactions must be classified in one of three categories: (1) "to assume political or commercial risk that exporter and/or financial institutions are unwilling or unable to undertake," (2) "to overcome maturity or other limitations in private-sector export financing," or (3) "to meet competition from a foreign, officially-sponsored export-credit agency." The bank's records show that \$4.1 billion in estimated export value fits into the first category, \$2.1 billion in estimated export value fits into the second category, and \$12.2 billion in estimated export value fits into the final category. The proper categories for the remaining \$18.8 billion in estimated export value, or 50.2 percent of the bank's portfolio, is simply unknown.

Since the estimated export value of the bank's entire portfolio for FY 2013 was roughly \$37.4 billion, this means that less than one-third of the estimated export value of the bank's portfolio is intended to actually counteract competitive disadvantages wrought by foreign export-credit agencies.

The Vast Majority of US Exports Occur without Ex-Im Bank Assistance

As noted above, the Ex-Im Bank only extends financial assistance to a tiny proportion of total US exports. If export subsidies were truly critical to competing abroad, then one would expect far more than 2 percent of total US exports to receive Ex-Im

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46. Sallie James, "Ending the Export-Import Bank" (Downsizing the Federal Government report, Cato Institute, Washington, DC, October 2012), http://www.downsizinggovernment.org/export-import-bank.
47. Export-Import Bank Reauthorization Act of 2012, 12 C.F.R. 401 (2012), http://www.gpo.gov/fdsys/pkg/BILLS-112hr2072enr/pdf/BILLS-112hr2072enr.pdf.

Bank assistance. Yet, somehow, the other 98 percent of unassisted US exports continue to thrive. Given this data, the argument that the bank's activities are critical to maintaining competitive export outcomes is quite weak.

Protectionism Never Makes Economic Sense

The biggest problem with this argument is simple economics. Subsidies are a bad deal for domestic consumers, taxpayers, unsubsidized producers, and their employees. Companies, industries, and countries that engage in export subsidies are ultimately losers as well. The Ex-Im Bank does not counteract unfortunate policies abroad; on the contrary, it merely doubles down on a bad thing.

The unseen costs of export subsidies negatively impact normal Americans, unsubsidized businesses, and even subsidized businesses in a number of ways. As noted above, subsidies can trigger waves of malinvestment[48] 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 the case of the Ex-Im Bank, this means that normal US consumers must help to finance large corporations like Boeing only to receive the honor of paying higher prices for airline tickets.

Subsidies also trigger wasteful spending for political favors.[49] Not only do subsidized industries use domestic tax dollars to make a profit, they use this leverage to push other businesses that do not enjoy these privileges out of the market. Or, alternatively, otherwise honest companies are driven to lobby for their own privileges before they get pushed out first. Economist William Baumol described how this "unproductive entrepreneurship" saps an economy of its engines of growth.[50] 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.

Ironically, subsidies also damage recipients in the long run by dulling their competitive edge.[51] Subsidized businesses often grow complacent and lazy because they

48. For an explanation of the economic effects, see Tyler Cowen, *Risk and Business Cycles: New and Old Austrian Perspectives* (London: Routledge, 2010).
49. See Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5 (1967): 224–32; Richard Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy* 83 (1975): 807–27; Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974): 291–303.
50. William J. Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98 (1990): 893–921.
51. Harvey Leibenstein, "Allocative Efficiency vs. 'X-Efficiency,'" *American Economic Review* 56, no. 3 (June 1966): 392–415.

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 knocking to Congress for a bailout.

Most importantly, subsidizing exports actually harms US consumers and helps foreign consumers. When foreign export agencies subsidize their exporters, they actually help US consumers at the expense of their own citizens. In subsidizing US exports in response to foreign subsidies, the Ex-Im 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."[52] This logic holds whether foreign countries are producing goods more cheaply because of competition or because of 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 consumers 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 short-term benefits enjoyed by a concentrated number of companies.

CLAIM 5: THE EXPORT-IMPORT BANK IS A GOOD DEAL FOR TAXPAYERS

Defenders of the Ex-Im Bank often point out that the agency does not cost anything to taxpayers; in fact, they argue, the bank actually generates *revenues* for the US Treasury.[53] Regardless of whether the federal government should or must operate an export-credit agency, the fact that the Ex-Im Bank reports profits to the government is sufficient reason for many to support it. In light of the federal government's fiscal troubles, the bank's defenders believe the United States is simply in no position to dismantle a rare profit-generating federal program.

This argument relies on the financial statements provided by the Ex-Im Bank. While the bank was once known for consistently poor financial management—it requested a $3 billion federal bailout in 1987[54]—in recent years it proudly reported

52. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (London: Methuen, 1904 [1776]), available at http://www.econlib.org/library/Smith/smWN13.html.
53. 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/.
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.

profits. In FY 2013, for example, the bank claimed to generate more than $1 billion in revenues for the Treasury.[55] Supporters point to these returns as evidence that the bank will earn profits for American taxpayers for years to come.

Of course, 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.[56] Some of the most vociferous criticisms have come from within the Export-Import Bank itself, as well as from GAO and CBO. The errors that these criticisms reveal undercut Ex-Im Bank 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.[57]

An alarming 2012 report from the inspector general of the Ex-Im Bank reveals that the bank does not employ adequate risk analyses.[58] The bank's unique position as a governmental export-credit insurer and underwriter means that it exposes itself 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. This improper loss reserve methodology may have "resulted in the systematic under-reserving and underpricing of the portfolio risk,"[59] which significantly limits the predictive veracity of the bank's projections.

The methods that the Ex-Im Bank does have in place are likewise inadequate to reflect the bank's underlying portfolio. The inspector general also warns that the bank "does not reserve or price for the incremental risk deriving from its portfolio concentrations."[60] In other words, the bank's expected-loss credit methodology does not account for the potential covariance of risks among asset classes. Aircraft transactions represent more than 51 percent of the total value of the Ex-Im Bank portfolio, but new airline transactions are priced and structured according to the same guidelines as any other transaction. If the notoriously volatile aircraft industry

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55. Export-Import Bank of the United States, "Ex-Im Bank Announces More Than $1 Billion in Revenues Generated for Taxpayers in FY 2013," news release, October 23, 2013, http://www.exim.gov/newsandevents/releases/2013/Numbers-Release.cfm.
56. 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.
57. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies" (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.
58. Ibid.
59. Ibid.
60. Ibid.

were to slide into a downturn, 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 as they attempt to manage this concentration risk effectively.[61]

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."[62] In many cases, employees did not even perform background checks to determine borrower eligibility before dispersing funds. Federal regulators would not tolerate this kind of carelessness from private institutions. It is all the more unacceptable coming from a steward of taxpayer money like the Ex-Im Bank.

Additionally, the bank's default assumptions vastly obscure its true financial position. A May 2013 report from GAO describes the Ex-Im Bank's unusual internal performance measures in detail.[63] To begin with, the bank employs an unjustifiably narrow definition of "default," which only includes unpaid, past-due loans and claims paid to privately insured transactions.[64] 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.[65] What's more, GAO finds that the bank did not even use its own default data to calculate program costs and exposure. This oversight is troubling, and calls the bank's estimates of its risk exposure into question. The bank exposed taxpayers to a massive $130 billion risk limit during 2013 based on its misleading financial statements.[66] GAO warns that this inadequate accounting will fail to accurately predict risk exposure, default rates, and program costs in the future. Accordingly, the Ex-Im Bank's previous projections that employed this subpar methodology should also be viewed with a critical eye.

Improper accounting, regardless of the illusions it yields immediately, does not shield an institution from financial disaster in the event of an unexpected downturn. For many years, Ex-Im Bank skeptics could only point to the dire pleadings of GAO and the 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.

61. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies."
62. Office of the Inspector General, "Export-Import Bank's Management of Direct Loans and Related Challenges" (OIG-AR-13-05, 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.
63. Government Accountability Office, GAO-13-620, *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*, 2013, http://www.gao.gov/products/GAO-13-620.
64. Katz, "Export–Import Bank."
65. Office of the Inspector General, "Report on Portfolio Risk and Loss Reserve Allocation Policies."
66. Pub. L. No. 112-122, § 3, 126 Stat. 350, 351 (2012).

It was once also common to support Fannie Mae and Freddie Mac on the grounds that they generated profits for US taxpayers. While it is now clear that these profits were illusory, many industry and government analysts raised alarms about brewing fiscal mischief years before the housing collapse overwhelmed the government-sponsored enterprises' mismanaged portfolios. Paralleling the Ex-Im Bank's current position, a 2006 audit performed by the Office of Federal Housing Enterprise Oversight of Fannie Mae's portfolio and practices from 1998 to mid-2004 revealed that the "smooth profit growth" and precisely met targets for earnings per share each quarter reported by the federal corporation were "illusions deliberately and systematically created by . . . senior management with the aid of inappropriate accounting and improper earnings management."[67] Policymakers did not heed this warning in time, but there may still be time to attend to the improper accounting of the Ex-Im Bank.

It is not necessary to wait for an industry bubble to burst for the financial fallout of the Ex-Im Bank's improper accounting to be revealed. A new CBO report from May 2014 confirms GAO's suspicions. The analysis compares the cost projections for FY 2015 through FY 2024 yielded by the Ex-Im Bank's unusual accounting practices[68] to those calculated by CBO's own "fair value" method. CBO finds that the Ex-Im Bank's promised budget savings of more than $14 billion over the next decade are illusory. CBO's more accurate accounting method shows that that these Ex-Im 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 [using the Ex-Im Bank's own method] and costs totaling $0.2 billion using the fair-value approach. Thus, the 10-year effects would be savings of $14 billion using [the Ex-Im Bank's] methodology and costs of $2 billion using the fair-value approach, a difference of $16 billion. The average subsidy rate under the [bank's] 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]

67. "Report of the Special Examination of Fannie Mae," Office of Federal Housing Enterprise Oversight, May 2006, available at http://www.concernedshareholders.com/CCS_OfheoReport.pdf.
68. "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," Congressional Budget Office, May 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf.
69. Ibid.

CBO notes that administrative and servicing costs were not included in its analysis because it did not have access to those figures. Once factored in, the fiscal picture of Export-Import Bank financing programs could look even worse.

The bottom line is that supporters of the Ex-Im Bank can no longer claim that these programs provide profits to the federal coffers. Numerous audits from its internal inspector general and external federal research offices agree that the bank's risk analyses, default assumptions, internal reporting procedures, portfolio concentration, and general financial reporting are woefully inadequate to safely steward taxpayer funds and responsibly manage its vast portfolio. These methodological errors mislead supporters into thinking that the bank is in a much more robust fiscal situation than it really is. Contrary to the picture presented by its strongly criticized reporting, the bank will certainly *not* return surpluses to the Treasury in the coming decade; even under generous assumptions, the bank will cost taxpayers billions of dollars over that time. What's more, the bank's dangerous negligence in underestimating risk and exposure leaves taxpayers vulnerable to tremendous liabilities should economic conditions decline. Reports from federal research agencies and the bank itself are clear: far from being a cash cow for taxpayers, the Ex-Im Bank is likely to be a burden on them.

CONCLUSION

After reviewing them in turn, the most popular arguments that support the Ex-Im Bank are far from definitive. In fact, the data show that the exact opposite is the case for each claim.

The bank cannot claim to play a critical role in promoting US exports, since 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, export-credit agencies have, at best, a tiny effect on national exports compared to potent broader economic trends.

The bank cannot be shown to maintain or create any number of US jobs because the bank's job calculation methodology is so weak that GAO had to provide an in-depth audit to encourage reforms in the bank's approach. While the bank includes a brief exposition of these weaknesses deep in its annual reports, the reports continue to use the old, flawed methodology. What's more, for every job that the bank can claim to have created, there are numerous employees of unsubsidized competing firms that can claim to have been hurt. The ongoing lawsuit between Delta Air Lines employees and the Ex-Im Bank is only one manifestation of this economic reality.

The bank does not substantially benefit small businesses, but disproportionately benefits large corporations such as 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 the Ex-Im Bank claims to support are not exactly small: the bank's definition of "small business" is far more expansive than the one employed by most federal offices and can include businesses that earn up to $7 million in revenues each year.

The bank cannot claim to level the playing field for US companies that compete against foreign-subsidized firms, either. 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 Ex-Im 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 CBO, GAO, and the bank's own inspector general show that the Ex-Im Bank's internal risk management and accounting practices are woefully inadequate and leave taxpayers exposed to massive liabilities.

The arguments for the Ex-Im Bank fail on each count. An entity that neglects to meet even its supporters' own stated standards simply has no justification and no claim to reauthorization. The bank has long outlived its original purpose and cannot meet the standards of the new missions that have been added to validate its existence. The charter of the Export-Import Bank of the United States should be allowed to expire.