



## **SHOULD THE US EXPORT-IMPORT BANK BE REAUTHORIZED?**

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The US Export-Import Bank (Ex-Im Bank) is a government credit agency that provides taxpayer-backed financing to private exporting businesses. An increasing body of evidence shows that the Ex-Im Bank provides subsidized financing to big businesses at the expense of smaller businesses and taxpayers, while doing little to promote exports, create jobs, or improve competitiveness of US firms. Removing this source of government-granted privilege can only help US exporters.

### **BACKGROUND ON THE EX-IM BANK**

The Ex-Im Bank was initially created in 1934 to finance trade with the Soviet Union and was established as an independent government agency in 1945. Executive Order 6581 gave it the power to “aid in financing and facilitate exports of goods and services, imports, and the exchange of commodities and services” between the United States and foreign countries to create jobs in the United States.<sup>1</sup>

The Ex-Im Bank has four main tools to achieve these goals: loan guarantees, working capital guarantees, direct loans, and export-credit insurance.<sup>2</sup> Recent funding for the bank has increased from \$12.37 billion in 2007 to \$27.2 billion in 2013. A better way to understand these numbers is to look at amount of exposure the bank has—that is, the financial risk the bank takes, for which taxpayers are ultimately responsible. During the same period, the total exposure for the bank increased from \$57.42 billion to \$113.83 billion.

In September 2013, after extensive debate over reauthorization of the bank, Congress extended the bank’s ability to operate until June 30, 2015.<sup>3</sup> That authorization has ended, and Congress once again must consider the facts surrounding the Export-Import Bank’s reauthorization.

## POLICY ANALYSIS OF THE EX-IM BANK

The Ex-Im Bank is a Depression-era relic that no longer serves the purpose for which it was intended. The bank subsidizes the exports of a handful of large US firms while exposing taxpayers, borrowers, and consumers to risk. The Ex-Im Bank undermines the legitimacy of both the government and markets as it doles out favors to the politically connected, while providing little support to small businesses.<sup>4</sup> It fails to promote exports or level the playing field for US businesses. Eliminating the Ex-Im Bank will not result in job losses. Furthermore, far from being an asset to the Department of the Treasury, it suffers from a lack of transparency and exposes taxpayers to considerable risk.

### 1. The Ex-Im Bank Is an Example of Government-Created Privilege

The Export-Import Bank is a source of destructive government-granted privilege, which is strikingly visible as politically connected businesses lobby for and collect subsidies.<sup>5</sup> The unseen harms, however, are just as important.

- Among the top 10 domestic beneficiaries of the Ex-Im Bank is Boeing, which at 40 percent share of total loan authorizations dwarfs the 25 percent share for all small businesses combined in 2014 that received Ex-Im Bank loans.<sup>6</sup> On the foreign side, things aren't much different—the subsidized financing largely benefits very large companies that either collect massive subsidies as state-controlled entities or which could easily access private financing, such as Mexico's Pemex, Ryanair of Ireland, and Emirates airline.<sup>7</sup> In a lawsuit, Delta Air Lines has alleged a loss of 7,500 American jobs stemming from the Ex-Im Bank's activities.<sup>8</sup>
- American businesses without political connections are put at a competitive disadvantage by their own government because they compete against both domestic and foreign businesses with access to subsidized loans.<sup>9</sup>
- The Ex-Im Bank also gives lenders an incentive to shift resources away from unsubsidized projects and towards subsidized ones—regardless of the merits of each project.

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## 2. The Ex-Im Bank Does Not Promote Exports or Level the Playing Field for US Businesses

The Ex-Im Bank is supposed to address market imperfections, based on the assumption that high-value projects might not find funding. In the marketplace, however, high-risk projects with a low likelihood of repayment won't find financing. When the government supports such projects for politically well-connected businesses, taxpayers ultimately bear the risk of failure and repayment. High-risk projects, however, only make up 10.9 percent of the Ex-Im Bank's portfolio.<sup>10</sup> Economic theory and evidence shows that these projects are not successful and benefit only a handful of special interests rather than all US exports:

- *Failure to change the trade balance.* According to the Government Accountability Office (GAO), export promotion programs like Ex-Im Bank subsidies “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.”<sup>11</sup>
- *Vast majority of exports unaffected by the Ex-Im Bank.* Less than one-third of the estimated export value of the bank’s portfolio is intended to counteract competitive disadvantages created by foreign governments.<sup>12</sup> The Ex-Im Bank assists less than 2 percent of total exports.<sup>13</sup> This means that more than 98 percent of US exports occur without government financing through the bank, demonstrating that the bank is not critical to helping US exports thrive globally.<sup>14</sup>
- *Benefits conferred on only a few states, but all taxpayers bear the risk.* The vast majority of benefits conferred by the Ex-Im Bank are concentrated in a handful of states—the top three being Washington state, Texas, and California.<sup>15</sup> Washington state received 43.6 percent of total disbursements from 2007 to 2014, primarily because Boeing—the single largest beneficiary of Ex-Im Bank financing—builds its airplanes there. Forty-two states received less than 2 percent of disbursements and 35 states received less than 1 percent. Should the Ex-Im Bank portfolio fall into insolvency again, as it did in 1987, taxpayers in all of these states share equal responsibility for bailing out the bank.<sup>16</sup>

## 3. The Ex-Im Bank Unlikely to Affect Net Job Creation

While the Ex-Im Bank’s supporters point to numbers showing that new jobs have been created through federal spending, funding for one industry or firm may take away more jobs from other industries and firms resulting in a net job loss. At best, the bank redistributes employment away from smaller unsubsidized firms toward larger subsidized firms.

- *Many industries lose jobs.* The Ex-Im Bank claims that its subsidies supported approximately 164,000 jobs in 2014. But this figure does not account for the unseen costs of the bank, which include displaced employment among unsubsidized firms that compete with Ex-Im Bank-subsidized firms and firms

that purchase products that are made more expensive by those subsidies.<sup>17</sup> Each year, Ex-Im Bank subsidies impose net costs of about \$3 billion on 189 US industries.<sup>18</sup>

This means slimmer profit margins, lower growth, and dampened employment across firms that have to compete against those firms receiving Ex-Im Bank subsidies.

- *Large businesses will not experience jobs loss in the absence of the bank.* Jobs will not be lost if the Ex-Im Bank ceases to extend new loans. The large corporations, including Boeing, Caterpillar, and General Electric, who are major recipients of subsidized financing from the Ex-Im Bank, have millions of dollars—years worth—of backorders that will keep workers employed.<sup>19</sup>

#### 4. The Ex-Im Bank Does Not Support Small Businesses

Proponents claim that the Ex-Im Bank supports small businesses and jobs by leveling the playing field, but the vast majority of US small businesses—over 99.9 percent—receive no benefits from the Ex-Im Bank. These small businesses are placed at a competitive disadvantage against large, subsidized competitors who are the primary beneficiaries of the Ex-Im Bank’s financing. Most of the Ex-Im Bank’s funding goes to large corporations such as Boeing.<sup>20</sup> In fact, large corporations received roughly 75 percent of the bank’s total assistance in 2013.<sup>21</sup>

- *Large businesses benefit the most.* The Ex-Im Bank’s top 10 overseas buyers are large corporations (including Pemex, Ryanair, and Emirates airline) that primarily purchase exports from multinational conglomerates, challenging the narrative that the bank helps small businesses or even domestic businesses.<sup>22</sup>
- *Small, minority-owned, and women-owned businesses are left out.* Between fiscal year (FY) 2007 and FY 2014, only 23 percent of the bank’s financing benefited small businesses, and minority-owned and women-owned small businesses received less than 2 percent of the bank’s total funding.<sup>23</sup> When compared to the exporting economy as a whole for minority and women-owned businesses, the bank funds only 1 to 2 percent.<sup>24</sup>

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## 5. The Ex-Im Bank's Improper Accounting Practices Could Cost Taxpayers Billions of Dollars

Supporters of the bank claim that it saves taxpayer money and wisely invests taxpayer dollars. However, the bank uses improper accounting practices and miscalculates its budget savings. The Ex-Im Bank has a history of poor financial management—its accounting and risk assessment practices, which it uses to calculate the cost projections, have been consistently criticized by the GAO and its own inspector general for methodological weaknesses:<sup>25</sup>

- *Ex-Im Bank accounting incorrectly shows savings.* While the bank claims that \$14 billion will be saved over the next decade, a federal accounting report finds that Ex-Im programs will actually cost taxpayers \$2 billion.<sup>26</sup>
- *Financial safeguards fail to meet standards.* Numerous audits from the bank's internal inspector general also show that that the bank's risk analyses, default assumptions, internal reporting procedures, and financial reporting are inadequate to safely steward taxpayer funds and responsibly manage its vast portfolio.<sup>27</sup>
- *Ex-Im Bank has a poor history of mismanagement.* The Ex-Im Bank has a history of poor financial management. In 1987, it requested a \$3 billion federal bailout,<sup>28</sup> following seven years of losses of hundreds of millions of dollars.<sup>29</sup>

## CONCLUSION

The Ex-Im Bank fails to promote exports, create jobs, or support small businesses. Rather, the Ex-Im Bank privileges subsidized firms over their unsubsidized competitors, draws capital away from other unsubsidized borrowers, and puts taxpayer money at risk, all while making US businesses less dynamic and less efficient. There is a difference between favoring some businesses and being in favor of a free market: the Ex-Im Bank does not support a free market economy. If a government agency fails to meet its own stated objectives and leaves taxpayers on the hook to pay subsidies to well-financed, large multinational corporations, it should no longer exist.

## LINKS

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