POLICY SPOTLIGHT

The Export-Import Bank Is the Kind of Corporate Cronyism America Can't Afford

VERONIQUE DE RUGY | MAY 2022

The Export-Import Bank of the United States (Ex-Im Bank) is a government credit agency that provides taxpayer-backed financing for American exporters and their foreign buyers. Its existence is justified on the grounds that US exporters need assistance to compete in the global market, given that other nations provide such taxpayer-funded subsidies through their export credit agencies and, alternatively, given that traditional financing might be unavailable. The empirical reality is that the Ex-Im Bank (a) provides subsidized financing to big businesses at the expense of smaller businesses and taxpayers and (b) does little to promote exports, create jobs, or improve the competitiveness of firms. Removing this New Deal–era relic of government-granted privilege is likely to help US exporters.

A REBRANDING FOR "THE BANK OF BOEING"?

By 2014, there was little evidence to show whether the Ex-Im Bank assists US exporters who have difficulty accessing credit or global markets or whether it assists small businesses.

On the domestic side, 65 percent of the bank's activities benefit 10 giant American companies, including Boeing, General Electric, and Caterpillar. Boeing alone has benefited from 70 percent of the bank's loan guarantee program and 40 percent of its overall activities, earning the Ex-Im Bank the nickname "the Boeing Bank."

On the global side, the Ex-Im Bank's beneficiaries have been similarly powerful, well-funded corporations, not capital-strapped firms. Indeed, state-owned foreign companies have also been recipients of the Ex-Im Bank's largesse, such as the Mexican oil giant Pemex and Air Emirates, the airline of the wealthy United Arab Emirates.

As a result, in July 2015, the bank's charter was not reauthorized, and the agency was set to be disbanded. Although the charter was ultimately reauthorized in December 2015, a lack of a quorum on the bank's board of directors left the agency dormant for four years. That dormancy ended in December 2019. However, in an effort to counter this criticism, the Ex-Im Bank has attempted to redefine itself since 2019 as a vehicle to counter China's global economic influence.

FAILING THE CHINA CHALLENGE

The Ex-Im Bank has proven inadequate to its Congressionally imposed task:

- The bank's "China Program" had extended only $141 million in financing by 2021—a fraction of the $27 billion it is supposed to deliver by the end of 2026.

- The bank's efforts have included a misplaced focus on emerging technologies such as quantum computing and artificial intelligence, which do not need bank financing because their foreign sales would have attracted commercial financing without government support.
- To compete with China, the bank should extend loans to lower-income nations, where financing is difficult to find and where China is most active. Yet the Ex-Im Bank continues to finance foreign borrowers in rich countries, such as Italy or France, that are already served well by commercial banking markets.

SMALL EFFORTS FOR SMALL BUSINESSES

A justification for the existence of the Ex-Im Bank is that it supports small businesses and helps level the playing field for them. This has not been the case.

- The bank's support for small businesses has been declining—from $2.3 billion in 2019 to $2.1 billion in 2020 to only $1.6 billion in 2021. This decline occurred amid a pandemic that hurt small businesses especially.
- Small businesses are placed at a competitive disadvantage against the large, subsidized competitors that are the primary beneficiaries of Ex-Im Bank financing.
- Last year, the Ex-Im Bank's financing for women- and minority-owned businesses was only $361 million—less than half of what it was 10 years ago, not even adjusting for inflation.

A GOVERNMENT AGENCY IN SEARCH OF A MISSION?

After decades of failure, the Ex-Im Bank will now take on a new role. Through its domestic financing initiative, the bank's board of directors has approved an initiative to reorient the bank's efforts to "support and facilitate" exports while "rebuilding" US manufacturing by providing below-market-rate loans to American companies with an "export nexus."

Such reinvention efforts would only compound the bank's past failures. Ex-Im Bank subsidies distort markets by shifting capital toward influential industrial interests and away from unsubsidized exporters. This distortion increases consumer prices, exposes taxpayers to unnecessary risk, and makes US businesses less dynamic and less efficient. The actions of the Ex-Im Bank undermine the legitimacy of both government and markets.

FURTHER READING

Veronique de Rugy, "Extending Ex-Im Bank Financing to Domestic Markets Is a Solution in Search of a Problem" (Public Interest Comment, Mercatus Center at George Mason University, Arlington, VA, January 18, 2022).

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