Introduction

The Export-Import Bank of the United States (Ex-Im) is a federal government agency that promotes the export of U.S. goods and services by offering several types of financial products. Typically, Ex-Im offers direct loans and loan guarantees to foreign buyers who use the financing to purchase American exports. Ex-Im also offers insurance and working capital to domestic exporters. Ex-Im usually offers financing at lower interest rate than similar financing available in the private sector. For the 2014 fiscal year, Ex-Im authorized over 3,700 financial transactions worth a total of $20.5 billion.¹

Ex-Im has received increased attention over the past two years as its renewable charter was set to expire. Critics questioned the necessity of Ex-Im’s distortionary subsidies and the harmful effects of cronyism. Historically, Ex-Im’s charter reauthorization passed with broad bipartisan support and little opposition. This changed in 2012 when a few key Members of Congress reduced the charter from five years to two years. Ex-Im’s 2014 charter was shortened to just nine months and will expire after June 30, 2015 unless reauthorized by Congress.

One of the major criticisms of Ex-Im is that the bank’s financing is largely corporate welfare given to politically connected companies and this cronyism causes distortions to market signals. For example, two of Ex-Im’s top beneficiaries are Boeing and General Electric. Both companies are large multinational corporations that could likely finance their sales without help from Ex-Im, and both are heavily involved in giving political donations and lobbying.² Ex-Im’s financing not only enriches the politically connected but also causes economic distortions that hurt others. When Ex-Im subsidizes the exports of companies like Boeing, those exports can be used by companies downstream that compete with U.S. companies. For example, Delta Airlines is harmed when Ex-Im gives financing to a foreign competitor to buy Boeing planes. The foreign airline competes with Delta on international routes, but now can buy aircraft at cheaper rates for those routes than Delta giving the foreign airline an unfair advantage.

Ex-Im’s proponents argue that Ex-Im provides necessary financing to support exports that otherwise would not happen. By financing exports deemed too risky by the private sector, Ex-Im may increase the number of exports and associated jobs. Additionally, they say, U.S. companies have to compete with foreign companies that receive subsidized financing from their

own governments. Ex-Im is needed to level the playing field by offering similar financial deals to what foreign companies receive from their governments. These arguments do not hold up when examined closely.

Ex-Im conflicts with the ideal role of government in a free society. It demonstrates the harm of crony capitalism, consequences of distorted market signals, and the lack of accountability of federal credit programs. It also illustrates the problems caused by government intruding into the market and favoring the politically connected.

**History**

*Origins*

Ex-Im originated with an executive order by Franklin Roosevelt in 1934 aimed at boosting job growth through exports. The original purpose of the bank was to finance trade with the Soviet Union, a country deemed too risky by the private sector at that time because of the risk of expropriation. Roosevelt directed $1 million in appropriations from the National Industrial Recovery Act to create the bank.

Roosevelt later issued another executive order creating a second export-import bank designed to finance trade with Cuba. One of Roosevelt’s intentions for the bank was for it to be a foreign policy tool through which the U.S. could offer easy credit to politically favored countries. Ironically, two decades later the Soviet Union and Cuba became enemies of the U.S. and all trade with them ceased.

The two banks later merged and Congress expanded this single bank’s powers in 1935. A decade later, Congress passed the Export-Import Bank Act of 1945 which laid the foundations for the current structure of the bank today and made it an independent agency. Previously, the bank had operated as a program of other government agencies. In the act, Congress capitalized the bank with $1 billion in appropriations from the U.S. Department of the Treasury. Since 1945, the bank has operated under a renewable charter requiring reauthorization every five years. In 2012, however, it was subjected to increased criticism and Congressional scrutiny which led

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7 “Ex-Im Bank History.”

8 “Ex-Im Bank History.” Amount in 1945 dollars.
its charter to be shortened to two years. In 2014, following even more debate and scrutiny, the charter was shortened to just nine months.9

Ex-Im’s Current Structure

Ex-Im states that its current mission is to ensure that U.S. companies have access to export financing in areas where the private sector does not provide it, or competitive pressures require government intervention. Ex-Im typically issues financing for three reasons:

1. “To assume commercial or political risk that exporter or private financial institutions are unwilling or unable to undertake,”

2. “To overcome maturity or other limitations in private sector export financing,”

3. “To meet competition from a foreign, officially sponsored, export credit competition.”

Ex-Im is required to list the justification used when it issues financing. However, Ex-Im can also list the reason as “not identified.”10

Ex-Im offers several types of financial products including direct loans, loan guarantees, and insurance. First, it can issue direct loans to foreign companies that use them to purchase U.S. exports.11 For example, Ex-Im may loan money to a solar company in India to buy solar panels made in America. Second, it can issue loan guarantees to private banks that finance the sale of U.S. exports.12 For example, if Citibank loans money to a Brazilian oil company that buys drilling components from an American manufacturer, Ex-Im would offer a guarantee to Citibank. If the buyer does not repay the loan, Ex-Im guarantees repayment of a percentage of the loan, typically up to 80 percent. The loan guarantee makes Citibank more willing to finance projects that otherwise might be considered too risky. Third, Ex-Im is able to issue insurance that goes to U.S. exporters in case of non-payment from a foreign buyer.13 If a domestic textile company exports fabrics overseas and the foreign buyer fails to pay for them or cancels the order after they have been produced, Ex-Im will cover a percentage of the costs. For FY2014, direct loans made

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up around 10 percent of Ex-Im financing while loan guarantees and insurance made up 65 percent and 25 percent respectively.\textsuperscript{14}

Internationally, Ex-Im is what is known as an export credit agency (ECA). According to the Organization for Economic Development (OECD), 31 countries have official ECAs.\textsuperscript{15} The OECD does not include developing countries such as Brazil, India, and China so the total number of the ECAs in the world is likely higher. For member countries, the OECD issues guidance regarding the terms of ECA financing. That guidance might include standardized interest rates so that OECD countries offer financing at similar rates.

Part of the bank’s stated purpose is to match subsidized financing by other ECAs for foreign companies competing with American companies. For example, Ex-Im provides subsidized financing to a foreign airline buying a Boeing aircraft because a European export credit agency offered subsidized financing for Airbus aircraft. Ex-Im claims that without the subsidized financing, Boeing would not be able to compete with Airbus. This justification for Ex-Im is the most frequently cited in favor of keeping the bank.

\textit{Financial Record}

Ex-Im’s financial track record is a mixed bag. During the 1970s and 1980s, stagflation and the actions of the Federal Reserve resulted in high interest rates.\textsuperscript{16} As a result, Ex-Im’s lending cost rose, but the bank still tried to lend at competitive interest rates with other ECAs. This meant lending money at rates lower than its own cost of financing; Ex-Im was then forced to draw down its reserves to cover its deficits and eventually needed appropriations from Congress.\textsuperscript{17}

These deficits continued into the 1990s. A Government Accountability Office (GAO) report found that Ex-Im cost taxpayers $4 billion between 1992 and 1997.\textsuperscript{18} Much of the costs resulted from Ex-Im’s tied-aid capital fund, commonly referred to as Ex-Im’s “war chest.” In competition with other ECAs, Ex-Im offered low interest financing that required taxpayer support. The GAO noted that these “programs require substantial levels of taxpayer support” and recommended the U.S. government pursue international negotiations “to reduce and eventually

\textsuperscript{14} Export-Import Bank, \textit{Annual Report 2014}, 40.
\textsuperscript{16} Stagflation occurs when an economy experiences a high inflation rate, a slowdown in economic growth, and high unemployment simultaneously. High interest rates generally accompany high inflation. For more information on stagflation, see: “Stagflation,” Reference.com, \url{http://www.reference.com/browse/stagflation}
eliminate such subsidized export finance programs.”

More recently, Ex-Im has generated more revenue than it receives in appropriations. Since FY2008, Ex-Im has operated on a self-sustaining basis and generated net positive revenues for the federal government. Ex-Im’s administrative expenses are substantially less than the net revenue it generates in loan repayments, interest, and fees. In FY2014, for example, Ex-Im’s surplus was $674.7 million, which went into the federal government’s coffers. Ex-Im is expected to have similar returns in the next couple of years.

Opposition to Ex-Im

Throughout most of the Ex-Im’s history, there has not been significant opposition to the bank. Ex-Im has been reauthorized seventeen times in its 80 year history, each time with bipartisan support. Opposition has typically come from politicians outside the mainstream of their political parties. Two long term congressional opponents of Ex-Im include Senator Bernie Sanders (I-VT) and former Representative Ron Paul (R-TX).

In the late 1990s and early 2000s, progressive, environmental, and conservative critics of Ex-Im briefly joined efforts to end Ex-Im. Referring to themselves as the Stop Corporate Welfare Coalition, the left-right alliance listed Ex-Im as one of over a dozen examples of corporate welfare in the federal budget needing to be cut. Group members ranged from the conservative Americans for Tax Reform to the liberal U.S. Public Interest Research Group and the environmental group Friends of the Earth. Despite their efforts, Ex-Im was consistently reauthorized.

Criticism of Ex-Im changes depending on which party holds the White House; the party out of the White House is typically more likely to criticize the agency. President Obama is a prime example of this. In 2008, as a presidential candidate, he called the bank “little more than a

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21 Akhtar, Export-Import Bank: Overview and Reauthorization Issues, 14.
fund for corporate welfare,” but upon taking office signed legislation increasing Ex-Im’s lending authority.\textsuperscript{27}

In the past three years, Ex-Im’s reauthorization has become more controversial and though the bank’s activities have not been reined in, the length of its charter has been shortened. In 2012, the bank’s charter was renewed for only two years instead of five. Two vocal critics in Congress assumed key positions important to the 2014 reauthorization, making reauthorization uncertain for the first time in the bank’s history. In late 2012, Jeb Hensarling (R-TX) became Chairman of the House Financial Services Committee to which Ex-Im’s charter reauthorization is traditionally assigned.\textsuperscript{28} In June of 2014, Kevin McCarthy replaced bank supporter Eric Cantor as House Majority Leader, and subsequently reversed his previous support of Ex-Im and argued in favor of allowing Ex-Im’s charter to expire.\textsuperscript{29}

Ultimately, Ex-Im’s supporters prevailed in the last reauthorization, but it was a mixed result. The charter was included in a “must pass” omnibus appropriation bill for fiscal year 2015. However, it was only extended through June of 2015 – just nine months.\textsuperscript{30}

**Detailed Analysis**

*Does Ex-Im Create jobs?*

One of the major benefits cited by proponents of Ex-Im is that the bank supports American jobs. Ex-Im estimates that it supported 164,000 jobs in FY2014 by authorizing over 3,700 transactions valued at a total of $20.5 billion, or about one job for every $125,000 in financing it authorizes.\textsuperscript{31} But this estimate needs to be evaluated in a fuller context in order to understand the nuances and problems associated with it.

First, it is important to note that these are jobs *supported* not jobs *created*. Ex-Im does not claim its financing creates new jobs. Instead, the term “jobs supported” refers to the number of jobs required to produce a given amount of exports for a given amount of financing. Whether or

http://www.washingtonpost.com/wpdyn/content/article/2008/09/22/AR2008092201500_pf.html And  
\textsuperscript{28} Victoria McGrane And Corey Boles, “Hensarling to Head House Financial Services Committee,” *Wall Street Journal*, November 28, 2012,  
http://online.wsj.com/news/articles/SB100014241278873244469304578145913997332312  
\textsuperscript{29} Doug Palmer, “Kevin McCarthy: Allow Export-Import Bank to close,” *Politico*, June 22, 2014,  
not these jobs would exist without this financing is not evaluated in Ex-Im’s analysis. Often in the public debate over Ex-Im, the term jobs supported is confused with jobs created.

Ex-Im calculates its jobs supported estimate using a methodology based on input-output modeling which examines the relationships between industries or sectors of an economy. 32 For example, building an airplane requires aluminum and other building materials. The inputs for one industry (aerospace) are the outputs of another (metals). An input-output model can be used to analyze how changes in one industry, say mining and metals, affects another, like the aerospace industry.

Ex-Im relies on data from the Bureau of Labor Statistics (BLS) to arrive at its jobs supported estimate. 33 BLS produces employment requirement tables using input-output models, which estimate how many jobs are necessary to create $1 million worth of exports for a given industry. Imagine that Ex-Im finances $1 million worth of aircraft exports. Jobs are needed in the mining, manufacturing, and aerospace industries in order to export aircraft. Ex-Im uses this BLS data to determine the number of jobs needed to create $1 million worth of exports in a given industry and then applies that ratio to the total amount of financing it authorizes to that industry to arrive at total jobs supported.

Ex-Im has been criticized for not fully acknowledging the limitations of its estimates. In May 2013, a GAO report stated that “Ex-Im reports the number of jobs its financing supports and the methodology it uses but does not describe limitations of the methodology or fully detail its assumptions.” 34 The GAO report continued, “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.” 35

The GAO found three major limitations with Ex-Im’s jobs supported figures:

1. Ex-Im counts part-time and seasonal jobs in its jobs supported number. When most hear the 205,000 jobs supported claim, most assume this means full-time work and not part-time or seasonal jobs.
2. The number also may count a person twice as it is a measure of jobs, not persons employed. One person may hold multiple jobs or responsibilities in a company, especially for a small company.

3. **Most importantly**, Ex-Im’s analysis does not look at net impacts, meaning the methodology does not consider any negative effects that Ex-Im’s financing might have elsewhere in the economy.

In order to evaluate Ex-Im’s true impact, both the positive and negative effects of the bank must be considered, yet their calculations exclude any negative effects on domestic employment. When Ex-Im finances exports in support of one sector of the economy, it may be harming other sectors by subsidizing foreign competitors. This is referred to as “downstream-industry costs.”

The Cato Institute’s Daniel Ikenson examined the negative effects of Ex-Im. He calculated the downstream-industry costs imposed on domestic companies when Ex-Im finances or subsidizes their foreign competitors. Using a similar input-output methodology, Ikenson estimated total downstream-industry costs of Ex-Im financing between FY2007 and FY2013 (See Figure 1). Using the North American Industry Classification System (NAICS), a system that classifies businesses based on their industry, the report evaluated costs and benefits from Ex-Im for all 236 non-aircraft manufacturing industries. Ikenson noted that he excluded the aircraft production so as “to allow for a clearer view of what is happening in typical industries, as inclusion of aircraft subsidies, which accounted for more than half of the subsidies to manufacturers, would skew that picture.”

The results of Ikenson’s study show that some industries benefited while others were harmed. The 236 non-aircraft manufacturing industries collectively received $50 billion in Ex-Im financing, which can be considered a subsidy to these industries. Out of these 236 industries, 189 industries experienced greater economic harm than gain from Ex-Im. The total value of downstream-industry costs was greater than the total value of the financing the industry received from Ex-Im. Thus, 47 industries benefited at the expense of the 189 industries that lost. Of the $50 billion in Ex-Im financing, there were $40 billion in downstream-industry costs. So, for every dollar of Ex-Im financing, there were 80 cents in costs incurred downstream. The most harmed industries included Electrical Equipment, Appliances and Components; Furniture and Related Products; and Food.

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36 Ikenson, *The Export-Import Bank and Its Victims?*
Figure 1. Ex-Im Subsidies and Costs by Manufacturing Industry, FY2007-FY2013

<table>
<thead>
<tr>
<th>NAICS-3</th>
<th>Industry Description</th>
<th>Subsidies to Industry ($)</th>
<th>Cost to Industry ($)</th>
<th>Net Benefits ($)</th>
<th>Annualized Net Benefits ($)</th>
<th>Sub-Industries (#)</th>
<th>Sub-Industry Victims (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>335</td>
<td>Total Electrical Equipment, Appliances and Components</td>
<td>710,810,822</td>
<td>2,203,705,725</td>
<td>-1,492,892,520</td>
<td>-213,270,321</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>337</td>
<td>Total Furniture and Related Products</td>
<td>65,320,054</td>
<td>1,259,801,725</td>
<td>-1,176,481,121</td>
<td>-168,097,503</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>311</td>
<td>Total Food</td>
<td>1,068,487,088</td>
<td>2,123,845,482</td>
<td>-955,357,194</td>
<td>-123,481,044</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>327</td>
<td>Total Nonmetallic Mineral Products</td>
<td>134,009,974</td>
<td>973,968,459</td>
<td>-835,958,485</td>
<td>-119,994,069</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>325</td>
<td>Total Chemicals</td>
<td>1,574,603,710</td>
<td>2,321,709,654</td>
<td>-747,105,924</td>
<td>-106,729,418</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>334</td>
<td>Total Computers and Electronics</td>
<td>7,365,320,952</td>
<td>8,003,655,060</td>
<td>-638,335,309</td>
<td>-91,190,730</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>326</td>
<td>Total Plastics and Rubber Products</td>
<td>680,594,667</td>
<td>1,276,688,586</td>
<td>-596,091,919</td>
<td>-85,155,988</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>321</td>
<td>Total Paper</td>
<td>270,004,250</td>
<td>718,159,682</td>
<td>-446,155,432</td>
<td>-63,735,633</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>311</td>
<td>Total Primary Metals</td>
<td>689,746,792</td>
<td>987,325,007</td>
<td>-297,576,215</td>
<td>-42,510,888</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>339</td>
<td>Total Other Miscellaneous Manufacturing</td>
<td>1,244,677,896</td>
<td>1,487,955,004</td>
<td>-243,255,108</td>
<td>-34,750,750</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>314</td>
<td>Total Textile Products</td>
<td>36,468,507</td>
<td>282,166,755</td>
<td>-185,698,247</td>
<td>-26,528,321</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>316</td>
<td>Total Leather and Allied Products</td>
<td>52,690,000</td>
<td>232,599,977</td>
<td>-184,699,947</td>
<td>-26,578,586</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>312</td>
<td>Total Beverage and Tobacco Products</td>
<td>91,949,780</td>
<td>272,687,768</td>
<td>-180,738,041</td>
<td>-25,819,723</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>324</td>
<td>Total Petroleum and Coal Products</td>
<td>272,832,863</td>
<td>404,071,835</td>
<td>-141,228,972</td>
<td>-21,434,133</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>325</td>
<td>Total Printing</td>
<td>89,776,926</td>
<td>253,227,079</td>
<td>-145,450,155</td>
<td>-20,492,870</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>315</td>
<td>Total Apparel</td>
<td>43,300,000</td>
<td>79,028,224</td>
<td>-35,528,224</td>
<td>-5,075,461</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>312</td>
<td>Total Wood Products</td>
<td>712,243,557</td>
<td>599,877,609</td>
<td>115,365,747</td>
<td>16,995,107</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>315</td>
<td>Total Textiles</td>
<td>420,283,975</td>
<td>253,306,529</td>
<td>167,179,447</td>
<td>23,882,278</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>336</td>
<td>Total Transportation Equipment</td>
<td>6,626,326,685</td>
<td>4,629,410,030</td>
<td>1,996,916,656</td>
<td>285,273,808</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>333</td>
<td>Total fabricated Metal Products</td>
<td>6,584,036,681</td>
<td>4,497,619,483</td>
<td>2,084,417,192</td>
<td>300,631,028</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>335</td>
<td>Total Machinery</td>
<td>21,536,750,653</td>
<td>7,558,069,762</td>
<td>15,978,660,891</td>
<td>1,996,951,556</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>31-31</td>
<td>All Manufacturing (except Aircraft)</td>
<td>50,470,218,209</td>
<td>40,420,380,762</td>
<td>10,049,837,447</td>
<td>1,453,691,064</td>
<td>256</td>
<td>189</td>
</tr>
</tbody>
</table>


While Ikenson’s report does not specifically look at job losses from “downstream-industry costs,” some costs do translate into job losses. Delta Air Lines provides an example of how this can occur.

Delta often competes with foreign airline companies on international routes and is placed at a disadvantage because of Ex-Im’s subsidies. Typically, airline companies purchase fleets of aircraft for a route and the total purchase can range in the hundreds of millions to billions of dollars. The financing of these deals is extremely important and even a small difference on a loan’s interest rate can mean millions of dollars in the final price. Ex-Im offers subsidized financing to foreign airlines in order to make the purchase of, in this case, Boeing planes less costly, and thus promote American exports. A foreign airline company, like Air India, can purchase Boeing planes at a cheaper rate. Thus, Delta argues, Air India’s lower fixed costs mean it can then charge lower ticket prices on international routes from the U.S. to India. Delta claims that undercutting by Air India was the reason it canceled a route between New York and Mumbai.
in 2008. Between 2006 and 2009, Ex-Im issued $3.3 billion loan guarantees for Air India to purchase Boeing aircraft.\(^{38}\)

Delta estimated the job losses resulting from the downstream-industry costs imposed by Ex-Im on the entire domestic airline industry.\(^{39}\) Between 2001 and 2011, Ex-Im provided $52 billion in loan guarantees to foreign carriers to purchase domestic made aircraft. Delta estimated this costs the U.S. airlines industry between $372 million to $684 million and subsequent job losses were between 4,100 and 7,500.

Thus, Ex-Im’s claim to promote American jobs is not so certain. While Ex-Im’s subsidized financing provides benefits to domestic industries, it also has negative effects on other firms and industries, including net costs and fewer jobs. This conclusion is supported by both independent and industry studies. Moreover, as noted by the GAO, the jobs claims may be inflated or misleading. These findings give strong reasons for questioning Ex-Im’s jobs claims.

**Picking Winners and Losers**

One key argument against Ex-Im is that it picks winners and losers rather than letting the competitive market do so. Ex-Im’s policies benefit some industries at the expense of others. Moreover, instead of creating jobs and economic activity, it’s also likely that Ex-Im is just merely shifting activity around, picking geographic winners and losers. For example, just a few states receive a majority of the benefits of Ex-Im financing, even though taxpayers in all states bear the risks of Ex-Im. Similarly, Ex-Im picks individual winners as most of its financing benefits just a few companies.

Veronique de Rugy of the Mercatus Center found that while taxpayers in all states bear the risk of default for Ex-Im financing, only a few states receive the majority of the benefits (see Figure 2).\(^{40}\) Between FY2007 and FY2013, exporters in Washington, Texas, and California accounted for 62.9 percent of Ex-Im financing awards.\(^{41}\) Washington alone accounts for 43.6 percent even though it only has 2.2 percent of total U.S. population.


\(^{41}\) The percentages were compiled by the Mercatus center using data from Ex-Im’s Congressional map tool. “Export Data-USA,” Export-Import Bank of the United States, accessed December 16, 2014, [http://www.exim.gov/customcf/congressionalmap/us_map.cfm](http://www.exim.gov/customcf/congressionalmap/us_map.cfm)
Figure 2. Concentration of Ex-Im Funds by State

Ex-Im picking individual winners and losers sends its own signals to markets and reflects a culture of rent-seeking and gain through political influence. For example, ten exporters received 97 percent of the loan guarantee program’s total financing, and just three, Boeing, Caterpillar, and General Electric, received 87 percent (see Figure 3). According to the Center for Responsive Politics, these three companies spent over $36 million on federal lobbying in 2013 including directly lobbying officials at Ex-Im. For the 2014 election cycle, combined political contributions from these companies’ employees and their political action committees exceeded $6 million. While all exporters may be able to apply for financing from Ex-Im, the reality is that large, politically connected companies received the vast majority of the benefits.

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By picking winners and losers in these ways, Ex-Im is harmful to a free society. Ideally, federal government programs – if necessary at all – should treat all firms, industries, and states equally. Instead, companies receive financing based on their political connections and influence, not their ability to create value. This distorts market signals and leads to inefficiencies which sap resources from society.

**Figure 3. Ex-Im Loan Guarantees, FY2013**

![Ex-Im Bank Loan Guarantees, FY 2013](image)

Is Ex-Im necessary to combat subsidies by foreign governments?

Another claim made in support of Ex-Im is that financing is needed to match the financing of foreign governments. The argument goes that since the European Union subsidizes Airbus, foreign airlines will choose to purchase the subsidized Airbus airplanes over Boeing’s airplanes if Ex-Im does not match financing offered by the European Union’s ECAs.
De Rugy also challenged this assertion by compiling data from Ex-Im’s 2013 annual report and a report from the Congressional Research Service on the bank.\(^{45}\) She found that only 32.7\% of Ex-Im’s transactions were used to match foreign financing from an ECA while 50.1\% of transactions were given no justification (see Figure 4). It is striking that foreign competition is not cited more often and this gives reason to question the claims that Ex-Im is necessary to combat other governments’ ECAs.

**Figure 4. Ex-Im Portfolio by Stated Goal**

![Diagram showing Ex-Im Portfolio by Stated Goal]


Even Ex-Im’s largest beneficiary, Boeing, would survive if Ex-Im was closed. On a conference call to investors and reporters, a director of Boeing’s financial division said “he was confident the company could find alternative funding sources for customers that wouldn’t require it to boost its support of aircraft sales,” as reported by the *Wall Street Journal*.\(^{46}\)

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customers also agreed that they would still be able to purchase Boeing planes without Ex-Im financing. Reuters reported that “Emirates, Dubai’s flagship airline, would not have trouble buying planes from Boeing Co (BA.N) even if the U.S. Congress fails to renew the U.S. Export-Import Bank’s charter later this month, a senior company executive said.”47 If the most heavily subsidized Ex-Im recipient can survive without Ex-Im financing, it is likely less dependent companies can survive as well.

Does Ex-Im generate a “profit”?

Another claim by Ex-Im’s proponents is that it generates a surplus – or “profit” – and so helps lower the federal deficit. This seems true on the surface, but a deeper analysis calls this claim into question. Ex-Im generates revenues from the principle payments from its borrowers and the interest and fees it charges on its financial products. After covering expenses, any surplus revenue is sent to the federal government’s general fund. For FY 2014, Ex-Im returned $674.7 million in surplus revenue.48 However, this result is based on an accounting method which may not properly estimate risk and Ex-Im may not be holding enough reserves to protect against future losses. If so, the “surplus” could actually be much smaller or even be a deficit. Ex-Im is required to follow the guidelines of the Federal Credit and Reform Act of 1990 (FCRA) when accounting for its financing programs. FCRA requires federal agencies to record the estimated lifetime costs of loans and guarantees (including projected losses from defaults) in the year in which they are dispersed.49 This change helped federal officials better understand the potential long-term risk certain direct spending and credit programs posed to the taxpayers, including Ex-Im.

The debate about Ex-Im’s surplus is over how the lifetime cost of federal credit programs is estimated. As noted above, to estimate the cost of a credit program, an agency estimates its future cash flow by combining the income from principle payments, interest payments, and fees, along with the losses from defaults. It then applies a discount rate to determine the net present value – how much future dollars are worth in current dollars.

The dispute centers on the discount rate proscribed by FCRA, which does not adequately take into account market risk according to critics. Critics argue this causes Ex-Im to underestimate the true costs of its credit programs. FCRA dictates use of the interest rate on U.S. Treasury securities – viewed as low-risk – for the discount rate. However, a different accounting approach, known as fair-value accounting, relies on market prices and interest rates of similar financial products to the credit being issued instead of treasury rates.

Interest rates on U.S. securities reflect lower perceived risk because they bear the full faith and credit of the federal government. Interest rates in the private sector take into account market risk, “the component of financial risk that remains even after investors have diversified their portfolios as much as possible; it arises from shifts in macroeconomic conditions, such as productivity and employment, and from changes in expectations about future macroeconomic conditions.”\(^{50}\) Since Ex-Im provides financing to private sector companies that are subject to market risk, supporters of fair-value accounting argue that the discount rates should be based on the risk profile of the companies receiving the credit, not U.S. securities, to properly account for market risk.

According to the CBO, “the fair-value approach offers a more comprehensive estimate of federal costs.”\(^ {51}\) CBO estimated that Ex-Im could actually cost taxpayers $2 billion over the ten year period ending in 2024, rather than a surplus of $14 billion.\(^ {52}\) As CBO notes, however, estimating risks for these kinds of programs can be very challenging. Traditionally, as some pro-Ex-Im critics of Fair Value Accounting argue, Ex-Im has a low rate of default. As of March 2014, it stands at under 1 percent while historically it has been less than 2 percent. However, past may not be prologue. The GAO argued in its study that historical rates may not be representative of current risk because the current lending portfolio of loans is not in the likely period of defaults.

In short, estimating future risk is highly challenging. It is clear that there should be much more transparent debate about the true risks – and costs – that Ex-Im’s programs pose for taxpayers. Ultimately, no financing program should pose high risks for the taxpayers nor should any program be maintained solely because it may be a cash cow. Understanding true costs and long-term exposure of government programs is essential to evaluating either.

**Risk Management**

There are several areas of concern regarding Ex-Im’s risk management of its portfolio:

1. Its portfolio may be too heavily concentrated in just a few industries.
2. Its methods for forecasting future defaults is not up to private industry standards.
3. It misclassified hundreds of exporters as small businesses when in reality they were large companies.

All of these concerns come as Ex-Im has increased the amount of its annual authorizations and the total size of its portfolio.

\(^{50}\) Congressional Budget Office, *Fair-Value Accounting for Federal Credit*, 2.


\(^{52}\) Congressional Budget Office, *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024*, 5-7
Concentration of Ex-Im’s portfolio: Ex-Im’s portfolio is not driven purely by what makes the best sense financially. Instead, political considerations impact Ex-Im’s portfolio through Congressional mandates. For example, Congress mandates that at least 10% of Ex-Im’s portfolio support renewable energy and 20% support small business. Politicians may not adequately evaluate market risk and may choose to support industries for political reasons instead of financial ones. Additionally, Ex-Im’s investments are heavily concentrated in two geographic areas (Asia and Latin America) as well as in three sectors (aircraft, oil and gas, and manufacturing). When Ex-Im issues financing to an oil company, for example, it does not consider that transaction in regards to its total outstanding exposure – and risk – in that industry. This has led to criticism of the bank for unnecessary exposure in some industries.

Limited definition of default: Ex-Im’s definition has been criticized as not being comparable to the standards of private sector banks. Ex-Im defines default as “the failure to make a required debt or premium payment on a timely basis,” while banks in the private sector have a stricter standard that includes “failure to comply with other conditions in the loan agreement,” such as if the borrower offers repayment, but in a different form or requests changes to the term that are less financially lucrative to the bank. As a result, Ex-Im may be underestimating the true historical rate of default which is then used in the forecasting of future rates of default. By incorrectly forecasting a lower rate of default, Ex-Im may not have adequate reserve losses in the future to cover defaults.

Misclassification of exporters: An investigation from Reuters found that Ex-Im misclassified 200 companies as small businesses when in reality they were large companies, and in many cases large multinational conglomerates. Over the course of 8 years, these misclassified companies received a total of $3 billion in authorizations. This represents a full 8% of the total amount Ex-Im authorized. When Reuters presented this information to Ex-Im, the agency acknowledged the problem but downplayed its significance. The Reuters investigation raises the concern that Ex-Im’s sloppiness in this area may represent a more systematic problem with its overall due diligence.

All of these concerns come at a time when Ex-Im is authorizing record breaking amounts of new financing. At the same time, its loss reserves have shrunk. Ex-Im’s portfolio has grown substantially in recent years from $58 billion in 2008 to $112 billion in 2014, nearly doubling in

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6 years (see Figure 5).\textsuperscript{57} This occurred as result of legislation in 2012 which increased the bank’s lending cap, and because the bank is using a greater percentage of the money it was authorized to lend.\textsuperscript{58} Additionally, Congress increased the limit on the bank’s annual authorizations. From FY1997 through FY2008, Ex-Im’s annual authorizations hovered between $12.1 billion and $14.4 billion. In FY2009, authorizations jumped to $21 billion and peaked in FY2012 at $35.8 billion, more than doubling in four years. While authorizations have declined since FY2012, to $20.5 billion in FY2014, they are still much higher than in the previous decade. Ex-Im argues it has seen an increase in the demand for its financing products since the 2008 financial crises as private financers were unwilling to lend and this has led it using a larger percentage of its lending cap.\textsuperscript{59} Importantly, the increase in activity stands in contrast to Ex-Im’s loss reserves which have declined in recent years from 6.8 percent of total exposure in FY2010 to 4.5 percent in FY 2014.\textsuperscript{60}

\textsuperscript{57} Akhtar, Export-Import Bank: Overview and Reauthorization Issues, 10-14.
Examples and Stories

Australia’s Corporate Welfare Queen

In 2013, Ex-Im loaned $694 million to help Australia’s richest woman on her latest mining project. The loan went to Roy Hill Holdings, a project of Hancock Prospecting, owned by the billionaire mining heiress Gina Rinehart. While it may seem odd that the U.S. government wants to loan money to a billionaire, Ex-Im justified the loan saying it helped Roy Hill purchase U.S. mining and rail equipment from Caterpillar and General Electric.61

While the loan may have supported export jobs in one sector, it directly threatened them in another. U.S.-based Cliffs Natural Resources mines and exports iron ore to Asia and Europe. Cliffs Natural Resources mines iron-ore in Minnesota and Michigan and competes with Roy Hill

Figure 5. Ex-Im Authorization Growth


in the Asian market. One study estimated that over the lifetime of the financing for the Roy Hill mine, $600 million of U.S. iron ore exports would be displaced.\textsuperscript{62}

While the loan was still under consideration, a group of Senators from Minnesota and Michigan wrote to Ex-Im chairman Fred Hochberg expressing their concerns. U.S. Senator Amy Klobuchar (D-MN) said that “It doesn't make sense for our government to be funding our competition, especially when this project could have such a negative impact on local economies and the livelihoods of so many miners.”\textsuperscript{63} Despite this criticism, Ex-Im went through with the loan to Australia’s richest woman.

\textit{Rupert Murdoch, Jimmy Carter, and Ex-Im}

Historian Burton Folsom tells the story of how Rupert Murdoch may have traded an endorsement for Jimmy Carter from the \textit{New York Post} for Ex-Im financing:

“In 1977, when Jimmy Carter became president, he appointed fellow Georgian John L. Moore Jr. to be the President of the Ex-Im Bank. In February 1980, when Carter was running for reelection, Moore met with Rupert Murdoch, the head of Ansett Airways in Australia to encourage Murdoch to buy Boeing airplanes. Murdoch was willing to buy Boeing 767s for his fleet, but he wanted a special low-interest loan from Ex-Im. Moore obliged and endorsed the special loan. After the successful meeting with Moore, Murdoch had lunch with President Carter. Three days after Murdoch’s meetings with Moore and Carter, the \textit{New York Post}, which was owned by Murdoch, publically endorsed Jimmy Carter for reelection. A week later, Ex-Im officially announced the special deal for Boeing planes for Murdoch. Six months later, in August of 1980, Carter signed a bill sharply hiking Ex-Im’s lending limit from $3.75 billion to $5.1 billion. The winners in this transaction were Boeing, Ansett Airways, and the Ex-Im Bank. President Carter won his endorsement from the \textit{New York Post} but lost his reelection bid. The American taxpayers were the biggest losers.”\textsuperscript{64}

\textit{Ex-Im Subsidies: A Family Affair}

Several clients of the well-connected consulting firm Albright Stonebridge benefited from Ex-Im financing. The firm was cofounded by former Secretary of State Madeleine Albright and included a number of employees with ties to Ex-Im. Albright Stonebridge describes itself as a “strategic advisory” firm that provides clients with advice on government policy, but is not


\textsuperscript{63}“Klobuchar, Franken, Levin, Stabenow Express Concern Over Australian Mine Deal’s Affect on U.S. Iron Ore Production,”

\textsuperscript{64}Folsom and Folsom. \textit{Uncle Sam Can't Count}, 158-159
registered as a lobbying firm. Several clients of Albright Stonebridge received Ex-Im financing between 2009 and 2013, the same years that Madeleine Albright’s daughter Alice was the Chief Operating Officer of Ex-Im.

One of those clients was Siemens A.G. which hired Madeleine Albright as a consultant in 2009. Siemens benefited from $772.2 million in Ex-Im financing while Alice Albright was COO of the bank. Ex-Im’s support of Siemens was surprising as just a few years earlier Siemens was accused of bribing foreign officials in connection with an Ex-Im backed project. In 2008, the Security and Exchange Commission (SEC) charged that a subsidiary of Siemens in Venezuela paid public officials $16 million in bribes over a subway construction project that received Ex-Im financing.

Siemens agreed to settle with the SEC and paid the agency $350 million, but did not admit or deny the allegations. Even after the bribery allegations in 2008, Ex-Im honored the company by nominating Siemens Energy CEO Randy Zwirn to the agency’s advisory committee for 2011 and 2012. How did a company with a troubled past involving Ex-Im financing get back into the agency’s good graces?

Beyond the Siemens financing, Albright Stonebridge has numerous additional connections with Ex-Im, further illustrating how the well-connected can grease the skids for obtaining taxpayer largesse. Besides Alice Albright, who was COO at Ex-Im while Siemens received financing, two employees at Albright Stonebridge served on the Obama transition team that oversaw staffing decisions for Ex-Im. Another served on Ex-Im’s board of directors in the

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In 2013 and 2014, Albright Stonebridge employees served on Ex-Im’s advisory committee.72

Two other clients of Albright Stonebridge benefited from Ex-Im financing while Alice Albright was COO of Ex-Im. Disclosure forms of former Albright Stonebridge employee Wendy Sherman show that, in 2011, she worked as a consultant for another Ex-Im beneficiary, First Solar. 73 That same year, First Solar benefited from $573 million in Ex-Im financing. 74 Sherman was also a consultant for Dow Chemical in 2011. The next year, Ex-Im issued its largest ever loan at that point totaling $4.975 billion to the Sadara Chemical Company, a joint venture between Dow Chemical Co and Saudi Arabian Oil Co. 75

Three known clients of Albright Stonebridge received financing from Ex-Im while the cofounder’s daughter was COO of the bank. This raises serious questions about whether Ex-Im financing is really just corporate welfare bestowed on companies with the right connections.

**Recommendations Consistent with the Framework for a Free Society**

After reviewing the evidence, Ex-Im’s activities distort market signals, promote cronyism over principled entrepreneurship, and do not protect the rights of individuals. Therefore policies promoting Ex-Im are not consistent with the framework for a free society.

Ex-Im is unnecessary industrial policy at best and harmful corporate welfare at worst. In either case, it should be ended. Almost half of Ex-Im’s financing decisions have no justification for why they were necessary. Additionally, many companies supported by Ex-Im would likely be able to obtain private financing. Hence, at best, Ex-Im is unnecessary. Rather than support net economic gain, Ex-Im merely shifts jobs and economic activity around between sectors of the economy, creating both winners and losers as a direct result of its financing programs. Notably, the winners are mostly a few large companies that are also heavily influential politically meaning it’s possible that political influences are affecting decision making at Ex-Im. Finally, Ex-Im’s risk management may be exposing taxpayers to increasing and unnecessary risk. Thus, at its worst Ex-Im financing is distortionary corporate welfare that flows largely to the politically influential while putting taxpayers at risk. This is the antithesis of a free society.

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75 “Application Deal Information.”
The best policy is to end unnecessary and harmful government intervention in private markets, and to end corporate welfare for a select few by closing the Ex-Im. If closing Ex-Im is not be currently achievable because of the political climate, plans that limit the bank’s ability to make loans should be considered, but only as part of a larger strategy with a specific end date to wind down the bank.

**Allow Ex-Im’s Charter to Expire**

Purposely allowing Ex-Im’s charter to expire would prevent the bank from issuing new financing, but not prevent it from servicing the existing loans, guarantees, and insurance so companies would not be harmed by having their current financing abruptly end. Companies would have to turn to private lenders for future financing. Decisions about servicing current financing deals would need to be made – some could be phased out over time while most would be serviced over the terms in the existing agreements. This could be done by a small contingent of bank employees retained expressly for this purpose, or by moving this function to another qualified entity, such as the Department of the Treasury.

Expiration of Ex-Im would not harm the overall economy. The entirety of Ex-Im financing only supports around two percent of the total value of U.S. exports, or just 0.0026 percent of gross domestic product. Moreover, Ex-Im’s own publications provide no justification for around half of all projects. It is likely, especially given its low current default rate, that most the exports funded by Ex-Im would continue. Foreign buyers would have to pay slightly more for financing and some exporters might see reductions in sales, but as noted earlier, even Boeing conceded it would be able to manage without Ex-Im financing. But, there would also be economic benefits to ending Ex-Im when costs imposed on companies that compete with foreign companies receiving Ex-Im financing were eliminated. Likewise downstream costs imposed on other industries would be eliminated. Former Office of Management and Budget Director David Stockman said it best when he stated that the effect of ending Ex-Im on the economy would be “noise that is so faint that even Janet Yellen could not detect it!”

**Incremental reforms**

Short of closing down Ex-Im immediately, there are helpful incremental reforms that would limit the bank’s ability to issue new financing. These reforms, which would move toward closing down Ex-Im, include:

- Strengthen global trade negotiations to wind down export subsidies
- Maintain a shortened length for Ex-Im’s charter

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Reduce Ex-Im’s lending authority
Consider fair-value accounting

**Trade Negotiations:** In the 2012 reauthorization of Ex-Im, Congress directed the Department of Treasury to negotiate reducing, with the goal of ending, subsidized export financing programs, such as Ex-Im.\(^78\) It appears these negotiations have not gone anywhere thus far. There are additional measures that could be taken to strengthen the negotiations. Instead of negotiating with countries directly, Congress should direct Department of Treasury and other agencies to negotiate with the World Trade Organization (WTO). Countries often view export subsidies as an arms race and do not want be the first one to end their export financing programs. By going through the WTO, there could be simultaneous action by multiple countries.

**Ex-Im’s Charter:** Maintaining a short length for Ex-Im’s charter would provide more transparency and oversight for the bank’s activities and the risks it is taking, as well as strengthening debate over the need for Ex-Im. Uncertainty over Ex-Im reauthorization would decrease the attractiveness of Ex-Im financing making exporters and foreigner buyers less likely to pursue Ex-Im financing and instead seek private financing.

**Ex-Im’s lending authority:** Reducing the limits on the bank’s lending authority would diminish economic distortions and corporate welfare. Currently, Ex-Im’s lending limit is $140 billion for all of its financial products. Lowering this amount over time would give exporters time to find private financing for future sales. Also, lowering Ex-Im’s lending authority would decrease the political support for Ex-Im as there would be fewer companies benefiting from the agency’s subsidies.

**Fair Value Accounting:** Changing the bank’s accounting to fair-value could present a more accurate estimate the bank’s potential risk and true cost to taxpayers. Additionally, it would likely dispel the perception of Ex-Im as a cash cow that exists under current accounting methods. Switching to fair-value accounting could lessen the risk of future bailouts for Ex-Im. However, this would be a major change in financial reporting policy and any potential risks or challenges should be evaluated and addressed. In any case, policymakers and the public must be given an accurate assessment of the bank’s true costs in order to better evaluate the merits of Ex-Im.

**Conclusion**

Ex-Im and its proponents claim that it provides necessary government financing to support American exports in order to support jobs and ensure domestic companies can compete in a global market place – all while generating a “profit” for the government. These claims do not hold up.

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Ex-Im financing benefits some firms, but it does so at the expense of others. As for jobs, Ex-Im financing “supports” jobs rather than creating them, at best, merely shifting jobs around in the economy as demonstrated by research and industry claims. The bank’s lending practices also illustrate the ills of corporate welfare and cronyism. Lastly, Ex-Im’s has experienced financial problems historically, and has not consistently generated a surplus while its expanded financing activities may pose real risk for the taxpayers. However, even if it were to generate a real surplus, that is not sufficient reason for continuing this kind of harmful government intervention into private markets.