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U.S. Export–Import Bank: Corporate Welfare on the Backs of Taxpayers

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Congress will soon debate the fate of the U.S. Export–Import Bank (Ex–Im), which doles out financing to favored corporations and credit to foreign governments. Proponents claim that such taxpayer bankrolling creates jobs and fills "gaps" in private financing.[1] In fact, the bank is a conduit for corporate welfare beset by unreliable risk management, inefficiency, and cronyism.

Terminating the bank's charter should be an easy call for lawmakers. Even Barack Obama, as a presidential candidate, endorsed its end.[2] With strong growth in privately financed exports, there is no justification for maintaining this Depression-era relic.

The New Deal. Ex–Im was incorporated in 1934 by President Franklin D. Roosevelt to finance trade with the Soviet Union. Congress later constituted the bank as an independent agency under the Export–Import Bank Act of 1945. Its authorization, last extended in 2012, will expire on September 30 unless reauthorized.

The bank provides loans and loan guarantees as well as capital and credit insurance to "facilitate" U.S. exports. The financing is backed by the "full faith and credit" of the U.S. government, which means taxpayers are on the hook for losses that bank reserves fail to cover.

Weaknesses in Governance. Supporters say the bank carefully manages risk; its charter allows loans only to enterprises that demonstrate "a reasonable assurance of repayment." However, the latest report to Congress by Ex–Im's inspector general (IG) hardly inspires confidence, noting insufficient policies to prevent waste, fraud, and abuse. According to the IG, the bank also exhibits "weaknesses in governance and internal controls for business operations."[3]

In another review, the Government Accountability Office reported that the bank appears to be relying on inappropriate risk modeling that could produce inaccurate estimates of both subsidy costs and potential losses.[4]

These findings are not surprising. Ex–Im officials are not putting their own money at risk and thus have less of a stake in the outcome. It is an inevitable aspect of government intrusion into the finances of private enterprise.

Such operational shortcomings have worsened as the number and value of bank transactions have increased.[5] In FY 2013, the bank authorized financing totaling $27.3 billion—a 28 percent increase from 2009—including $636 million for China and $630 million for Russia.

Taxpayers' exposure now totals nearly $134 billion. However, the IG suggests that sloppy recordkeeping has obscured the actual amount of outstanding commitments, which likely exceed the $140 billion cap set by Congress.

Working the Numbers. Bank officials and advocates emphasize that Ex–Im financing creates jobs. In fact, the bank does not count actual

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jobs related to its projects but simply extrapolates numbers based on national data. This formula does not distinguish among full-time, part-time, and seasonal jobs. It also assumes that average employment trends apply to Ex–Im clients (who may not be typical).

Most important, the bank does not account for what would occur in the absence of the subsidies. Ex–Im officials assume that the economic activity they subsidize would not occur absent bank financing. That is an absurd notion, but it is prevalent among bureaucrats who cannot fathom that business actually functions without them.

In some cases, Ex–Im financing actually puts U.S. workers at a disadvantage by providing overseas companies with billions of dollars in financing at favorable rates. Delta Airlines and the Airline Pilots Association, for example, filed a legal challenge last year against the bank for providing financing to five foreign airlines[6] for the purchase of Boeing aircraft. According to the lawsuit:

> The bank's aggressive approach to aircraft financing allows foreign airlines to borrow at much cheaper rates than they could in the private market. Cheaper financing, in turn, leads to competitive advantages for foreign airlines… shifts industry growth abroad, and puts downward pressure on American production and employment.[7]

Whether well-intentioned or otherwise, government interference distorts the competitive landscape, with winners and losers determined by political considerations rather than the merit of their products and services.

On Automatic Pilot. Multinational corporations attract the largest proportion of Ex–Im financing, including the construction and engineering firm of Bechtel, ranked by *Forbes* as the fourth-largest privately held company by revenue, and Lockheed Martin, valued in excess of $50 billion. But the bank's foremost beneficiary is Boeing, the world's largest aerospace company (with a market capitalization exceeding $91 billion). In the past five years, the company has profited from 197 Ex–Im deals totaling $48 billion. Last year alone, Boeing-related financing comprised 30 percent of all Ex–Im activity.

These and the other deals with titans of industry belie claims that the bank is necessary to fill "gaps" in financing—that is, bankrolling deals that supposedly pose too much political or economic risk to garner private capital. In fact, U.S. exports hit a record-high $2.2 trillion in 2013, up from $1.4 trillion five years ago, reflecting no shortage of private export capital.[8]

In decades past, political and economic turmoil around the world did present export risks, but global trade is now firmly entrenched. If the bank were stepping in where private investors fear to tread, a larger proportion of its financing would be directed to Africa and Latin America, where risks are greatest. Instead, bank authorizations last year were concentrated in Asia ($9.7 billion), followed by Europe ($5.7 billion) and North America ($3.4 billion). In contrast, Latin America has received $2.9 billion and Africa a measly $600 million.[9]

To the extent Ex–Im does finance deals that the private sector supposedly snubs, taxpayers are justified in questioning whether they should be saddled with risk that private investors deem unacceptable. It is also difficult to reconcile bank

1. Export–Import Bank of the United States, "Who We Are," http://www.exim.gov/about/whoweare/ (accessed April 9, 2014).
2. Ashe Schow, "President Obama Was Against Ex–Im, Before He Was for It," Heritage Action for America, *The Forge*, March 28, 2012, http://heritageaction.com/2012/03/pres-obama-was-against-exim-before-he-was-for-it/.
3. Export-Import Bank, Office of the Inspector General, *Semiannual Report to Congress: April 1, 2013 to September 30, 2013,* http://www.exim.gov/oig/upload/OIG_Report_FA13_508.pdf (accessed April 9, 2014).
4. Mathew J. Scire, U.S. Government Accountability Office, "Recent Growth Underscores Need for Improved Risk Management and Reporting," testimony before the Committee on Financial Services, U.S. House of Representatives, June 13, 2013.
5. Export–Import Bank, Office of the Inspector General, *Semiannual Report to Congress.*
6. Korean Air, Dubai's Emirates Airline, Abu Dhabi-based Etihad Airways, Latam Airlines Group SA, and LOT Polish Airlines.
7. *Delta Air Lines v. Export–Import Bank of the U.S.*, Case No. 13-00424, U.S. District Court, District of Columbia.
8. Export–Import Bank of the United States, *Annual Report 2013*, http://www.exim.gov/about/library/reports/annualreports/2013/ (accessed April 9, 2014).
9. Ibid.

officials' assertions that they alone assist higher-risk exporters but still manage to offer competitive rates and generate profits.

On the Level? Advocates also claim that the bank is necessary to create a "level playing field" vis-à-vis government subsidies to foreign firms, but only 2.2 percent of all U.S. exports last year received Ex–Im financing, which means that 98 percent of American exporters are competing without the bank's intervention. Nor is the playing field leveled for the domestic firms that do not receive special treatment.

Rather than recommit to the government's risky and inefficient finance scheme, lawmakers should focus on reducing tax and regulatory barriers to exports. For example, the flood of Dodd–Frank regulations is likely to constrain private-sector credit, while the costs of Obamacare weigh heavily on U.S. firms. In fact, regulatory costs have increased by nearly $73 billion a year under the Obama Administration.[10]

An Easy Call. Ex–Im advocates offer myriad excuses for maintaining government interference in export financing, including job creation, gaps in private investment, and government subsidies lavished on foreign firms. Such justifications do not stand up to the facts, and the purported benefits, if any, are not commensurate with the risk to taxpayers.

Congress must decide whether to extend billions of dollars in corporate welfare on the backs of taxpayers or allow private investors to finance U.S. exports—as it does for the vast majority of them. Policymaking could not get any easier.

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10. See James L. Gattuso and Diane Katz, "Red Tape Rising: Five Years of Regulatory Expansion," Heritage Foundation *Backgrounder* No. 2895, March 26, 2014, http://www.heritage.org/research/reports/2014/03/red-tape-rising-five-years-of-regulatory-expansion.