

ISSUE BRIEF

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The End of Ex-Im: No Threat to Exports or Employment

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The charter of the Export-Import Bank (Ex-Im) will expire on June 30 unless reauthorized by Congress, which looks increasingly unlikely. Beneficiaries of the bank are issuing dire warnings about a future without export subsidies, in which exports abruptly decline and jobs supposedly disappear. The facts say otherwise. All existing Ex-Im deals would remain intact, and the industries that benefit from bank financing would continue to post robust sales in overseas markets.

The only differences in a charter-less world would be beneficial: The burden on taxpayers of export subsidies would shrink—not expand as it has for years—and a lot fewer American businesses would be disadvantaged by the U.S. subsidies lavished on their foreign competitors.¹

Last reauthorized in 2012, the Ex-Im charter was slated to expire on September 30, 2014. A proposed five-year renewal was sidelined last summer because of opposition to the bank. Instead, Congress extended the existing charter for nine months under the fiscal year 2015 Continuing Resolution. That extension expires at month's end.

Fearmongering, Not Facts

Bank beneficiaries are now resorting to intimidation in hopes of keeping the corporate welfare flowing. For example, executives at Boeing, the bank's top ben-

eficiary,² are threatening to “outsource” jobs to other countries if the Ex-Im charter is not reauthorized.³

Likewise, officials of General Electric (GE), also richly rewarded by Ex-Im, claim the company would lose “billions of dollars” in export sales—along with hundreds of jobs across multiple states.⁴ And, inexplicably, former Secretary of State Madeleine Albright, in a letter to Congress, declared Ex-Im to be a “critical element” of national security.⁵

All of this constitutes hyperbole of the worst sort. First, Ex-Im supports a mere 2 percent of U.S. exports, which have been hitting record levels in recent years with private financing. Second, export subsidies do not “create” or “support” jobs—they redistribute them from unsubsidized firms to subsidized ones. And the job numbers touted by Ex-Im advocates are dubious at best and have been roundly criticized as misleading by the Government Accountability Office, among others.⁶

A Post-Charter World

In fact, expiration of the charter would have no effect—none—on the export financing currently in place. All the loans, guarantees, and insurance approved before June 30—upward of \$140 billion—would be unaffected after the charter expires. The bank would simply be unable to extend new financing, which is otherwise widely available from private sources.

Taxpayers certainly would be better off with less financial liability on their backs. The Federal Reserve Bank of Richmond recently documented that taxpayers are on the hook for an astonishing 60 percent of financial sector liabilities—including banks, credit unions, private employer pension funds, and government-sponsored enterprises such as Fannie Mae and Freddie Mac.⁷

This paper, in its entirety, can be found at <http://report.heritage.org/ib4417>

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Under statutory provisions, Ex-Im is authorized to continue operating without a new charter “for purposes of orderly liquidation, including the administration of its assets and the collection of any obligations held by the bank.”⁸

What constitutes “orderly liquidation” is not specified in the statute. However, the law expressly allows the bank to arrange export financing until close of business on June 30, even if those deals mature after the charter expiration date. It states:

The Export-Import Bank of the United States shall continue to exercise its functions in connection with and in furtherance of its objects and purposes until the close of business on [June 30, 2015], but the provisions of this section shall not be construed as preventing the bank from acquiring obligations prior to such date which mature subsequent to such date or from assuming prior to such date liability as guarantor, endorser, or acceptor of obligations which mature subsequent to such date.⁹

Obviously, then, Congress anticipated that the bank would honor its commitments after the charter expired.

Hefty Backlogs Protect Jobs

Even without new loans from Ex-Im, the beneficiaries of the bank and their suppliers are well-positioned to prosper. Boeing, Caterpillar, General Electric, and the like do not lack access to private capital—including their own finance subsidiaries. All have billions of dollars of backorders with which to keep workers occupied.

As the likelihood of reauthorization waned last week, Boeing officials assured customers that the company would provide financing in place of Ex-Im—at least in the short-term. “We will work with customers who are scheduled for deliveries to ensure they get the financing they need, even if we have to provide it ourselves,” said Tim Neale, a Boeing spokesman.¹⁰

That is precisely the role of Boeing Capital, which posted customer-finance assets of \$3.4 billion in the first quarter of 2015.¹¹ Just like Ex-Im, the division provides credit guarantees for purchasers with less than investment-grade credit. The guarantees are largely collateralized by the aircraft being purchased. Indeed, both Standard & Poor’s (S&P) and the Government Accountability Office effectively have concluded that Boeing, with a market cap *exceeding \$97 billion*, would manage just fine without taxpayer subsidies.

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1. Ex-Im also extends \$2.7 billion in subsidized financing to U.S. exporters, primarily “working capital” loans. This financing constitutes a competitive advantage against domestic competitors who pay market rates for financing.
 2. Veronique de Rugy and Diane Katz, “Export Jobs Won’t Disappear Absent Ex-Im Bank,” Mercatus Center, May 21, 2015, <http://mercatus.org/publication/export-jobs-won-t-disappear-absent-ex-im-bank> (accessed June 9, 2015).
 3. Peggy Hollinger, Shawn Donnan, and Megan Murphy, “Boeing Steps Up Pressure in Fight to Save US Export-Import Bank,” *Financial Times*, May 17, 2015, <http://www.ft.com/intl/cms/s/0/67daa9ee-fc79-11e4-ae31-00144feabdc0.html?siteedition=intl#axzz3c8DH2msM> (accessed June 9, 2015).
 4. Kathleen Miller and Jim Rowley, “Hensarling Says End of Ex-Im Won’t Send Work Outside U.S.,” Bloomberg Politics, May 19, 2015, <http://www.bloomberg.com/politics/articles/2015-05-19/hensarling-disputes-companies-may-move-production-outside-u-s-> (accessed June 9, 2015).
 5. The letter made no mention of Albright having blocked \$500 million in Ex-Im loans to a shady oil company partially owned by the Russian government. See Associated Press, “Albright Blocks Loan to Company Owned by Russia,” December 23, 1999, http://amarillo.com/stories/1999/12/23/usn_LA0528.001.shtml#VXG_Ak1FDL9 (accessed June 9, 2015).
 6. Government Accountability Office, “Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency,” May 2013, <http://www.gao.gov/assets/660/654804.pdf> (accessed June 9, 2015).
 7. Liz Marshall, Sabrina Pellerin, and John Walter, “Bailout Barometer, 2013 Estimate,” Federal Reserve Bank of Richmond, May 2015, https://www.richmondfed.org/-/media/richmondfedorg/publications/research/special_reports/safety_net/pdf/bailout_barometer_current_estimate.pdf#page=4 (accessed June 9, 2015).
 8. 12 USC §635f.
 9. Ibid.
 10. Doug Cameron, “Boeing to Offer Aircraft Financing If Trade Bank Shuts,” *The Wall Street Journal*, <http://www.wsj.com/articles/boeing-would-provide-more-jet-finance-if-ex-im-bank-shut-1433528462> (accessed June 9, 2015).
 11. Ibid.
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According to a July 2014 S&P's Rating Services report, Boeing would assume greater risk to the extent that it finances more of its customers. But that risk is currently being borne by taxpayers—to an unprecedented degree for any single company. The S&P analysts also concluded that banks in customer airlines' regions can provide "sufficient funding" to finance purchases from Boeing.¹²

Commercial financing for Boeing planes is also available directly through the capital markets. Under a customized provision of federal law, investors may obtain an "enhanced equipment trust certificate" which allows them to quickly obtain possession of collateral (i.e., aircraft) in the event of a bankruptcy petition by the borrower—notwithstanding the stay provisions that apply to other debtors.

The likelihood of an Ex-Im wind down does not seem to be affecting projected demand for Boeing planes, notwithstanding the panicked claims of Ex-Im proponents. Just last week, Boeing forecasted a rise in passenger traffic of more than 6 percent this year compared to its long-range forecast of about 5 percent. And it still expects to book firm orders for at least 750 new planes in 2015.¹³ The company also has years of backorders totaling about \$495 billion, including numerous contracts with the Department of Defense and NASA.

Indeed, the aviation industry has managed to grow in the face of far worse impediments than the expiration of the Ex-Im charter. As Boeing states on its Web page: "Over the past 30 years, the aviation industry experienced recessions, oil price shocks, near-pandemics, wars, and security threats, yet traffic continued to grow, on average, at 5 percent annually."

General Electric is likewise well-situated, ending 2014 with a record backlog of \$261 billion.¹⁴ The company's financing arm, GE Capital, earned \$7 billion in 2014 and ended the year with liquidity of \$76 billion.¹⁵ As noted in its annual report, GE Capital maintains a "significant financial services capability."

Caterpillar (market cap \$54 billion) also operates a finance division, with more than \$35 billion in assets. The world's leading manufacturer of construction and mining equipment posted 2014 sales and revenues of \$55.2 billion.¹⁶ Caterpillar's backlog currently exceeds \$17 billion.

Conclusion

It is not surprising that Boeing, GE, and Caterpillar, among others, would be doing everything in their considerable political powers to win reauthorization of the Ex-Im charter. Subsidized financing is an attractive perk to offer their customers. But those subsidies carry considerable costs—to taxpayers and the American businesses that are left to compete against foreign firms subsidized by the U.S. government. Given the vast resources of Ex-Im's beneficiaries and the abundant supply of private export financing, there is no need to lament the expiration of the bank charter. Given the unbridled expansion of government, eliminating Washington's interference in this corner of the economy is something to applaud.

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12. Diane Katz, "Government, Private Auditors Agree: Boeing Doesn't Need Taxpayer Subsidies," *The Daily Signal*, July 15, 2014, <http://dailysignal.com/2014/07/15/boeing-get-insane-amount-tax-dollars-Ex-Im-bank/>.
 13. Alwyn Scott, "Boeing Predicts Both Strong Air Traffic and Plane Sales This Year," *Reuters*, June 5, 2015, http://news.yahoo.com/boeing-predicts-both-strong-air-traffic-plane-sales-220615091--finance.html?soc_src=mediacontentstory&soc_trk=tw (accessed June 9, 2015).
 14. General Electric 2014 Annual Report, <http://www.ge.com/ar2014/ceo-letter/> (accessed June 9, 2015).
 15. *Ibid.*
 16. Global Footprint News, "Caterpillar's Successful 90-Year Track Record Managing Global Volatility," <http://www.caterpillar.com/en/news/caterpillarNews/global-footprint/caterpillars-successful-90-year-track-record-managing-global-volatility.html> (accessed June 9, 2015).
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