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Time to X Out the Ex-Im Bank

by Sallie James

Executive Summary

The Export-Import Bank of the United States picks winners in the U.S. economy, redistributing resources from the productive sector to its chosen clients. While it has been self-financing for a number of years, taxpayers remain exposed to tens of billions of dollars of loans and guarantees.

The Ex-Im Bank cannot, and does not, significantly affect the net number of jobs in the economy or the trade balance. Only a very small proportion of U.S. exports are supported through Ex-Im Bank activities. The Ex-Im Bank claims to correct market failure, but it introduces distortions into the economy and inserts politics into what should be purely commercial decisions. By diverting resources from the private sector, the bank's activities produce a less-efficient economy and lower general standard of living than would occur in a free market for export finance.

The bank makes contradictory claims about the nature of its activities. While maintaining that it does not displace private-sector activity, the bank argues that it takes a conservative approach to lending and finance. But if the bank's transactions were "sure bets," then the private sector would—and should—be expected to step in. If, on the other hand, the private sector wouldn't finance a transaction, it is a signal that taxpayers should not be exposed to the risk, either.

The claim that the bank supports U.S. exporters who face unfair competition from subsidized firms abroad is unverifiable, as the bank does not publish figures regarding the extent of this countervailing activity. The bank should be statutorily required to do so, and its activities should be limited only to that activity as an interim step to being wound down altogether.

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Export promotion programs cannot affect the trade balance.

Introduction

A federal charter first established the Export-Import Bank of the United States (Ex-Im Bank) in 1934. Congress has reauthorized the Ex-Im Bank by renewable charters ever since, most recently in 2006. The expiry of that charter on September 30, 2011, presents Congress with a timely opportunity to eliminate this unnecessary agency.

According to records at the National Archives, the Export-Import Bank of Washington, as it was then called, was first established by Executive Order No. 6581 in February 1934 to "assist in financing U.S. trade with the Soviet Union."[1] It was initially housed in other federal government agencies before being established as an independent agency by the Export-Import Bank Act of 1945. A sister agency, the Second Export-Import Bank of Washington, was established in March 1934 to provide finance for trade with Cuba and eventually, all other countries except the Soviet Union. The two agencies merged in May 1936.[2]

Today, the Ex-Im Bank continues to operate as an independent agency, with a mission to "assist in financing the export of U.S. goods and services to international markets."[3] It is the federal government's main vehicle for subsidizing American exports (with some agricultural export subsidies and loan programs administered by the U.S. Department of Agriculture). According to the Ex-Im Bank's website, these exports "help to maintain and create U.S. jobs and contribute to a stronger national economy."[4]

The Ex-Im Bank takes great pains to stress that it does not crowd out private finance but rather finances transactions that the private sector will not: "Ex-Im Bank does not compete with private sector lenders but provides export financing products that fill gaps in trade financing. We assume credit and country risks that the private sector is unable or unwilling to accept."[5] Those "export financing products" include loan guarantees for working capital for U.S. exporters, loans (or loan guarantees for private loans) to foreign purchasers of American goods and services, and credit insurance to foreign buyers. The current cap on lending is $100 billion, with over $75 billion in total loans currently outstanding.[6]

It is worth noting from the outset that the "dual mandate" of the bank—to finance only transactions that the private sector deems too risky, but to lend only when a reasonable chance of repayment exists—is inherently contradictory. If the private sector has reservations about the viability of a transaction, it is probably because of an unacceptably high risk of repayment. Either a transaction is relatively creditworthy—in which case a private financial services provider could be expected to step in—or it is not. And if it is not, then the bank would be putting taxpayer dollars at unacceptable risk by financing it. A transaction cannot be simultaneously "too risky" and a "safe bet."

The Ex-Im Bank has another role: to help U.S. exporters compete with foreign firms who themselves have received exporting credit from their governments. The bank's website puts it this way: "We also help to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters."[7]

In both of those roles—filling the gap supposedly left by the private credit markets, and leveling the playing field in response to actions by foreign governments—the Ex-Im Bank clearly promotes itself as correcting market failures. But the bank arguably creates market distortions of its own. It puts special emphasis on supporting "environmentally beneficial exports," particularly renewable energy projects, and has engaged in picking winners by identifying certain industries as having "high potential for export growth."[8] The Ex-Im Bank at best recreates, and at worst misallocates, private financial behavior. And to what end? The U.S. General Accounting Office (now the Government Accounting Office) has pointed out that "export promotion programs cannot produce a substantial change in the U.S. trade balance."[9] A country's trade balance is driven largely by underlying macroeconomic factors, such as the ratio of savings to investment. Export promotion programs for certain goods—marketing programs for certain commodities, say—may have beneficial effects for that industry but cannot affect the trade balance overall.

The bank's limitations have not deterred its supporters. Indeed, as part of President Obama's so-called National Export Initiative (NEI), with its specific goal to double U.S. exports by 2014 in an ill-advised attempt to create jobs, the administration has proposed a 25 percent increase in the Ex-Im Bank's administrative expenses budget for fiscal year 2012.[10] Corporate supporters of the bank have proposed other changes to the charter, such as lowering the U.S. domestic content threshold for loan eligibility. But rather than authorizing an increase in the Ex-Im Bank's operating budget, or expanding its role in the U.S. economy, Congress should recognize that the alleged justifications for the Ex-Im Bank's existence are hollow and abolish the agency completely. To quote Cato chairman emeritus William Niskanen, "The Soviet Union has collapsed, and there is now an opportunity to end the continuing cold war of export credit subsidies."[11]

The Unfounded Justifications for an Export-Import Bank

The 2011 reauthorization of the Bank's charter will occur in a difficult political context. As a recent paper from the Congressional Research Service points out, Congress will review the Ex-Im's charter against a backdrop of the agency's role in the National Export Initiative on the one hand, and deep concerns about the size and scope of the federal government on the other.[12] It will be something of a battle between the force of mercantilist interventionism and the resurgent public mood of shrinking the state.

To be sure, the burden on taxpayers has fallen in recent years, because the agency has been self-financing since FY2008. That means that it uses revenues generated from fees and premiums to fund its activities. Congress generally approves the ability of the Ex-Im Bank to have access to interest-free warrants from the Treasury for program and administrative expenses, with the expectation that offsetting collections allow the bank to repay the Treasury in full. Still, taxpayers are on the hook if the agency suffers any losses. And other exporters suffer because the Ex-Im Bank's intervention distorts market outcomes. Subsidyscope, a program of the Pew Charitable Trusts, puts it well:

> [T]he costs of providing support to Ex-Im beneficiaries do not negatively affect the budget deficit like many other federal subsidies. However, the implicit backing of the U.S. government through Ex-Im loan guarantees and other financing illustrates one of the many ways government provides a subsidy by shaping market outcomes and by potentially helping decide which companies survive in a tough economy.[13]

Taxpayers are on the hook if the Ex-Im Bank suffers any losses.

Defenders of the Ex-Im Bank cite numerous ways that the agency's export-promotion efforts benefit the United States. Among these, four stand out: first, the Ex-Im Bank creates jobs. Second, it helps improve the U.S. trade balance. Third, it increases the overall efficiency of the U.S. economy by correcting for various market failures such as information asymmetries and externalities. And fourth, it levels the playing field for U.S. exporters competing with foreign competitors subsidized by their own governments.

Of those claims, only the last has any real economic merit. But even if some U.S. exporters may be harmed by foreign subsidies, it does not follow that the harm to the overall economy is sufficient to warrant federal intervention on their behalf. The bank's activities benefit particular firms and their shareholders at the expense of taxpayers and other, non-client firms.

The False Promise of Net Job Creation

Supporters of the Export-Import Bank, and indeed the bank itself, argue that the agency creates jobs. The bank's website and literature make it clear that creating jobs through exports is a main goal of the bank, and that role has taken on new meaning in an era of high unemployment and federal government attempts to solve it. Indeed, on the front page of the bank's website, its mission statement runs, in part:

> The [Ex-Im Bank] helps to create and maintain U.S. jobs by financing the sales of U.S. exports, primarily to emerging markets throughout the world, providing loan guarantees, export-credit insurance and direct loans.[14]

In his opening message to the 2010 Annual Report, the bank's president, Fred Hochberg, claimed that the bank "supported $34.4 billion worth of American exports and an estimated 227,000 American jobs" in FY2010.[15] On the scrolling news feed on the website's front page on March 28, 2011, three of the top five news stories were about jobs: "Ex-Im Bank Supports 600 Jobs with Financing for South Africa," "Infrastructure Growth for the Dominican Republic Means Jobs Growth for the U.S.," and, in a reversal of the Ex-Im Bank's purported mission (i.e., exports followed by jobs) "Using Wind Energy to Promote U.S. Jobs and Exports."[16]

These claims are, in a narrow sense, true. Lending money to a foreign purchaser of American-made goods or services will encourage them to make a purchase that they otherwise may not have made. The American producer gets an order that will increase its revenue above what it otherwise might have been. That U.S. firm may expand operations and hire more workers as a result. So far, the Ex-Im Bank's mission is on track.

By putting resources to less-efficient uses, the bank creates distortions in the economy.

But that narrative looks at only one side of the "financing = expansion" equation. The bank does not create the resources with which to provide financing out of thin air: the money comes from taxes or the repayment fees from previous loans, which would otherwise go to the U.S. Treasury. In that sense, the bank only *redistributes* resources by taking them from other areas of the economy. It reallocates capital that otherwise would be available for other uses.

Even that activity might be economically neutral, except for one factor. When the bank takes resources from general economic uses and diverts them to politically determined ones, economic efficiency is necessarily lost unless the reallocation is to address a market failure (more on that below). There is no reason to think that the Ex-Im Bank knows how to better employ those resources than the consumers, investors, and businesses from which they are taken. On the contrary, by putting resources to less-efficient uses, the bank creates distortions in the national economy and imposes opportunity costs that are surely higher than the added value of the bank's intervention. The Ex-Im Bank and its supporters frequently say that it creates jobs without acknowledging any offsetting losses to the rest of the economy.[17] Focusing on only one side of their activity equation will yield false conclusions about the net effect of the bank's work. The 227,000 jobs that the Ex-Im Bank boasts of supporting are not necessarily "net jobs" that would not exist in a world without the Ex-Im Bank.

The relevant question, then, is whether the Ex-Im Bank's activities create more value —measured in terms of jobs, or exports, or economic growth—than they destroy. At best, the activities of the bank have no discernible net impact on the number of jobs in the U.S. economy. In many cases, Ex-Im–backed sales would have been completed anyway with private financing—albeit under possibly less favorable terms for the seller—so not all bank-backed sales increase total exports above what they would have been otherwise. The bank tries to avoid displacing private-sector sources of finance, but it is impossible to avoid displacement entirely. Because the Ex-Im Bank is ready to step in with financing, no one can know what terms might have been offered by private lenders had the bank not existed.

Yet assume that the bank succeeds in raising the level of U.S. exports in a given year. What happens then? Foreign buyers must have U.S. dollars to complete their purchases. They obtain those dollars by buying them in international currency markets, thus bidding up the price of dollars. The stronger dollar does two things. First, it makes exporting more difficult for producers who do not have subsidized financing, thus reducing somewhat the total amount of non-subsidized exports. Because there is a set number of dollars available in foreign exchange markets at any given time, when the Ex-Im Bank steers those dollars to certain clients, there are fewer dollars available for other potential buyers or foreign investors. Second, a stronger dollar makes imports more attractive to U.S. consumers. The net effect is that imports rise right along with exports, with no net impact on the trade balance. Some jobs are created in the export sector, while some are lost to import competition and some to reduced sales among unsubsidized exporters. The cumulative impact on employment is indeterminate, but is not likely to be strong in either direction.

As a senior official at the General Accounting Office has testified, "Government export finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy."[18] In 2011, a Congressional Research Service analyst in international trade and finance concurred, saying that:

> there is doubt that a nation can improve its welfare or level of employment over the long run by subsidizing exports. Economists generally maintain that economic policies within individual countries are the prime factors which determine interest rates, capital flow, and exchange rates, and the overall level of a nation's exports. As a result, they hold that subsidizing export financing merely shifts production among sectors within the economy, but does not add to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. From this point of view, promoting exports through subsidized financing or through government-backed insurance and guarantees will not permanently raise the level of employment in the economy, but alters the composition of employment among the various sectors of the economy and, therefore performs poorly as a jobs creation mechanism.[19]

The jobs created by Ex-Im Bank transactions are seen, whereas the jobs destroyed (or never created in the first place) are unseen, and therefore get short shrift in the superficial calculations of the sort the bank does to measure its ability to create jobs.

It is important to note that market-directed international trade changes the employment mix in the economy, too. But in that case, the U.S. economy benefits, because Americans then specialize in producing the goods and services in which they have a comparative advantage in response to genuine market signals about what our trading partners demand. On the import side, Americans are able to import things made relatively less expensively abroad. That process raises the productivity of American workers and increases living standards. When exporters are subsidized, however, as they are through the Ex-Im Bank, then it is politics rather than comparative advantage that drives trade flows. By distorting price signals in the export financing market, the Ex-Im Bank draws from financial resources that would have been put to other, more economically valuable, uses. The ultimate result is a less efficient economy and a lower general standard of living than would occur in a free market for export finance.

One last point about the Ex-Im Bank's ability to create jobs: the Coalition for Employment through Exports (CEE) suggested in its recent position paper on the Ex-Im Bank's reauthorization that the bank can't finance high-tech and IT exports or service industries because of the privilege accorded to U.S.-made or U.S.-shipped goods in the Ex-Im Bank's formula for determining loan size;[20] this formula excludes service components such as research and development, marketing, and management.[21] Given the growth of exports—and jobs—in these industries, and their

Promoting exports through subsidized financing performs poorly as a jobs creation mechanism.

Subsidized export credit does not noticeably affect the overall level of exports.

overall importance to the U.S. economy, it is indeed perverse that those industries are ineligible for inclusion. That's not a justification to broaden the program to include those sectors, but rather an example of the government's inevitably poor forecasting in the export market. The increasingly global nature of supply chains means that export promotion programs based on archaic concepts of domestic content are meaningless at best, and harmful to the rest of the economy at worst. The CEE's complaint serves as a valuable reminder of the folly of trusting government agencies to pick domestic winners in a complex, dynamic, globalized market.

Improving the Trade Balance

Supporters of the bank have pointed to the Obama administration's National Export Initiative, specifically to the goal of doubling U.S. exports by 2014, as justification for increased funding for the Ex-Im Bank and other expansions of the bank's authority.[22] President Obama has touted that goal as a sure path to growth and jobs.

The Export Promotion Cabinet, created by the president to steer the NEI, released a report in September 2010 containing a number of recommendations relevant to the Ex-Im Bank's work. The report outlined how expanding the scope of the Ex-Im Bank would help meet the NEI's objective and, in an interesting circularity of argument, stated that "under the NEI, U.S. exports are expected to double. This expected increase in export activity will translate into increased demand for public sector export credit assistance."[23] An expanded Ex-Im Bank, in other words, would be both a cause and a consequence of increased exports. The NEI justifies the bank's expansion, just as the bank's expansion is supposedly necessary to meet the goal of doubling exports in five years.

The report recommended, first, that the bank increase the amount of credit available through existing credit lines and through new products. Second, the bank should expand eligibility criteria to small and medium enterprises (SMEs). Third, the bank should focus lending activities and outreach on priority markets (which the report identifies as Mexico, Brazil, Colombia, Turkey, India, Indonesia, Vietnam, Nigeria, and South Africa). Fourth, the bank should increase its promotion efforts, thereby increasing its profile to industries that the cabinet deems "underserved." Fifth, the bank should increase the number and scope of public-private partnerships by outsourcing financing and underwriting services to private financial institutions. Lastly, the report recommends that the Ex-Im Bank streamline its application and review process, making it easier for clients to apply for and receive federal assistance.[24]

This emphasis on exports is tied up with the longstanding notion that the bank helps to improve the U.S. balance of trade. During the Ex-Im Bank reauthorization debate of 2001, the U.S. Chamber of Commerce said that "last year's record $369.7 billion trade deficit highlights the need for full funding for the U.S. Export-Import Bank in order to advance American products overseas and correct the growing imbalance between imports and exports."[25]

In reality, subsidized export credit does not noticeably affect the overall level of exports, nor does it change the net balance of imports and exports. As an official of the then–General Accounting Office testified previously, "Eximbank programs cannot produce a substantial change in the U.S. trade balance."[26] The reasoning is much the same as that regarding Ex-Im financing's effect on job creation. By providing credit at less than its full risk-adjusted premium, Ex-Im loans may indeed stimulate foreign demand, but the greater demand for dollars needed to buy U.S. exports bids up the dollar's value in the exchange markets. The stronger dollar encourages imports and raises the price of U.S. exports generally. The exchange-rate mechanism, in other words, moderates any price advantage created by the Ex-Im loans. Total exports relative to imports, and hence the trade deficit, are largely driven by macroeconomic factors such as relative savings and investment ratios. Again, the real impact of the Ex-Im financing is to divert export demand to politically connected clients of the bank.

Even if subsidized credit could alter the trade balance, it is far too small to make any serious impact. The $34.4 billion of U.S. exports supported by the Ex-Im Bank in FY2010 represents less than 2 percent of the $1.8 trillion worth of all U.S. goods and services exports in calendar year 2010. The merchandise trade deficit in calendar year 2010 was around $647 billion—almost 20 times larger than all the exports supported by the bank in 2010.[27] Services—in which the United States has a comparative advantage, running a large trade surplus—make up only $2.5 billion, or about 7 percent, of total exports supported by Ex-Im Bank activities.[28] The Ex-Im Bank is clearly not the solution to the perceived problem.

Further, the trade deficit is not indicative of American economic weakness in any case: it fell dramatically during the recent global downturn and is rising again with renewed growth. Trade deficits do not cause unemployment or slower growth, nor are they a sign of unfair trade practices abroad or declining industrial competitiveness at home. The current high nominal trade deficit reflects the fact that the United States attracts a high level of foreign investment. The trade deficit enables Americans to maintain a level of investment that would be unattainable if they relied solely on domestic savings. In short, the trade balance says very little about the relative competitiveness of U.S. exporters.[29]

Again, even if one considers the trade deficit to be a problem, the Ex-Im Bank is not the solution. And even if the bank's budget were greatly increased to levels called for by President Obama, it would have no significant impact on the U.S. trade balance. Other factors simply play a much larger role in influencing the U.S. trade balance, most notably the rates of domestic savings and investment.

Correcting for Market Failure

Another rationale for funding the Ex-Im Bank is that the agency provides its services when the private sector is unable or unwilling to do so because of false perceptions of excessive risk. In response to those who doubt that private lenders would ignore profitable financing opportunities, the bank historically has claimed that it has special insights or access to information that private lenders do not. Bank officials have further argued that private financial institutions lack the information to assess which transactions are creditworthy, while "Export-Import Bank personnel can go in to a minister of finance or the president of a company and ask for accounting records that are audited under [International Accounting Standards Board] rules, and we can push for reforms and the kind of structures that are needed."[30]

But the Ex-Im Bank does not explain why they could not simply share with the markets any information to which they supposedly have privileged access—presumably foreign businesses or government officials would not prevent a successful transaction by withholding important records and data. The bank's attitude reflects a common and misguided assumption in Washington that a few hundred central-agency bureaucrats are more accurately able to price risk and manage economic activities than tens of thousands of private-sector investors and analysts with their own money at stake.

A few facts get in the way of the bank's view of itself as crucial to international commerce. First, the vast majority of trade finance is sourced from the private sector: 65 to 90 percent if the transaction is internal (i.e., extended between firms in a supply chain, or as an intra-company transfer), or 80 percent of externally financed trade.[31] About 90 percent of short-term export credit insurance is provided by private firms.[32]

It is true that in the midst of the financial crisis, global credit markets froze, contributing to the approximately 12 percent drop in global trade in 2009.[33] There was an 18 percent fall between November 2008 and January 2009 alone, before trade started to recover.[34] But research has shown that while trade finance and exports necessarily mirror each other, the declines in trade finance did not have a major effect on trade flows. Economists Jesse Mora and William M. Powers, among others, have found that declining international demand was the most important factor in explaining the drop in world trade, with trade finance a secondary factor. Trade finance, they

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Table 1
Top 10 Countries Benefiting from Ex-Im Bank

	Exposure (US$)	Percentage of total
FY2010		
Mexico	8,313,136,770	11.1
United States	5,618,399,756	7.5
India	4,616,283,881	6.1
Ireland	4,163,062,598	5.5
United Arab Emirates	3,601,797,485	4.8
Papua New Guinea	3,000,460,070	4.0
South Korea	2,960,434,762	3.9
Brazil	2,694,428,034	3.6
Saudi Arabia	2,376,130,883	3.2
Turkey	2,160,722,269	2.9
Total	**39,504,856,508**	**52.5**
Total Exposure	**75,213,890,284**	
FY2008		
India	3,886,716,045	6.6
Ireland	2,785,572,779	4.8
United States	2,715,810,265	4.6
Brazil	2,489,436,801	4.3
Canada	2,436,385,245	4.2
South Korea	2,221,507,806	3.8
Turkey	2,161,146,054	3.7
China	1,670,791,940	2.9
Singapore	1,660,054,449	2.8
United Arab Emirates	1,546,846,235	2.6
Total	**23,574,267,619**	**40.3**
Total Exposure	**58,472,755,208**	

Sources: Export-Import Bank of the United States, 2010 Annual Report, http://www.exim.gov/about/reports/ar/2010/exim_2010annualreport_full.pdf; and Export-Import Bank of the United States, 2008 Annual Report, http://www.exim.gov/about/reports/ar/ar2008/documents/Financial%20Report/AuthorizationsListings.pdf.

When loans are extended to essentially uncreditworthy countries, they become aid rather than export promotion.

conclude, "had at most a moderate role in reducing global trade," and while the decline in trade financing did contribute to the fall in global trade, it simply reflected broader macroeconomic and credit market conditions during the crisis.[35]

Mora and Powers argue that multilateral support efforts, mainly in the form of $250 billion in additional trade financing pledged by the G-20 group of countries in April 2009, were a key reason for the eventual recovery in trade finance flows in the second quarter of 2009. Those efforts included a record high level of authorizations from the Ex-Im Bank in FY2010[36] and a doubling of short-term financing in the first nine months of FY2009 compared with the same period in 2008.[37] The bank also increased its authorizations of direct loans during the financial crisis, authorizing 16 loans for a total of $4.3 billion in 2010—a more than tenfold increase from 2008 levels (two direct loans, for a total of $356 million).[38] But government intervention in trade finance credit markets is, in principle, no different from government intervention in banking and credit markets generally. Defending the extraordinary interventions of government and multilateral development banks in trade finance markets would rest on the same principles as those underpinning a defense of the bank bailouts and other liquidity interventions made by the U.S. government and the U.S. Federal Reserve Bank in the domestic economy, a discussion beyond the scope of this paper. In any case, extraordinary interventions in the midst of a credit crisis do not justify ongoing subsidies and interventions.

Second, the bank typically has made its loans, guarantees, and insurance to countries such as South Korea, China, Mexico, and Brazil—countries that have had little difficulty in attracting private investment on their own. Indeed, the bank's relatively low default rate (less than 2 percent in 2010)[39] suggests it is making loans to creditworthy countries, which again raises the question of why we need an Ex-Im Bank to finance safe transactions that should be left to the private sector. The financial crisis did not appear to change dramatically the direction of the loans. As Table 1 shows, 10 countries accounted for over 50 percent of the agency's total exposure in FY2010, a geographical pattern of transactions that has not changed much from FY2008, before the worst of the financial crisis hit. The notably unusual appearance of Papua New Guinea in the list of largest markets in FY2010 reflects a $2.2 billion loan for a large liquid natural gas plant. In FY2010, the Ex-Im Bank offered over $300 million worth of loan guarantees to the United Arab Emirates (with a total exposure worth $3.6 billion) to buy aircraft.[40] Surely the oil-rich UAE, with a sovereign wealth fund worth over $600 billion, can afford to finance its own acquisitions.[41]

On the other hand, when loans or other credits are extended to essentially uncreditworthy countries, they become aid rather than export promotion. In the worst cases, the accumulated debt becomes unpayable, and its reduction must be financed by Western taxpayers who funded the credit agencies to begin with. When the bank finances public-sector borrowers, it delays privatization and other free-market reforms that would aid economic development.[42]

While private credit markets do not always operate perfectly, especially in recent years, the unintended consequences of subsidized public credit should not be overlooked. Ex-Im Bank operations are often harmful to economic development, can displace private-sector finance, impose potentially significant opportunity costs, finance firms abroad that compete with U.S. firms, and politicize the market by providing a few large firms with government loans and guarantees. Indeed, as Table 2 shows, the top 10 beneficiaries of Ex-Im Bank loans and long-term guarantees in FY 2010—with combined revenues of over $382 billion—received over 92 percent of those bank services. Boeing—the world's largest aerospace company, earning over $64 billion in revenue in 2010, with $31 billion of that money from commercial airplane sales[43]—alone accounted for 44 percent of total Ex-Im Bank loans and long-term guarantees in FY2010. It is difficult to argue that large multinational companies with large market shares and combined revenues of hundreds of billions of dollars are suffering from market failure or that they could not finance their own loans.

By contrast, and despite the Ex-Im Bank's explicit mission to increase the number of SMEs using the Ex-Im Bank, small businesses accounted for only 20 percent of all Ex-Im authorizations by value in FY2010[44]—a smaller share than SMEs account for in U.S. exports overall (just over 32 percent of goods trade in 2009).[45] In other words, small- and medium-sized businesses are disproportionately *underserved* by the Ex-Im Bank. This is not to imply that increased bank lending to small businesses is the solution: that would lead to the same perverse effects that have accompanied lending to its larger clients. There is also at least anecdotal reason to believe that credit problems were, in any case, not fatal for small businesses, even during the financial crisis. Wells Fargo

The unintended consequences of subsidized public credit should not be overlooked.

Table 2
Top 10 U.S. Beneficiaries of Ex-Im Bank Loans and Long-Term Guarantees, FY2010

U.S. Company	Total revenue (US$ millions)	Total loans and guarantees (US$ millions)	Percentage of total loans and guarantees
Boeing Co.	64,306	6,426	44.4
KBR Inc.	10,099	3,000	20.7
General Electric Co.	150,211	1,043	7.2
Pemex *	80,841†	1,000	6.9
Caterpillar Inc.	42,588	424	2.9
FL Smidth Inc.	3,598†	420	2.9
Continental Airlines **	12,586	407	2.8
GEA Rainey Corp. ***	1,969†	302	2.1
Marsh & McLennan Companies	10,550	216	1.5
PEFCO (Private Export Funding Corporation)	5,466	205	1.4
Total, Top Ten Companies	**382,214**	**13,442**	**92.8**
Total, All Companies		**14,479**	**100.0**

Sources: 2009 or 2010 Annual Reports of the listed companies, Export-Import Bank, 2010 Annual Report.
*2009 revenue.
**2009 revenue; in May 2010, Continental merged with United, becoming United Continental Holdings, which had 2010 total revenue of $34,013 million.
***GEA Rainey Corp. is a subsidiary within GEA Group's Heat Exchangers Segment; total revenue for GEA Heat Exchagers totaled 1,969 USD (1,483 million EUR), while total revenue for GEA Group totaled 5,865 USD (4,418 million EUR).
†Revenue reported in foreign currency (millions) and converted using U.S. Federal Reserve exchange rate data (Pemex: 1,089,900 MXN; FL Smidth Inc.: 20,186 DKK; GEA Rainey Corp: 4,418 EUR).

If the private sector is not already providing export credit or insurance to a project, there are probably good reasons why.

CEO John Stumpf said in July 2010: "[we are] sitting here with tons of liquidity and we're marching double time in search of more loans . . . In most cases when I hear stories about small businesses not getting loans, it's the case that more credit will not help them. They need more equity, they need more profitability."[46] And, more importantly, the vast majority of large and small firms that do not seek subsidies, or do not qualify for them, will always face unfair competition from those that do.

In sum, if the private sector is not already providing export credit or insurance to a project, there are probably good reasons why, and little reason for the taxpayer-backed Ex-Im Bank to step in. To quote William Niskanen:

> The fact that private credit is sometimes not available on terms that a potential foreign buyer and U.S. exporter would prefer . . . is not sufficient evidence of a market failure. The terms on which credit is available from a private lender reflect the costs, taxes, and regulations to which that lender is subject; its assessment of the commercial and political risks of a specific loan; and the expected return on alternative loans. In a competitive credit market among lenders that face the same costs and alternatives, the best terms will be offered by the potential lender that is *most optimistic* about the commercial and political risks of a specific loan.[47]

On the other hand, if the private sector is willing to provide finance, or is contemplating it, the bank should not get involved in the project.

The bank may not necessarily correct for market failures, but it certainly introduces distortions to the markets in which it operates. In its 2010 Annual Report, Ex-Im Bank president Fred Hochberg boasts of the special consideration the bank gives to certain industries and markets that the bank has identified as having high potential for U.S. export growth, such as renewable energy, medical technology, construction, agricultural and mining equipment, and power.[48]

Congress has also distorted the market by imposing other policy and statutory requirements on Ex-Im Bank's participation in financial transactions. For example, as noted above, the bank places limits on the amount of foreign content in exports it supports. Any Ex-Im Bank–supported transaction worth more than $20 million must be transported on a U.S.-flagged ship—a hidden subsidy to protected shippers. As the CEE points out: "Today, an extremely limited number of U.S.-flag 'break bulk' carriers remain in operation, yielding transportation costs so high as to nullify the benefits of Ex-Im Bank financing."[49] The bank must also apply an economic impact test to any projects above $10 million, and deny funding to projects that adversely affect U.S. industry (e.g., by enabling foreign production of a good that would compete with a U.S.-made good). A 2007 GAO study found the screening process to be flawed, both conceptually and in its application. It pointed out, for example, that the method Ex-Im uses to calculate the extent of displaced production may understate the economic costs of export financing, thereby creating a systematic bias towards providing finance.[50]

The Ex-Im Bank's charter has for many years directed the bank to consider the potential environmental effects of any proposed transaction above $10 million if it involves a physical project such as construction or mining. The environmental requirements now include new carbon rules that went into effect in March 2010, obliging the Ex-Im board of directors to review any so-called "high carbon intensity projects" before the full environmental review is conducted. Projects where carbon intensity would exceed 850 grams of carbon dioxide per kilowatt hour of energy would need to reduce intensity to that level through offsets.[51]

These political constraints on the bank's activities are not always successful. For example, appropriations language specifying that not less than 10 percent of the bank's aggregate credit and insurance authority should go towards financing exports of renewable-energy technologies or energy-efficient end-use technologies[52] was not met in 2010: only 2.2 percent of total authorizations that year were "environmentally beneficial."[53] And the Ex-Im Bank authorizations supported only 4.4 percent of total U.S. renewable-energy exports, so clearly subsidized credit is not necessary for exporting success in that market.

Notwithstanding the ways in which the bank falls short of meeting the politically motivated targets imposed on its activities, clearly its basic mission to promote exports and employment is muddied by these additional, potentially conflicting policy goals. In short, the Ex-Im Bank engages in old-style industrial policy by giving preference to some industries over others and imposes political considerations on what should be purely commercial decisions.

The Ex-Im Bank engages in old-style industrial policy by giving preference to some industries over others.

Using Government Credit to Level the Playing Field

The Ex-Im Bank's supporters argue that it counters the subsidized competition that U.S. firms sometimes face abroad. Of all the justifications offered for the bank's existence, this one has the most merit and yet is the least easily verified. Although U.S. exporters ideally should not have to compete in a world in which their competitors receive support from their governments, U.S. policy should be consistent with the goal of maintaining a prosperous national economy as opposed to promoting the welfare of particular industries and firms. Like other subsidies, export credit programs place a higher burden on domestic taxpayers in the granting nation than on competitors.

Defenders of the Ex-Im Bank often argue that U.S. exporters are unable to compete effec-

Table 3
Medium- and Long-Term Official Export Credit Volumes

	2005			2006			2007			2008			2005–2008	2009		
	Exports	OECV	%	Exports	OECV	%	Exports	OECV	%	Exports	OECV	%	Average %	Exports	OECV	%
Canada	360,475	3,300	0.9	388,178	5,300	1.4	420,693	2,800	0.7	456,471	4,600	1.0	1.0	316,724	4,600	1.5
France	463,428	11,000	2.4	495,868	9,300	1.9	559,612	1,300	0.2	615,870	11,000	1.8	1.6	484,574	28,000	5.8
Germany	970,914	12,700	1.3	1,108,107	13,300	1.2	1,321,214	7,800	0.6	1,446,172	10,800	0.7	1.0	1,120,041	13,300	1.2
Italy	373,135	8,200	2.2	416,875	10,700	2.6	499,882	11,000	2.2	542,748	10,300	1.9	2.2	406,909	10,700	2.6
Japan	594,941	8,400	1.4	646,725	6,000	0.9	714,327	900	0.1	781,412	1,100	0.1	0.7	580,719	600	0.1
United Kingdom	384,477	3,700	1.0	448,653	2,600	0.6	439,091	3,600	0.8	459,666	2,200	0.5	0.7	352,873	2,500	0.7
United States	901,082	9,800	1.1	1,025,967	8,600	0.8	1,148,199	8,200	0.7	1,287,442	11,000	0.9	0.9	1,056,043	17,000	1.6
Brazil	118,529	3,500	3.0	137,808	7,500	5.4	160,649	7,000	4.4	197,942	NA	NA	4.3 *	152,995	NA	NA
China	761,953	18,500	2.4	968,978	29,000	3.0	1,220,456	38,000	3.1	1,430,693	59,600	4.2	3.2	1,201,612	NA	NA
India	99,616	3,500	3.5	121,808	4,000	3.3	150,159	4,400	2.9	194,827	13,700	7.0	4.2	164,907	NA	NA

Exports = total merchandise exports (US$ millions); source: World Trade Organization.
OECV = medium- and long-term official export credit volumes (US$ millions); source: Ex-Im Bank 2009 Competitiveness Report.
% = official medium- and long-term credit volumes / total exports.
NA = not available.
* = 2005–2007 average.

tively with their foreign competitors who may have access to more generous export subsidies. The evidence, however, tells a decidedly mixed story about the link between state-provided export credits and export performance. First, it is no longer true that other rich countries subsidize their exporters at much higher levels than the United States. In fact, the United States was the third-largest user, out of seven rich-country users, of medium- and long-term export credits when measured as a percentage of total merchandise exports in 2009, as Table 3 shows. All of the listed countries, with the exception of Japan, increased their export credit usage in 2009 above the 2005–2008 average, but in general the escalating arms race of export credits appears to be waning: all of the rich countries listed spent less on export credit subsidies than they did a decade or so ago. In 1996, for example, Japan's export credit supported 32 percent of total exports and France's export credit supported 18 percent.[54] Clearly governments in the developed world have been re-thinking export credit subsidies.

The members of the Organization for Economic Cooperation and Development (OECD), a rich-country club, are bound by a 1978 agreement (informally called the OECD Arrangement) that limits subsidies for export finance and obliges signatories to inform other OECD members when they violate its terms, so other countries may respond. The existence of the OECD Arrangement can, to some extent, account for the falls in the use of export credits among its members.

Non-OECD countries, however, are not bound by the arrangement's protocols. The Ex-Im Bank has identified China, for example, as a major user of so-called "tied aid": conditional development assistance that obliges the recipient to buy goods and services from the donor country. The developing world has been a little more generous to its exporters over recent years. Brazil, China, and India have, on average, supported over 3 percent of their total exports over recent years, and export credit volumes are growing.[55]

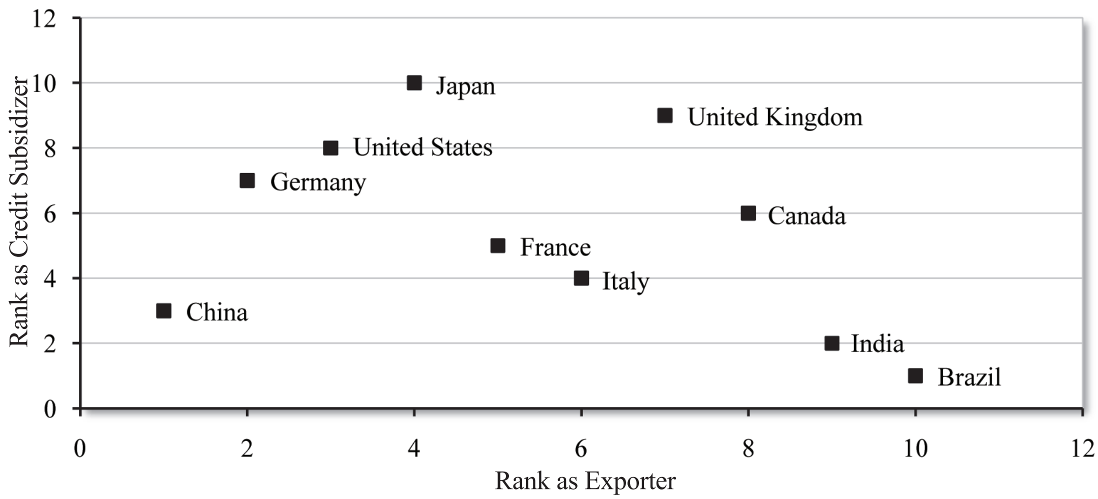
Second, comparing the subsidies with export performance makes it clear that the relationship between generous government export supports and the overall performance of national exporters, at least in the rich world, has not fit the pattern predicted by the Ex-Im Bank's supporters. There seems to be no significant link between the country's rank as an exporter in 2009 and its rank as an export credit subsidizer (average 2005–2008), as indicated in Figure 1. If it were true, in other words, that large amounts of export credit support led to high exports, we would expect to see the scatter plot in Figure 1 as an upward-sloping line. Instead we see no obvious pattern emerge.

Perhaps the rate of export credit support affects the *growth* of exports, rather than the absolute level? Figure 2 shows the absolute growth in exports by the United States, Germany, Italy, Japan, the United Kingdom, Canada, and France, in billions of dollars, since 2000. As the chart makes clear, Germany and the United States, historically two of the smallest users of export credit programs, had the highest export growth in absolute terms out of the rich countries. The developing countries support more of their exports through export-credit programs, and they have shown far more rapid export growth than most of the developed countries listed, but again the relationship between the proportion of exports supported by official credit programs and export growth is not clear. Brazil was the largest supporter of its exporters out of the three developing countries, but had the slowest export growth from 2005–2008. China, which supported a smaller proportion of its exports, showed the fastest growth in exports.

The relationship between export credit programs and export growth is not clear.

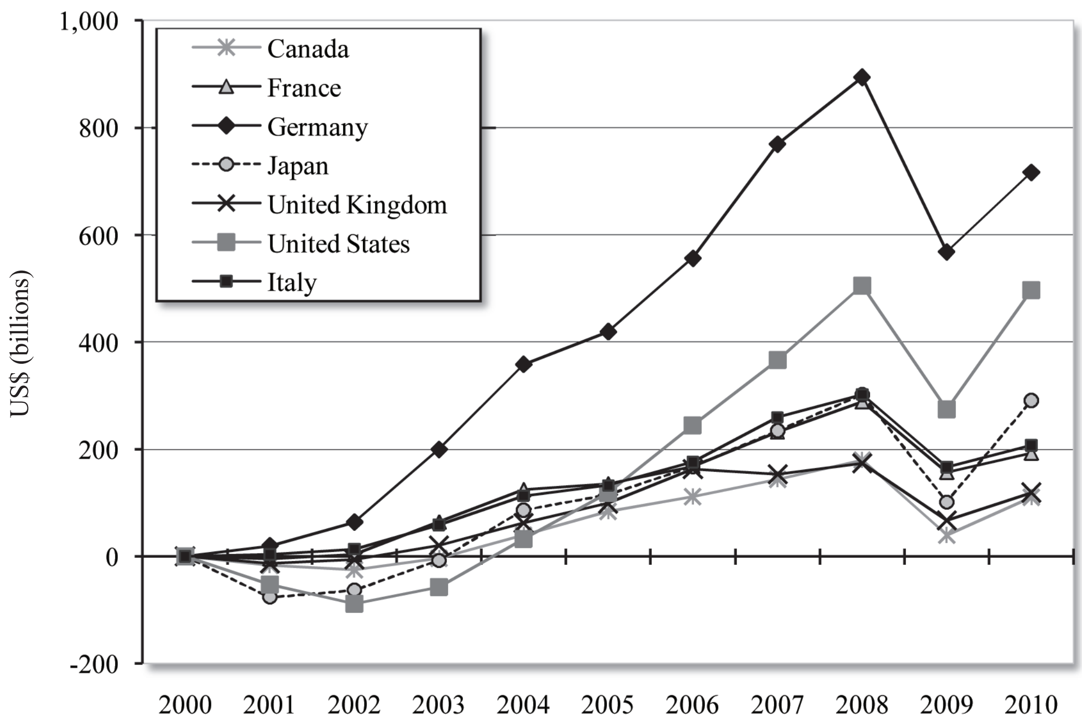
The extent to which the Ex-Im Bank devotes resources to countering foreign export credits is unclear. While the bank previously was forthcoming about the proportion of its resources and activities devoted to countering subsidized foreign competition, recent reports contain little or no information about the extent of these countervailing activities, or how successful they have been. It seems reasonable to assume that, given the fall in export credit subsidies in the OECD countries, the need for countervailing activities has not increased

Figure 1
Countries' Ranks as Credit Subsidizers vs. Ranks as Exporters



Sources: World Trade Organization, Ex-Im Bank, "Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States for the Period January 1, 2009 through December 31, 2009," June 2010, http://www.exim.gov/about/reports/compet/documents/2009_competitiveness_report.pdf.

Figure 2
Absolute Growth in Merchandise Exports Since 2000



Source: World Trade Organization.

Table 4
Leading Industrial Sectors for Ex-Im Bank Commitments, FY2010

Sector	Exposure (US$ millions)	Percentage of total
Air Transportation	35370.6	47.0
Oil and Gas	10408.5	13.8
Manufacturing	8904.7	11.8
Power Projects	4599.1	6.1
All Other	15931.0	21.3

Source: United States Export-Import Bank, Annual Report 2010.

since the late 1990s, when less than 20 percent of Ex-Im guarantees and insurance were for the purpose of countering officially supported foreign competition.[56] At the very least, it suggests that the Ex-Im Bank could significantly reduce its footprint on the U.S. economy to a maximum of 20 percent of its current activity and yet still meet the mission of countering official supports for foreign competition.

In any case, the idea that the United States suffers from a prohibitively tilted playing field is questionable. With exports of about $1.8 trillion of goods and services last year, the Ex-Im Bank backed only about $34 billion of that amount, or just under 2 percent of total exports, of which only some presumably faced government-subsidized competition. When only a fraction of 2 percent of U.S. exports receive Ex-Im financing in response to the efforts of foreign export credit agencies, it is difficult to conclude that the U.S. economy is seriously threatened by a tilted playing field, or that the Ex-Im Bank does much of anything at all to level it.

The Ex-Im Bank has, however, occasionally stacked the deck against U.S. industries by subsidizing their foreign competitors. The support given to Mexico's state-owned oil monopoly, Pemex—one of the top 10 beneficiaries of the Ex-Im Bank's finance—is a questionable use of taxpayer dollars to say the least, and U.S.-based oil companies may be wondering why their competitors deserve support from a U.S. government agency. Similarly, the billions of dollars the bank authorizes each year in financing to foreign airlines to buy American aircraft could be seen as a way of helping foreign airlines compete against American ones.

Retiring the Ex-Im Bank entirely might reduce the profits of the few corporations that have received the bulk of the agency's finance over the years. But, as we have already seen, they are mainly large and profitable firms that could surely cope in a world without Ex-Im subsidies. As Table 4 shows, Ex-Im Bank activity is highly concentrated in certain industries: almost 80 percent of Ex-Im exposure in FY2010 was in four sectors: air transport, oil and gas exploration, manufacturing, and power projects. Air transportation alone accounted for almost half of total exposure and, more specifically, the number-one user of the Ex-Im Bank is the Boeing Company. Of the 35 aircraft sales supported by Ex-Im in FY2010, 28 were Boeing products,[57] and the Congressional Research Service estimates that more than 60 percent of the value of Ex-Im Bank loan guarantees supported Boeing aircraft sales in that year.[58] Most of the foreign currency authorizations of the Ex-Im Bank are to support exports of commercial jet aircraft, so foreign currency risk is also assumed by the taxpayer in support of these companies.[59]

Negotiating an end to commercial aircraft subsidies is in the best interest of both Europe and the United States, and resolving the ongoing, mutually destructive dispute at the World Trade Organization offers an excellent opportunity to do just that. The WTO itself is unlikely to issue a ruling on export-credit programs for commercial aircraft because the United States and the European Union

Ex-Im Bank activity is highly concentrated in certain industries.

The Constitution does not authorize the use of taxpayers' funds to benefit politically favored groups.

agree on this matter: the EU did not place significant weight on the Ex-Im Bank in its complaint against Boeing.[60] But clearly the aircraft-credit programs "arms race" is a factor in explaining Boeing's disproportionate share of Ex-Im Bank financing.

If Congress's goal is to help U.S. exporters, there are other, preferable ways to do it, namely by allowing U.S. firms to become more competitive. U.S. tax levels, regulations, and the complexity of the tax code are routinely cited as factors that hinder the competitiveness of U.S. firms. Thus, there is much Congress can do to help the business sector. Reducing tariffs on imported inputs (such as steel), including tariffs imposed through the application of U.S. trade remedies law, would help lower the costs of production.[61] It could begin by eliminating the $90 billion worth of corporate welfare—of which Ex-Im is a part—that the federal government spends annually.[62] That would generate significant savings to taxpayers. Tax reforms, such as cuts in corporate taxes or capital gains taxes, would have more impact on jobs and growth than export subsidies ever could. Unfortunately, the United States has not been especially friendly to competitive, pro-growth tax policies. The average effective corporate tax rate for the OECD countries fell from 41 percent in 1986 to 19.5 percent today. The effective U.S. corporate tax rate is now 35 percent: 15 percentage points higher than the OECD average, and the second highest corporate tax rate in the industrialized world after Japan.[63]

From Ex-Im Bank to Ex-Bank

Congress should retire the Export-Import Bank because this Great Depression–era agency has no relevance in an era of increasingly open and sophisticated global markets. The credit crunch and financial crisis had severe effects on capital markets, to be sure, but they were not confined to export financing markets, and there is no special reason why U.S. exporters deserved special treatment over domestically focused firms who also struggled in the downturn. In any event, the Ex-Im Bank did not play any extraordinary role in helping markets move again: the $4.3 billion in direct loans it authorized in FY2010 was a tiny proportion of the shortfall in credit markets that year.[64]

The Bank benefits a few firms at the expense of taxpayers, consumers, and other businesses. It does not correct for so-called market failures, instead, it creates distortions in the domestic economy. U.S. exports, the recent downturn notwithstanding, have seen impressive growth, despite only a very small proportion of them being supported by Ex-Im financing. The bank may create some jobs in supported industries, but it does so at the expense of the rest of the economy. Most importantly, Congress should not finance this negative-sum game because the Constitution does not authorize the use of taxpayers' funds to benefit politically favored groups.

Short of scrapping the Ex-Im Bank altogether, Congress can begin to take some immediate measures, unilaterally and as part of a negotiated solution, to cut official export credit programs.

The ongoing (albeit waning) competition among official export credit agencies presents something of a collective-action problem. Countries have little incentive to cut—and in fact, may be under pressure to maintain or increase—export credits as long as their competitors continue to subsidize their exports. Some commentators have argued that the Ex-Im Bank serves as a "negotiating chip," giving the United States leverage and something to exchange in international negotiations to encourage further reductions in export credits.[65] A similar argument is often made about tariffs and other trade barriers in trade negotiations, but there the cost to the economy is more widely acknowledged. Recognizing the costs of export credit programs will hopefully modify opinions of their value, too, and in the meantime a unilateral reduction in export credit subsidies would be a good first move on the part of the United States.[66]

There is every reason to think that further progress on negotiated reductions in subsidized export credits is possible, given the reductions already achieved. It may be beneficial to move negotiations on official export credit reductions from the OECD (which does not include, say, Brazil, India, and China) and into the WTO, which has a broader membership and a better system for resolving disputes and enforcing rulings. But whatever happens in other countries, U.S. policymakers should not retain an agency like the Ex-Im Bank merely because other nations insist on adopting economically misguided policies.

There are examples from the history of trade liberalization that demonstrate the benefits of U.S. leadership by example. The Information Technology Agreement and the agreements on telecommunications and financial services, for example, were all negotiated through the World Trade Organization at the urging of the United States, even though it already had a zero tariff rate for semiconductors and offered only to lock in current levels of openness in telecommunications and financial services. For export credits, too, other countries may follow the United States, because adopting sound policies is in their best interests and because American promises to lock in current practices are considered valuable. The agreement at the WTO ministerial conference in Hong Kong in December 2005 to end agricultural export subsidies demonstrates that the international community can agree to cut politically popular government programs.

As indicated previously, the Ex-Im Bank no longer disseminates information about which financing commitments supposedly counter foreign export-credit subsidies. This seems a curious oversight, given the importance the bank and its supporters place on this countervailing role. As a first step to limiting the bank's activities, it seems reasonable to expect the bank to carefully monitor exactly which loans and guarantees fill that role, to report those figures publicly, and to limit its activity to offsetting the effect of foreign export-credit subsidies only. Restricting the Ex-Im Bank exclusively to this countersubsidy role would mitigate the unfair redistribution of economic resources that the agency engages in and should be enacted immediately, regardless of the bank's long-term future.

No discussion of export promotion should ignore the fact that the United States has handicapped its own companies though misguided policy decisions of its own. By failing to comply with its international trade obligations, for example, the United States has exposed its exporters to needless retaliatory sanctions. Meeting our legal obligations to our trade partners will yield increased opportunities for American firms to compete in the global market. Being a good international citizen would also aid multilateral trade liberalization negotiations, which, if successful, promise billions of dollars a year in benefits to the U.S. economy. Passing the pending trade agreements with Panama, Colombia, and South Korea would promote American exports, as well as give American consumers access to cheaper products, and promote a more dynamic, productive American economy. Congress should, as an interim step toward broader trade liberalization, reinstate the Generalized System of Preferences, a program that helps U.S. firms stay competitive and productive by lowering the price of some inputs from developing countries. And behind the border, reforming the tax code, reducing the corporate tax rate, reducing the regulatory burden, and reforming trade remedies laws would benefit all American firms, including those wishing to expand their presence abroad.[67]

Recognizing the costs of export credit programs will hopefully modify opinions of their value.

Conclusion

While the original rationale for the Export-Import Bank—to lend money to the Soviet Union—is no longer valid (if it ever was), the bank's mission is still driven by political considerations rather than economic logic.

None of the reasons offered for the bank's continued existence are convincing. Private credit markets are far deeper and more accessible than when the bank was founded, with most trade financed through firms themselves rather than banks. The Ex-Im Bank's resources are overwhelmingly used to assist large

None of the reasons offered for the bank's continued existence are convincing.

corporations that have little trouble obtaining financing from private sources during normal times. Export subsidies do not increase employment overall, nor do they have any real impact on the trade balance. Finally, it is neither fair nor constitutional that taxpayer dollars are being used as collateral to support particular businesses, or to favor some economic activities, markets, or technologies over others. The Ex-Im Bank distorts the economy, even as it purports to correct for so-called market failure.

If Congress wants to help U.S. exporters compete with foreign firms backed by official export subsidies, it could accomplish that task with a far smaller footprint than the Ex-Im Bank currently creates. The first step in narrowing the bank's scope should be to immediately restrict Ex-Im financing to only those cases in which—and only to the extent to which—an American exporter faces verifiable subsidized competition abroad. The next step should be to terminate the bank as soon as possible. Such corporate welfare programs have no rightful place on the U.S. trade policy agenda. In the meantime, negotiations to eliminate export subsidies worldwide should be vigorously pursued, either as part of the Doha round of trade negotiations, or as a separate and well-overdue initiative. Finally, Congress should look to reducing the burden of domestic regulations and taxes as a way to spur productivity and employment while reducing the role of the federal government in the U.S. economy.

Notes

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