POLICY ANALYSIS:

A Culture of Cronyism and Corporate Welfare:
The Export-Import Bank and the Case Against Reauthorization

By Michael J. Lambert | *Policy Analyst - Americans for Prosperity*

EXECUTIVE SUMMARY

The Export-Import Bank is the poster child for government favoritism and corruption. A Depression-era relic, the Bank bestows myriad unfair advantages upon a few hand-picked companies. Its stated goals include promoting exports abroad, creating jobs at home, supporting small business, and improving U.S. competitiveness internationally, but the reality is far less auspicious. The Bank's protectionist treatment of preferred industries—which here comes in the form of taxpayer-backed financing—ultimately occurs at the expense of smaller, less politically connected firms and industries while putting billions of taxpayer dollars at risk. What's more, despite the naked corporate welfare, virtually none of the Bank's supposed objectives are achieved as a result of this preferential treatment.

In the eight decades since the Bank's creation, its ostensible role in the financing of international trade has grown ever more dubious as the private sector proves itself vastly more efficient in both financing and facilitating trade across borders. After a near-century of the Bank picking winners and losers throughout the world, the time has come for policymakers to put an end to this manifest cronyism and allow its charter to expire. This report seeks to examine the Bank, the various deleterious effects its activities have inflicted on the broader U.S. economy, and ultimately make the case against its reauthorization.

KEY TAKE AWAYS

- The Export-Import Bank continually displays sustained fraud and lack of utility. Lawmakers should put to an end this culture of cronyism and refuse to reauthorize its charter. America's businesses deserve a fair playing field.
- Bank supporters argue that Ex-Im does not spend tax dollars and could save taxpayers $14 billion over 10 years. But a 2014 Congressional Budget Office estimate revealed that, if the Bank were to use fair-value accounting principles required of private banks, it would actually cost taxpayers $2 billion over a decade.
- Despite claims that 90 percent of the businesses to which the Bank provides support are small businesses, virtually none of the U.S.'s small businesses receive any financial assistance from the Bank. Minority-owned and women-owned businesses are all but shut out of the Bank's largesse.
- When the Bank was forced to decrease its export aid, U.S. exports actually increased from $1.7 trillion in FY 2014 to $1.8 trillion in FY 2018.

1. Export-Import Bank of the United States: "About Us," https://www.exim.gov/about

BACKGROUND

The Export-Import Bank of the United States ("Ex-Im" or the "Bank") was incorporated in 1934 by executive order[2] in an effort to "aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other nations." At the time, this specifically meant expanding trade with the Soviet Union.[3] After a brief period of ricocheting around various federal agencies, this first Ex-Im Bank merged in 1936 with its sister Ex-Im Bank that was created to promote trade with Cuba.[4] In 1945, Congress reconstituted the merged Bank as an independent agency[5] and required that it be reauthorized every five years, thus establishing the entity as it is known today.

The Bank provides trade financing in three distinct ways: (1) it sells insurance to foreign purchasers of American exports; (2) it issues direct loans and loan guarantees to American firms for export promotion; and (3) it guarantees commercial loans for foreign buyers. These financing mechanisms, however, typically benefit a few, politically connected firms. By providing below-market value loans to businesses and guaranteeing the credit extended to foreign banks, for example, Ex-Im provides a subsidy to the companies and shifts the burden of default onto the taxpayer. Generally speaking, subsidies and other incentives granted by the federal government interfere with market signals by providing U.S. firms a government-sponsored competitive advantage when they sell their products abroad. Ex-Im's subsidies, though, create a far greater distinction between winners and losers because they are awarded primarily to a handful of large, multinational corporations. This exposes taxpayers to significant risk, but it also directly harms many other domestic firms and industries.

The current authorization for the Bank will expire on September 30, 2019.[6] Despite the many documented problems with the Bank, some have advocated renewing its charter,[7] and some members of Congress have drafted legislation that would double the Bank's authorization to 10 years instead of the typical five,[8] narrowing the window of opportunity for serious and comprehensive reform debate in the future.

A CULTURE OF CRONYISM AND CORPORATE WELFARE

Export Promotion

One of the foundational tenets of the Bank's charter is to "foster expansion of exports of manufactured goods, agricultural products, and other goods and services."[9] This sounds innocuous enough, but as Milton Friedman reminds us: "one of the great mistakes is to judge [government] policies and programs by their intentions rather than their results."[10] The particular result worth judging here is the Bank's capacity to effectively and efficiently promote international trade.

But in rendering a complete verdict on the Bank's ability to make sound financial decisions, a point should first be made about the default assumption that there even is a role—significant or not—for the Bank to play in addressing potential

2. Export-Import Bank of the United States: "Digital Archives," https://www.digitalarchives.exim.gov/digital/collection/p16645coll2/id/19/
3. National Archives: "Records of the Export-Import Bank of the United States," https://www.archives.gov/research/guide-fed-records/groups/275.html
4. Ibid.
5. Cornell Law School, Legal information Institute: "12 U.S. Code § 635. Powers and functions of Bank," https://www.law.cornell.edu/uscode/text/12/635
6. H.R. 697, "Export-Import Bank Reform and Reauthorization Act of 2015," https://www.congress.gov/bill/114th-congress/house-bill/597/text
7. U.S. Chamber of Commerce: "U.S. Chamber Letter Supporting the Export-Import Bank Reauthorization Act of 2019," https://www.uschamber.com/letters-congress/us-chamber-letter-supporting-the-export-import-bank-reauthorization-act-of-2019
8. Zachary Warmbrodt, "Cramer, Sinema introduce 10-year Export-Import Bank renewal," Politico, July 25, 2019, https://www.politico.com/story/2019/07/25/cramer-sinema-export-import-bank-renewal-1434123
9. Export-Import Bank of the United States: "The Charter of the Export-Import Bank of the United States," https://www.exim.gov/sites/default/files/2015_Charter_-_Final_As_Codified_-_02-29-2016.pdf
10. "Notable & Quotable: Milton Friedman," The Wall Street Journal, October 6, 2015, https://www.wsj.com/articles/notable-quotable-milton-friedman-1444169267

market limitations. Ex-Im's operating notion is that certain high-value projects that involve considerable risk might not find financial backing but for a commitment from the federal government. As such, the supposed function of the Bank is then to provide support to these dicey projects. This supposition, however, demonstrates a contradiction: If a firm is unable to find financial support for its projects in the private marketplace, there is surely good reason. After all, high-risk projects with minimal probability of loan repayment generally will not find financial support. That the federal government finds virtue in supporting projects that are deemed too risky for private financing perhaps is an example of good Samaritanism, but it certainly does not make for sound economics. (The Bank's lending portfolio, in any event, includes only about 11 percent of high-risk projects.[11]) Nevertheless, taxpayers should not be asked to support businesses that are unable or unwilling to find private financial backing based on the merits of their proposals. If the purpose is to promote commerce, private markets should ultimately bear the risk.

The data, however, further confirm that the Bank's propensity for effective export promotion is questionable, at best. Consider the past four years during which time the Bank went without a full quorum on its Board of Directors. From 2015 to earlier this year, Ex-Im's board did not have a full complement of members—a prerequisite for approving transactions in excess of $10 million. With such a severely diminished transaction cap, the Bank's lending portfolio (both at home and abroad) shrunk dramatically, resulting in myriad benefits for American taxpayers, consumers, and market competition broadly. In fact, U.S. exports did not suffer during the Bank's forced decrease in export aid, actually rising from $1.7 trillion in fiscal 2014 to $1.8 trillion in fiscal 2018.[12] This is due to the fact that even during the Bank's most active year in 2012, more than 97 percent of exported goods never received Bank subsidies. In other words, the absence of large Ex-Im loans did not have any measurable negative effect on U.S. exports and the economy remained quite strong, in part thanks to the Trump administration's Tax Cuts and Jobs Act of 2017.

What's more, the usual recipients of the Bank's loans (65 percent went to just 10 companies in 2014[13]) did not suffer from the limitation imposed by the lack of a quorum on the Bank's board. Unsurprisingly, recipient companies of such loans, including Boeing and General Electric, managed to find private financing options. In the meantime, the Bank's risk exposure was cut nearly in half from 2013 to 2018, from $116 billion to $66 billion.[14] This was beneficial for taxpayers who do not have to be on the hook for propping up the profits of some of America's most successful companies.

Perhaps most damning is the fact that the vast majority of U.S. exports are completely unaffected by the Bank's lending activity. From fiscal 2009 to fiscal 2013, Ex-Im-assisted exports contributed just under 2 percent ($189.3 billion) of the total value of U.S. exports ($10.06 trillion).[15] Such a comparatively small figure further confirms that, while U.S. exports are in no way dependent on Bank financing generally, those firms that do receive support come from a much smaller pool.

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11. Veronique de Rugy, "Key Argument for Export-Import Bank Invalid," June 11, 2014, https://www.mercatus.org/publication/key-argument-export-import-bank-invalid

12. Veronique de Rugy and Justin Leventhal, "Ex-Im Bank: A Comparative of Pre- and Post-Quorum Lending," April 2019, https://www.mercatus.org/system/files/de_rugy_and_leventhal_-_policy_brief_-_the_ex-im_bank_then_and_now_still_cronyism_and_still_as_irrelevant_as_ever_-_v1.pdf

13. Ibid.

14. Ibid.

15. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," June 23, 2014, https://www.mercatus.org/publication/jobs-and-export-value-perspective-ex-im-backed-projects-constitute-tiny-portion-total-us

Job Creation

The Bank's charter also sets the agency's aim of "contributing to the promotion and maintenance of high levels of employment and real income, a commitment to reinvestment and job creation, and the increased development of the productive resources of the United States."[16] Naturally, supporters of Ex-Im are also quite vocal in their assertion that the Bank supports American jobs.[17] The Bank estimates that it supported 240,000 jobs in fiscal 2018 by authorizing transactions valued at a total of $40 billion, or about one job for every $167,000 in financing it authorized.[18] But estimates such as this are problematic, as they need to be assessed in a broader context to understand the nuances associated with them.

Of course, it is important to recognize that what is being discussed here are jobs supported and not jobs created. Instead, the term "jobs supported" refers to the number of jobs required to produce a particular total of exports for a particular total of financing. In its own analysis, the Bank does not consider whether these jobs would exist without such state-sponsored financing. Indeed, the jobs destroyed or not created in the first place are in fact not visible, and thus are not considered in the calculations that the Bank uses to quantify job creation. Often in the debate over Ex-Im, the terms "jobs supported" and "jobs created" are often misleadingly conflated. In testimony before the Senate Finance Subcommittee on International Finance, JayEtta Hecker, the then-associate director of international relations and trade issues at the Government Accountability Office (GAO), remarked: "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."[19]

Moreover, the Bank has been criticized for not fully acknowledging the limitations of its job creation estimates. According to a report from the GAO: "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."[20] The GAO also added, "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."[21]

Specifically, the GAO identified[22] three significant flaws with how the Bank determined the jobs it supported:

1. Employment data are a count of jobs, not persons employed. They treat full-time, part-time, and seasonal jobs equally.

2. The data counts persons who hold multiple jobs multiple times thus creating duplicative job counts.

3. The Bank's analyses fail to consider net impacts such as the negative effects that financing might have on other industries or businesses throughout the economy.

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16. Export-Import Bank of the United States: "The Charter of the Export-Import Bank of the United States," https://www.exim.gov/sites/default/files/2015_Charter_-_Final_As_Codified_-_02-29-2016.pdf

17. National Association of Manufacturers, "Why the Ex-Im bank is Critical for Manufacturers," June 4, 2019, https://www.gao.gov/products/gao-13-446

18. Export-Import Bank of the United States, "2018 Annual Report," https://www.exim.gov/sites/default/files/reports/annual/2018/EXIM-AnnualReport-2018.pdf

19. Jay Etta Hecker, "Export-Import Bank: Key Factors in Considering Ex-Im Bank's Reauthorization," July 17, 1997, https://www.banking.senate.gov/themes/banking/hearing_archive/97_07hrg/071797/witness/hecker.htm

20. U.S. Government Accountability Office: "Export-Import Bank: More Detailed Information About Its Jobs Calculation Methodology Could Improve Transparency," May 23, 2013, https://www.gao.gov/products/gao-13-446

21. Ibid.

22. Ibid.

For the full effect of the Bank's impact on jobs to be assessed, both the positive and negative results of its policies must be examined and considered. When the Bank supports one industry, it may do so at the expense of another, which likely results in employment displacement among the many firms and industries that do not receive Bank support.

As just one example, the Air Transport Association has estimated that the Bank's loans to foreign airlines have killed as many as 7,500 jobs for domestic airlines in the United States.[23] (This is while Boeing racked up 70 percent of all Ex-Im loan guarantees and the benefit of 40 percent of its total activities.[24]) Relatedly, the Bank's manifestly distortive practices have had a protracted negative effect on Delta Air Lines, which has for years argued that Ex-Im's subsidies to foreign airlines (including Emirates Airlines, Etihad Airways, and Korean Air) has caused adverse economic effects on it business and its employees.[25]

Small Business

Despite claims that 90 percent of the businesses to which the Bank provides support are small businesses, analysis shows that Boeing was included as one of the largest beneficiaries of "small business" funds.[26] Of all U.S. small businesses, virtually none receive any financial assistance from the Bank.[27]

And what value Ex-Im provides to small business exports is decreasing. As the number of exporting small businesses has grown[28] (contradicting the notion that such firms are unable to compete with bank financing), the value of exports per small and medium-size businesses has increased by 80 percent while the number of small exporting firms has grown by 30 percent.[29]

What's more, despite being a stated priority for the Bank's lending activity,[30] minority- and women-owned businesses are all but shut out of the Bank's largesse. Between fiscal 2007 and 2014, small businesses received a mere 23 percent of total Ex-Im authorizations, while minority- and women-owned firms were granted a trivial 2 percent and 1 percent of total authorizations, respectively.[31] No firms—large or small—should be granted special treatment by the federal government. If the role of the Bank is to help finance small firms with their exports, it has an odd way of showing it.

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23. Madhu Unnikrishnan, "U.S. Airlines Sue To Halt Ex-Im Bank Loan Guarantees To Air India," Aviation Daily, November 17, 2011, https://aviationweek.com/awin/us-airlines-sue-halt-ex-im-bank-loan-guarantees-air-india

24. Veronique de Rugy, "Kill the Boeing Bank Once and For All," March 29, 2019, https://www.aier.org/article/kill-boeing-bank-once-and-all

25. Reuters, "Delta sues Ex-Im Bank over loan guarantees for foreign airlines," April 4, 2013, https://www.reuters.com/article/us-delta-eximbank-lawsuit/delta-sues-ex-im-bank-over-loan-guarantees-for-foreign-airlines-idUSBRE93305B20130404

26. Veronique de Rugy, "Kill the Boeing Bank Once and For All," March 29, 2019, https://www.aier.org/article/kill-boeing-bank-once-and-all

27. José Niño, "Export-Import Bank Nothing but a Trough for Cronies," March 13, 2018, https://www.aier.org/article/export-import-bank-nothing-trough-cronies

28. Economic Statistics Administration, "Data Snapshot: How Much Do Small- and Medium-sized Businesses Contribute to U.S. Exports?" January 22, 2015, http://www.esa.doc.gov/under-secretary-blog/data-snapshot-how-much-do-small-and-medium-sized-businesses-contribute-us

29. U.S. International Trade Commission, "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," January 2010, http://www.usitc.gov/publications/332/pub4125.pdf

30. Export-Import Bank of the United States: "Minority & Women-Owned (MWOB)," https://www.exim.gov/about/special-initiatives/women-minority-owned

31. Veronique de Rugy, "Ex-Im Bank of Little Value to Small, Minority-owned, and Women-owned Businesses," May 6, 2015, https://www.mercatus.org/publication/ex-im-bank-little-value-small-minority-owned-and-women-owned-businesses

Corporate Welfare for Foreign Companies

Unfortunately, while the core of the Bank's business is to back loans made to foreign customers of a handful of U.S. businesses, Ex-Im does not stop at picking dubious winners and losers at home or pitting domestic industries and firms against each other. The Bank has doled out billions to foreign countries such as Russia, Venezuela, and Pakistan, to name a few.[32] A handful of state-owned enterprises such as Ethiopian Airlines, China Air, and PEMEX are consistently among the top foreign beneficiaries of the Bank's activities.[33] In one particularly egregious example, American taxpayers (through the Export-Import Bank) helped finance state-owned Petrobras, a Brazilian oil company and one of the largest businesses in the world, while its corporate leaders were engaging in bribery.[34] Corporate welfare in any form in any country is harmful, but certainly U.S. taxpayers shouldn't be supporting firms and industries beyond its borders, many of which compete directly with Americans businesses.

For example, despite having the second-largest economy in the world, China's share of Ex-Im export authorizations was a whopping 11 percent in fiscal year 2014. After 2015 and the quorum-related lending cap was put in place, China's share fell to just 1 percent,[35] all but eliminating U.S. taxpayer export support to the foreign country. As the Mercatus Center's Veronique de Rugy puts it: "This [smaller] amount is far more in line with the lack of risk in exporting from the largest to the second-largest economy in the world."[36]

Additionally, according to the Cato Institute, of 236 examined domestic non-aircraft manufacturing industries, 189 incurred higher net costs as a result of Ex-Im's activities despite the nearly $50 billion in subsidies doled out to certain companies in these industries.[37] That is because for every time Ex-Im picks a "winner" by authorizing a loan, there are many more losers throughout the broader economy.

Corruption, Fraud, and Mismanagement

Regrettably, Ex-Im also has a long history of corruption and inadequate lending scrutiny, which has led to years of abusive and fraudulent behavior. In 2013, only 42 percent of Bank employees agreed that the Bank's leaders "maintain high standards of honesty and integrity."[38]

Since 2009, 46 people have been convicted of defrauding the Bank and there have been 71 federal indictments related to Bank mismanagement and corruption.[39] Many employees have been investigated, accused, and indicted over the years; a notable recent example of graft was found to have cost taxpayers almost $20 million.[40]

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32. Mark Pfeifle, "The Peculiar Uses of a Taxpayer Bank," The Wall Street Journal, April 26, 2015, https://www.wsj.com/articles/the-peculiar-uses-of-a-taxpayer-bank-1430085289
33. Veronique de Rugy, Dan Holler, and Andrew Roth, "Trump Should Work with Congress to Kill the Export-Import Bank," April 17, 2017, https://www.mercatus.org/%5Bnode%3A%5D/commentary/trump-should-work-congress-kill-export-import-bank
34. Diane Katz, "Export-Import Bank Connects US Taxpayers to Foreign Scandal," May 30, 2017, https://www.heritage.org/markets-and-finance/commentary/export-import-bank-connects-us-taxpayers-foreign-scandal
35. Veronique de Rugy and Justin Leventhal, "Ex-Im Bank: A Comparative of Pre- and Post-Quorum Lending," April 2019, https://www.mercatus.org/system/files/de_rugy_and_leventhal_-_policy_brief_-_the_ex-im_bank_then_and_now_still_cronyism_and_still_as_irrelevant_as_ever_-_v1.pdf
36. Veronique de Rugy, "Kill the Boeing Bank Once and for All," March 29, 2019, https://www.aier.org/article/kill-boeing-bank-once-and-all
37. Daniel Ikenson, "Policy Analysis: The Export-Import Bank and Its Victims," September 10, 2014, https://object.cato.org/sites/cato.org/files/pubs/pdf/pa756.pdf
38. Export-Import Bank of the United States: 2013 Federal Employee Viewpoint Survey Results, https://www.exim.gov/sites/default/files//newsreleases/2013_All-Items.pdf
39. Jim Puzzanghera, "Export-Import Bank's GOP foes spotlight alleged corruption at agency," Los Angeles Times, July 29, 2014, https://www.latimes.com/business/la-fi-export-import-bank-corruption-hearing-20140729-story.html
40. The United States Department of Justice: "Former Loan Officer at Export-Import Bank Pleads Guilty to Accepting Over $78,000 in Bribes," April 22, 2015, https://www.justice.gov/opa/pr/former-loan-officer-export-import-bank-pleads-guilty-accepting-over-78000-bribes

Additionally, according to a report from the GAO, the Bank routinely fails to use readily available information that would help detect businesses that are delinquent on federal tax debts. The GAO noted that, based on data completely accessible to the Bank, 32 delinquent companies received $1.7 billion from 2004 to 2016.[41]

And despite arguments from the Bank's supporters that Ex-Im doesn't spend taxpayer dollars, a 2014 Congressional Budget Office estimate revealed that, if the Bank were to use fair-value accounting principles required of private banks, it would actually cost taxpayers $2 billion over a decade, not save $14 billion as it has argued.[42]

CONCLUSION

The federal government has no business picking winners and losers in the marketplace. Companies should be free to succeed on their merits, principally by creating value for their customers, rather than seeking taxpayer-funded handouts. What's more, when it comes to the Bank, American taxpayers are made to absorb the massive risk for loans to companies that simply don't need them to thrive. For over eight decades, the Bank has proven itself to serve the interests of massive companies at the expense of small businesses and taxpayers across the country.

America's businesses deserve a fair playing field, free of cronyism and corporate welfare. As the Export-Import Bank's sustained fraud and lack of utility continue to be exposed, lawmakers should put to an end this culture of cronyism and refuse to reauthorize its charter.

41. U.S. Government Accountability Office, "Export-Import Bank: EXIM Should Explore Using Available Data to Identify Applicants with Delinquent Federal Debt," May 23, 2019, https://www.gao.gov/products/GAO-19-337

42. Congressional Budget Office: "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," May 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf