MERCATUS CENTER
George Mason University
Bridging the gap between academic ideas and real-world problems

RESEARCH SUMMARY

THE US EXPORT-IMPORT BANK
A Review of the Debate over Reauthorization

The US Export-Import Bank (Ex-Im Bank) is a government-owned bank that provides taxpayer-backed financing to private exporting corporations, with the ostensible purpose of promoting exports, creating jobs, supporting small businesses, improving US competitiveness, and protecting US taxpayers. However, a new study published by the Mercatus Center at George Mason University concludes that the Ex-Im Bank operates in effect as a protectionist agency that picks winners and losers in the market by providing political privileges to already-well-financed firms at the risk of taxpayers. As such, the bank's charter should be allowed to expire.

To read the study and learn more about its authors, Veronique de Rugy and Andrea Castillo, please see "The US Export-Import Bank: A Review of the Debate over Reauthorization."

BACKGROUND

The Ex-Im Bank, which formed in 1934 to finance trade with the Soviet Union, was established as an independent government agency in 1945. Executive Order 6581 gave it the power to "aid in financing and facilitate exports of goods and services, imports, and the exchange of commodities and services" between the United States and foreign countries to create jobs in the United States.

The Ex-Im Bank has four main tools to achieve these goals: loan guarantees, working capital guarantees, direct loans, and export-credit insurance. Recent funding for the bank has increased from $12.37 billion in 2007 to $27.2 billion in 2013. A better way to understand these numbers is to look at amount of exposure the bank has—that is, the risk the bank takes for which taxpayers are ultimately responsible. During the same period, the total exposure for the bank increased from $57.42 billion to $113.83 billion.

KEY FINDINGS

Five popular presumed benefits created by this exposure are not supported by the facts:

For more information, contact
Kyle Precourt, 703-993-8196, kprecourt@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

- *The bank does not promote exports.* In the marketplace, high-risk projects with a low likelihood of repayment won't find financing, but when the government supports projects for politically well-connected businesses, taxpayers are ultimately responsible for projects that fail. Moreover, trade economists have long known that export credit subsidies merely redistribute exporting opportunities toward subsidized firms rather than increasing the net number of exports.

- *The bank does not maintain or create jobs.* While the Ex-Im Bank's supporters point to numbers showing that new jobs have been created through federal spending, the unseen effects are often ignored. For example, funding for one industry or firm may take away more jobs from other industries and firms resulting in a net job loss, even though jobs are created for the financed firm. At best it could be said that the bank redistributes employment away from unsubsidized firms toward subsidized firms.

- *The bank does not support small businesses.* Most of the bank's funding goes to large corporations such as Boeing. In fact, large corporations received roughly 75 percent of the bank's total assistance last year. The vast majority of US small businesses—over 99.9 percent—receive no benefits from Ex-Im and are placed at a competitive disadvantage against large, subsidized competitors.

- *The bank does not level the playing field for US exporters.* Less than one-third of the estimated export value of the bank's portfolio is intended to counteract competitive disadvantages created by foreign governments. Moreover, more than 98 percent of US exports occur without government financing through the bank, demonstrating that the bank is not critical for helping US exports thrive globally.

- *The bank is not a good deal for taxpayers.* The bank's accounting practices are improper, and the bank miscalculates its budget savings. While the it claims that $14 billion will be saved over the next decade, a federal accounting report finds that Ex-Im programs will actually cost taxpayers $2 billion. Numerous audits from the bank's internal inspector general also show that that the bank's risk analyses, default assumptions, internal reporting procedures, and financial reporting are inadequate to safely steward taxpayer funds and responsibly manage its vast portfolio.

CONCLUSION

The Ex-Im Bank does not provide the benefits claimed by its supporters. The data show that it does not play a critical role in promoting exports, filling a financing gap, creating jobs, benefiting small businesses, leveling the playing field, or creating a profit for taxpayers. A government agency that fails to meet its own stated objectives has no justification for or claim to reauthorization. The Ex-Im Bank no longer serves its original purpose, nor does it serve its presumed purpose today. Therefore, its charter should be allowed to expire.