

EXTENDING EX-IM BANK FINANCING TO DOMESTIC MARKETS IS A SOLUTION IN SEARCH OF A PROBLEM

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Information Request on Potential Parameters of Export-Import Bank Financing for Domestic Projects
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I appreciate the opportunity to submit comments to the Export-Import (Ex-Im) Bank on potential parameters of export-import financing for domestic projects.¹ The Mercatus Center at George Mason University is dedicated to bridging the gap between academic ideas and real-world problems and to advancing knowledge about the effects of regulation on society. These comments, therefore, do not represent the views of any particular affected party or special interest group. Rather, they are designed to help US policymakers as they consider the White House's recommendation that the Ex-Im Bank's expand its activities to domestic markets.

A LOW BAR: THE EX-IM BANK'S RECORD SINCE REAUTHORIZATION

With the arrival of each new presidential administration, the Ex-Im Bank seeks to remain relevant. Long criticized as the “Bank of Boeing” given its focus on backstopping the aircraft maker, the Ex-Im Bank convinced the Trump administration—and has now convinced the Biden administration—that it has strategic relevance. Congress apparently agrees, having handed the agency a seven-year reauthorization in 2019 and having confirmed a quorum for its board of directors so that the bank could get to work on what it and the Trump White House had claimed was a \$40 billion backlog of projects.²

The assumption was that, once the bank was fully back in business, these projects, which apparently could not happen without the backing of the bank, would go through and the economy would grow as a result. In typical fashion, the Ex-Im Bank has delivered less than it promised. Deal

1. Export-Import Bank of the United States, Information Request on Potential Parameters of Export-Import Bank Financing for Domestic Projects, 86 Fed. Reg. 72967 (December 23, 2021).

2. Peter Navarro, “For Want of a Quorum, America’s Jobs Are Being Lost,” CNBC, April 1, 2019.

flow actually was *lower* both in 2020 and 2021 than in 2019 when the White House claimed that there was a deal backlog hampering economic growth. While the country was in the early stage of a pandemic in 2020, the bank deployed some new lending programs and lifted some restrictions in existing programs purportedly to allow deals to go through during these hard times. However, that didn't seem to help. Although a few large companies with plenty of access to capital benefited from these changes,³ the number of deals remained low. As a result, the Ex-Im Bank's overall loan exposure (its cumulative book of business) has been steadily declining. Its portfolio of loans and guarantees dropped from \$54.7 billion in 2019 to \$46.9 billion in 2020 to \$41.3 billion in 2021, and it stands at less than one-third of the institution's \$135 billion financing capacity.⁴

Two full years after the bank regained its full capabilities, its relevance to the US economy continues to diminish. Yet proponents still emphasize the existence of a deal backlog. In September 2021, for instance, the US Chamber of Commerce claimed that \$39 billion in transactions were at risk if the Senate did not confirm President Joseph R. Biden Jr.'s nominees to the Ex-Im Bank's board.⁵ But the truth is that either the US economy has not needed the Ex-Im Bank these past few years or the deal figures cited by the Trump administration and the US Chamber of Commerce were exaggerated (or both).

In February 2021, at a time when many wanted to give the Biden administration the benefit of the doubt, I published a set of recommendations for how the White House could address the Ex-Im Bank's long-festering problems.⁶ However, the White House has implemented no reforms. In fact, the Ex-Im Bank actions during the Biden administration's first year demonstrate adherence to the status quo: extensions of the COVID-19 temporary relief measures that benefited mainly Boeing, General Electric, and US Steel in April and November; a loan to SpaceX in June; and aviation deals for Boeing and General Electric in May, July, August, September, and November. That was the extent of the Ex-Im Bank's board-approved business this past year.

More generally, even as the Ex-Im Bank's portfolio shrank by more than 10 percent in 2021, aviation along with oil and gas accounted for well over 60 percent of the bank's portfolio, according to its public filings. The concentration in these sectors is the same as under the Trump administration, even though the Biden administration claims to oppose companies that have a large carbon footprint. Meanwhile, the China and Transformational Exports Program, which Congress inserted into the Ex-Im Bank's reauthorization in 2019 on the hope that the bank would make strategic investments to counter China's global economic influence, has delivered only \$141 million, barely a nick in the \$27 billion program target that Ex-Im Bank is supposed to hit by the end of 2026.⁷ That amount does not even pay for one jumbo jet. Meanwhile, Ex-Im Bank support for small business has been declining since its quorum was restored, from \$2.3 billion in 2019 to \$2.1 billion in 2020 to only \$1.6 billion in 2021. In 2021, the Ex-Im Bank's financing for women- and

3. Veronique de Rugy, "Don't Be Fooled: The Export-Import Bank Is in the Big-Business Business," *National Review*, May 10, 2021.

4. Export-Import Bank of the United States, *Annual Management Report for the Year Ended September 30, 2021, and September 30, 2020*, December 31, 2020, https://www.exim.gov/sites/default/files/reports/annual/2021/AnnualReport2021_508Compliant.pdf.

5. Letter from Neil L. Bradley, Exec. Vice President and Chief Pol'y Officer, U.S. Chamber of Com., to Hon. Sherrod Brown, Chair, & Hon. Patrick J. Toomey, Ranking Member, Sen. Comm. on Banking, Hous., and Urb. Affairs (Sept. 29, 2021) (https://www.uschamber.com/assets/documents/210929_nominations_exim_sen_banking.pdf).

6. Veronique de Rugy, "Memo to Team Biden: Rein in the Export-Import Bank," *Discourse*, February 3, 2021.

7. Export-Import Bank of the United States, "U.S. House of Representatives Task Force on China Members and EXIM Chairman Kimberly Reed Engage on EXIM's New Legislative Mandate to Compete with China," news release, July 8, 2020, <https://www.exim.gov/news/house-representatives-task-force-china-members-and-exim-chairman-kimberly-reed-engage-exims>.

minority-owned businesses was only \$361 million.⁸ That is less than half of what it was 10 years ago, not adjusting for inflation.⁹

Faced with the Ex-Im Bank's record of underachievement since reauthorization, the Biden administration could have considered any number of measures to make things better. Instead, the administration is proposing to lower the bar.

EXECUTIVE ORDER ON SUPPLY CHAINS

In February 2021, the Biden administration issued an executive order “directing a whole-of-government approach to assessing vulnerabilities in, and strengthening the resilience of, critical supply chains.”¹⁰ The executive order was followed by a 100-day review proposing a raft of ideas that are likely to be costly for taxpayers. One of the recommendations of that review is to “*Examine the ability of the U.S. Export-Import Bank (EXIM) to use existing authorities to support U.S. manufacturing of products: EXIM should develop a proposal for Board consideration regarding whether EXIM should establish a new Domestic Financing Program that would provide financing to support the establishment and/or expansion of U.S. manufacturing facilities and infrastructure projects in the United States that would facilitate U.S. exports*” (italics in original).¹¹

In short, in an apparent bid to find something relevant for Ex-Im Bank to do, the Biden administration has decided that Ex-Im Bank should look into financing investments in the United States, despite the United States having the most highly developed financial markets in the world and the US banking sector being awash in liquidity. There is no need for Ex-Im Bank to issue loans domestically. On the contrary, any engagement by the Ex-Im Bank in domestic markets would displace domestic sources of financing. Furthermore, extending the Ex-Im Bank's remit to domestic finance would extend its corporate favoritism to the domestic economy.

THE RISK OF CROWDING OUT PRIVATE LENDERS

The dangers are already clear in the extremely lax criteria that the Ex-Im Bank is proposing for determining whether a domestic investment is eligible for a loan. These criteria are laid out in the notice for comment and feedback.¹² The first criterion is that the company exports at least 25 percent of the goods it produces. Under such a weak criterion, Boeing would be eligible to borrow from the bank for its domestic operations.¹³ Boeing certainly does not need the money and, even amid the pandemic, refused Coronavirus Aid, Relief, and Economic Security Act funding that Congress had carved out for the aircraft maker because Boeing did not like the government's terms.¹⁴ But the terms the Ex-Im Bank has offered are more attractive. The Ex-Im Bank's domestic

8. Export-Import Bank of the United States, *Annual Management Report*.

9. Export-Import Bank of the United States, *2012 Annual Report*, n.d.

10. Exec. Order No. 14017, 86 Fed. Reg. 11849 (March 1, 2021); White House, “FACT SHEET: Biden-Harris Administration Announces Supply Chain Disruptions Task Force to Address Short-Term Supply Chain Discontinuities,” press release, June 8, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/>.

11. White House, “FACT SHEET.”

12. Export-Import Bank of the United States, Information Request on Potential Parameters of Export-Import Bank Financing for Domestic Projects, 86 Fed. Reg. 72967 (December 23, 2021).

13. Statista, “Boeing's Global Revenue in FY 2020, by Region or Country” (dataset), February 2021, <https://www.statista.com/statistics/680130/revenue-of-boeing-globally-by-region/>.

14. Joshua Franklin, “Boeing Decided Not to Request a Bailout through the CARES Act, after Raising \$25 Billion in a Record-Setting Debt Sale,” *Business Insider*, May 1, 2020.

financing program would allow the bank to provide further subsidies to Boeing while also crowding out private lenders.

The risk of crowding out is evident in the pricing methodologies that the Ex-Im Bank is proposing. Both its “direct market proxy” approach, which would have Ex-Im Bank “lending on identical terms and conditions” to private lenders, and its “implicit market benchmark” approach, which would use a pricing methodology that the Organisation for Economic Co-operation and Development designed for agencies like Ex-Im Bank to use in “countries where private market financing is generally available,” would essentially put the bank in direct competition with private lenders in the domestic market.¹⁵ This risk is all the more significant because the Ex-Im Bank already provides guarantees to commercial lenders, which shift the risk of lending to taxpayers while maintaining the profits for banks. The Ex-Im Bank has a long and largely unexamined record of subsidizing large commercial lenders,¹⁶ but a domestic financing program is likely to make such subsidies more egregious. The Ex-Im Bank asserts that its so-called additionality requirements should keep the bank from crowding out commercial lenders in the domestic market. As I have documented elsewhere, however, the Ex-Im Bank’s additionality criteria are extremely weak.¹⁷

In sum, the Ex-Im Bank’s entering the domestic market to provide financing at rates comparable to those charged by commercial lenders would increase the incentive of private borrowers to turn to it rather than to commercial lenders, the incentive of commercial lenders to turn to Ex-Im Bank to guarantee these loans, or both. The effect would be to weaken the role of commercial lenders to support domestic economic growth while shifting risk from banks to the taxpayer.

THE RISK OF INAPPROPRIATE CORPORATE INFLUENCE ON GOVERNMENT

Providing government-backed financing where it is not needed would also raise the risk of corruption domestically because financing decisions could be made on the basis of political rather than economic considerations. For example, Boeing’s already-sizable influence on the government would grow through closer ties with Ex-Im Bank and other agencies at the federal level and in states where Boeing could solicit special tax and regulatory treatment.¹⁸ A domestic financing program also could encourage a bidding war among members of Congress to steer the Ex-Im Bank’s largesse to their own states or districts. Such dynamics would not be limited to Boeing or General Electric; it could occur with any US company.

A DOMESTIC FINANCING PROGRAM TO BENEFIT . . . THE EX-IM BANK?

There is no need for the Ex-Im Bank to launch a domestic financing program because the domestic market already is well served by commercial lenders. The weak criteria in the notice for comment and feedback demonstrate the risk of such a program crowding out commercial financing while creating additional avenues through which large corporations can steer the actions of the

15. Juliette Schleich and Su Un Shin, Information Note for Guidance on Premium Rules for Officially Supported Export Credits in Market Benchmark Countries (Paris: Organisation for Economic Co-operation and Development, 2017), http://financedocbox.com/Mutual_Funds/73188755-Information-note-for-guidance-on-premium-rules-for-officially-supported-export-credits-in-market-benchmark-countries.html.

16. Veronique de Rugy, “I Study Corporate Welfare. Even I Was Shocked by This Cronyism,” *New York Times*, September 4, 2020.
17. Veronique de Rugy, “The ExIm Bank Is Still the Bank of Boeing,” *Daily Economy*, American Institute for Economic Research, June 22, 2020.

18. Sean O’Kane, “FAA and Boeing Manipulated 737 Max Tests during Recertification,” *The Verge*, December 18, 2020.

government to serve their own narrow interests. Corporations do not need the bank's support to move supply chains on shore again. The question is whether the Ex-Im Bank's clients along with supporters in Congress and the administration will succeed in directing taxpayer resources to subsidize activity that the clients and their lenders should be shouldering themselves. I am hopeful that they will not succeed.