A Look at the Controversies of the United States Export-Import Bank

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A LOOK AT THE CONTROVERSIES OF THE UNITED STATES EXPORT-IMPORT BANK

by

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Executive Summary

The Ex-Im Bank is the official export credit agency of the United States. The Bank was established in 1934 to aid a depressed economy and foster global trade. Ex-Im was mandated to improve economic conditions and international trade by providing financial assistance where the private sector fell through, while not competing against private firms. The bank has four main tools to perform its responsibilities – direct loans, loan guarantees, working capital financing, and credit-export insurance.

The Ex-Im Bank has enjoyed a long history of strong bipartisan support. Opposition surfaced in the late 2000’s leading to an Ex-Im temporary shutdown. The bank used the FAST Act as a vehicle for a four-year reauthorization in December 2015. Ex-Im’s continuation is still highly debated today.

Proponents of the Ex-Im Bank commonly appeal to these arguments: it supports domestic jobs; supports small business; levels the playing field; and intervenes when the market fails. Opponents of the bank suggest Ex-Im is a relic of the past; a corrupt bureaucracy that engages in corporate welfare and crony capitalism; reduces economic efficiency; and crowds out the private financial market.

After examining the data, it has become apparent the Ex-Im Bank is an unneeded government tool with redundant services that should be wound down and concluded. Modern global trade liberalization has rendered the bank obsolete. The vast majority of Ex-Im benefits aid corporate behemoths, and it does not provide anything the financial sector cannot.
INTRODUCTION

The United States Export-Import Bank (Ex-Im Bank) is the official national export credit agency (ECA) of the United States, which operates as an independent corporation. The purpose of the Ex-Im Bank is to promote trade and support domestic employment through financial products designed to help domestic exporting companies. The financial products that Ex-Im provides can be grouped into four categories: direct loans, buyer loan guarantees, working capital guarantees, and export-credit insurance. These products are made available to both domestic suppliers and foreign buyers. The bank is intended to operate as a supplement to the existing financial market stepping in where the market fails, while being careful not to compete with private financial firms.

Whether or not the bank fulfills its objectives or is a necessary federal agency is up for debate. Although the Ex-Im Bank charter was renewed by voice vote or unanimous decision for nearly seven decades following its establishment, it has become a politically charged topic that the 113th and 114th congresses have debated a great deal. Proponents of the Ex-Im Bank claim it is a vital piece of government to keep alive, as it supports domestic jobs, supports small business, levels the playing field, and fills voids left by market failures. Opponents of the bank suggest Ex-Im is a relic of the past, a corrupt bureaucracy that engages in corporate welfare, reduces economic efficiency (job creation and price distortions – deadweight losses), and crowds the ability of the private financial market.

With all the recent contention surrounding the Ex-Im Bank and its authorized extension, one might ask: Is the Ex-Im Bank accomplishing what it is
mandated and intended to do? Who is receiving the benefits from the Ex-Im Bank?

Does the United States need a government funded export credit agency? This paper explores the history, mandate, financial products offered, and the controversies of the Ex-Im Bank in an effort to answer these questions.

HISTORY

After a successful election in 1933, Franklin D. Roosevelt (FDR) concentrated his priorities on the economic crisis caused by the Great Depression. His immediate focus was on domestic issues, where he successfully lobbied congress to pass major unprecedented social reforms later to be known as the New Deal. After a successful round of domestic social policies, Roosevelt turned to the global stage.

According to the Office of the Historian, in 1934 the FDR administration signaled to the world that the United States was ready to reenter the global market by establishing two financial lending institutions to encourage trade between the Soviet Union and Cuba.¹ On 2 February 1934, the first institution, the Export-Import Bank of Washington was established through executive order 6581.² One month later the 2nd Export-Import Bank of Washington was established through executive order 6638.³ The two banks operated as agencies under the executive branch. Roosevelt reported these institutions were established to combat “widespread

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unemployment and disorganization of industry”⁴, by “promoting the fullest possible utilization of the present productive capacities of industries”⁵, through the removal of “obstacles to the free flow of interstate and foreign commerce.”⁶ One year later (1935) congress consolidated the two banks and increased capital ceilings and extended powers.

It was a decade later that the 79th congress passed the Export-Import Bank Act of 1945.⁷ This created the independent corporation that is known today: the Export-Import Bank of the United States. The bank’s lending authority was set at $3.5 billion. This number would increase over the years, resting at $135 billion today. The bank was to provide financing to exporters who found it difficult to secure financing in the market, while being careful to select firms that have low repayment risk.

Exhibit A displays notable Ex-Im events from its inception in 1945 to date.

FINANCIAL PRODUCTS

Before investigating the more recent happenings and controversies surrounding the Ex-Im Bank, it would be helpful to gather a basic understanding of the different financial products the bank offers. As mentioned above, the bank offers financial products that can be separated into four categories: direct loans, buyer loan guarantees, working capital finance, and export credit insurance. According to

⁴ “Executive Order 6581.”
⁵ Franklin D. Roosevelt, "The Export Import Bank is Created," in the Public Papers of the Presidents of the United States: F.D. Roosevelt, Volume 3, 1934, 77.
⁶ Ibid, 76.
the Congressional Research Service, the bank’s commitment and repayment periods of different products may vary in duration. Products can be thought of as short-term (less than one year), medium-term (1-7 years), or long-term (7+ years). The repayment terms of each financial transaction are determined on an individual basis. The bank arrives at these terms after researching and considering many variables, including: benefactor, industry, and/or regional conditions; terms of comparable products that already exist in the market; international rules regarding export credit financing; and other countries’ export credit agency terms.

**Direct Loans**

Direct loans are available to foreign buyers of U.S. company products, and are generally used to finance capital equipment or services. As export sale transactions range in value, there is no minimum or maximum limit prescribed to Ex-Im direct loans. However, past financials indicate direct loans generally exceed $10 million. Total available financing cannot exceed the lesser of: (1) 85% of the value of all eligible goods and services in the export contract, or (2) 100% of the U.S. content in all eligible goods and services in the export contract. Direct loans are generally medium- or long-term. The structure of direct loans is depicted in *Figure 1* below.

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9 Ibid.
The earlier years of the Ex-Im Bank saw a heavy utilization of direct loans (see Exhibit A). The decade preceding the 2008-2009 financial crises can be contrasted to these earlier years, when demand for Ex-Im direct loans dropped significantly due to low-rate commercial loan availability – loans were handed out carelessly in droves. The more recent post-crisis period has seen returning demand for Ex-Im direct loans.

**Buyer Loan Guarantees**

Ex-Im loan guarantees assist foreign buyers of U.S. products or services in securing loans from lenders in both the public and private sector. The guarantees help credit-worthy buyers attain competitive financing that may have otherwise

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11 *Export-Import Bank: Overview and Reauthorization Issues*, 5.
been unavailable. This product also provides financing to cover up to 30% of local loan origination fees.

Loan guarantees are medium- and long-term products, generally providing coverage up to ten years. In contrast to credit insurance discussed below, loan guarantees are unconditional – the Ex-Im Bank virtually eliminates lenders’ exposure to repayment risk, as it will fully repay the lending institution in the event of buyer default. The product provides 100% coverage of any economic or political risks. Ex-Im will provide an 85% guarantee on medium- or long-term loans – the other 15% is covered by a down payment provided the buyer at inception. Like direct loans, there are no qualifying limits for the size of the sale transaction. The structure of loan guarantees is depicted in Figure 2 below.
Working Capital Financing\textsuperscript{14}

Working capital loan guarantees have the same structure as buyer loan guarantees discussed above (see Figure 2). Although the structure is the same, these products are designed to meet the needs of the clients on the opposite end of the transaction – exporters – and have different terms.

A working capital loan guarantee provides a means for existing U.S. based companies to expand their clientele beyond U.S. borders. Ramping up production to meet additional demand abroad can be very capital intensive. Working capital loan

\textsuperscript{13} Export-Import Bank: Overview and Reauthorization Issues, 6.

guarantees help secure the cash flow needed to pay for materials, equipment, supplies, labor, and other inputs needed to meet such demand. These guarantees may be used for one-time loans or revolving lines of credit.

Working capital loan guarantees are generally short-term products ranging from one to three years. Repayment risk exposure is not eliminated for lending institutions, but it is reduced significantly, as Ex-Im commits to repaying 90% of the loan in the event of buyer default. Like the other products, there is no minimum or maximum limit on the transaction amount.

Export Credit Insurance \(^{15}\)

The Ex-Im Bank offers *multi-buyer credit insurance* to qualifying U.S. exporting companies. This policy protects the insured’s accounts receivable. Transferring the repayment risk of buyer default or inability to meet obligations encourages U.S. companies to extend credit to their own existing and potential clientele.

Credit insurance may be extended to companies exporting products that contain 50% U.S. material. Ex-Im Bank offers renewable annual policies that cover receivables repayment terms up to 360 days. Policies generally cover 90%-95% of losses due to economic or political adversities. The structure for Ex-Im Bank credit insurance is depicted in *Figure 3* below.

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Credit insurance is generally a short-term product; however, Ex-Im can also extend medium-term credit insurance. Medium-term insurance is offered up to five years, and may not exceed $10 million. The policy may cover a single order, or a series of orders over a stipulated period of time. Due to its higher-risk nature, the medium-term credit insurance policies generally cover 85% of losses.

In contrast to loan guarantees, export credit insurance is conditional; i.e. payout of a claim is dependent upon compliance with policy terms and conditions, proper documentation, payment of premium, and timely claims filing.

RECENT HAPPENINGS

The Ex-Im bank has faced little controversy for most of its existence, as its reauthorization was nothing more than a congressional housekeeping chore for 70 years following its establishment – the bank was regularly reauthorized through

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16 Export-Import Bank: Overview and Reauthorization Issues, 8.
unanimous consent or voice vote. However, beginning in the 2000s, the bank began to come under heavy scrutiny, as it was accused of engaging in crony capitalism and corporate welfare.

Despite the critics’ criticisms, Ex-Im would live to see another day. The bank’s expiration date was extended through the Export-Import Bank Reauthorization Act of 2012.\textsuperscript{17} With the new expiration date of 30 September 2014, the Ex-Im Bank had at least two more years of life.

Disapproval continued to mount against the Ex-Im Bank as claims of corruption continued to make headlines among news sources. By September 2014 there was a significant opposition to the bank among the Republican House. Jeb Hensarling – the Financial Services Committee Chairman – was a key opponent leading the opposition. Proponents of the Ex-Im Bank managed to secure a nine-month extension that was attached to must-pass short-term budget bill that would avoid a government shutdown.\textsuperscript{18} The determining of the bank’s fate was delayed until 30 June 2015. Chris Krueger of Guggenheim Partners captured what seemed to be the general consensus at the time when he said, “Ex-Im received a stay of execution, but it remains on death row.”\textsuperscript{19}

Momentum continued to build against the bank. As June 2015 approached opposition mounted in the House and Senate. At midnight on 30 June 2015, for the

\textsuperscript{17} Export-Import Bank Reauthorization Act of 2012, Public law 112-122, 112\textsuperscript{th} Congress, HR 2072, 30 May 2012.

\textsuperscript{18} Continuing Appropriations Resolution 2015, Public law 113-164, 113\textsuperscript{th} Congress, HJ Res 124, 19 September 2015.

first time in 81 years, the Ex-Im Bank’s mandate expired – at least temporarily. It could no longer write new loans or products.

In spite of the opposition of its restoration, six months later on 3 December 2015 the Ex-Im Bank was revived for another four years. It was again able to engage in writing new business. The reauthorization of the bank came as an amendment to the Fixing America’s Surface Transportation Act (FAST).\textsuperscript{20} The bank will be up for renewal again in September 2019.

CONTROVERSIES

Proponent Arguments

Historically the Ex-Im Bank has seen bipartisan support in Washington, DC. However, over the past few years the hill has seen divisive opinions. Moderate republicans and democrats are apt to support the bank. The United States Chamber of Commerce and National Manufactures’ Association have also been vocal devotees to the bank. In the private sector, big corporations – notably Boeing, General Electric, Bechtel, and Caterpillar – have also been adamant proponents of the bank. Four main recurring themes to why the bank is important to the people and the economy are discussed individually below.

\textbf{Supports American jobs}

Proponents of the Ex-Im Bank suggest the bank is a necessary tool that supports thousands of American jobs that would otherwise not exist. They believe

\footnote{\textit{FAST Act}, Public law 114-94, 114\textsuperscript{th} Congress, HR 22, 4 December 2015.}
the bank is creating jobs where no other entity could. According to the Ex-Im Bank, it estimates it has supported a total of 1.4 million jobs in the private sector over the past seven years, and 109,000 in 2015 alone.21

The Aerospace Industries Association points out many of the jobs that are created from the benefits of Ex-Im are often overlooked. Most of Ex-Im’s expenditures do benefit big corporations, but there is a trickle down effect that is often passed over. Many smaller American companies are down the supply chain of these bigger corporations, receiving an indirect benefit of the Ex-Im Bank. This is particularly beneficial to manufacturing jobs in the US, as Ex-Im resources “...[contribute] to the continued growth of the US manufacturing base.”22

The Ex-Im Bank develops its job support estimations from an “input-output” approach, which utilizes ratios derived from Bureau of Labor Statistics (BLS) data. According to the U.S. Government Accountability Office (GAO),

“[The Ex-Im Bank’s]... methodology to calculate the number of U.S. jobs associated with the exports it helps finance has four key steps. First, Ex-Im determines the industry associated with each transaction it finances. Second, Ex-Im calculates the total value of exports it supports for each industry. Ex-Im implements these first two steps using its own data. Third, Ex-Im multiplies the export value for each industry by the Bureau of Labor Statistics (BLS) ratio of jobs needed to support $1 million in exports in that

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industry—a figure known as the ‘jobs ratio.’ Finally, Ex-Im aggregates across all industries to produce an overall estimate.” 23

**Supports small business**

Supporters of the bank, including Ex-Im itself, make the case that the Ex-Im Bank helps Main Street, USA. They believe the Ex-Im Bank is a key for small businesses to expand abroad and enter the global market. The Ex-Im Bank website goes as far to assert small business exporters need an export credit agency now more than ever in the increasingly competitive globalized economy. 24 While large corporations generally have connections, know-how, and financial resources, small businesses do not. If a small business wants to expand abroad, the Ex-Im Bank is their solution. Ex-Im reported roughly 2,300 small businesses were benefactors of the bank’s financial services in 2013 alone.

The Ex-Im Bank has a mandate given by congress to ensure 20 percent of its aggregate loan, guarantee, and insurance authority is made available to finance exports directly for small business. 25 The definition of small business includes firms not exceeding 1,500 employees, and collecting annual revenues up to $21.5 million. 26 This mandate was enacted in 2002 when the bank was reauthorized, increasing the number from 10 percent. The Ex-Im Bank normally meets its 20

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24 “The Facts About Exim Bank.”
percent target, but occasionally it has fallen short of its target – never deviating more than 3 percentage points.

Table 1 below shows a breakdown of Ex-Im authorizations for 2013 – 2014. The bank’s authorizations by dollar amount for small business is about 22%. Naturally, smaller businesses are not going to need Ex-Im services to the extent of large corporations. This would explain the low percentage of authorizations by amount. In spite of that, small businesses are utilizing the bank – small business transactions by number comprise the majority at roughly 90%.

<table>
<thead>
<tr>
<th>Table 1. Ex-Im Bank’s Credit and Insurance Authorization, FY2013-FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
</tr>
<tr>
<td>---------------------------------</td>
</tr>
<tr>
<td>FY2013</td>
</tr>
<tr>
<td>Total Authorizations</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Loan Guarantees</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
</tbody>
</table>

Authorizations for Specific Types of Exports (Congressional Mandate)

<table>
<thead>
<tr>
<th>Exports by Small Business (20% target for amount)</th>
<th>3,413</th>
<th>3,347</th>
<th>$5,223.0</th>
<th>$5,050.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Total</td>
<td>88.8%</td>
<td>89.3%</td>
<td>19.1%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Renewable Energy Exports (10% target for amount)</td>
<td>62</td>
<td>69</td>
<td>$257.0</td>
<td>$186.8</td>
</tr>
<tr>
<td>Percent of Total</td>
<td>0.83%</td>
<td>0.85%</td>
<td>0.94%</td>
<td>0.91%</td>
</tr>
<tr>
<td>Exports to Sub-Saharan Africa (increased focus, no % target)</td>
<td>188</td>
<td>192</td>
<td>$604.0</td>
<td>$2,055.1</td>
</tr>
<tr>
<td>Percent of Total</td>
<td>4.9%</td>
<td>5.1%</td>
<td>2.2%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Source: Congressional Research Service

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As discussed in the previous section, there is a trickle down effect that can be observed when large companies receive benefits for the bank. While 90% of Ex-Im authorizations do go to large businesses, they are not distributed in a vacuum. There are companies “down stream” that may also benefit indirectly. According to the Aerospace Industries Association,

“Ex-Im Bank assistance also benefits a broad and often invisible ecosystem of small to medium-sized firms that play a key role in larger manufacturing companies’ supply chains. These small companies, which number in the tens of thousands, are a critical component of the U.S. manufacturing base and are often the most vulnerable to uncertain economic times or disruptions in customer acquisition schedules.”

**Levels the playing field**

Backers of the Ex-Im Bank emphasize the bank’s presence is necessary to level the playing field for US companies to be able to compete on the global stage. Ray Conner, president of Boeing, said his company “absolutely” needs the support of the Ex-Im Bank; asserting without “leveling the playing field”, the company would be at a “huge competitive disadvantage.” Moreover, a list of Ex-Im Bank facts published on Ex-Im’s website says, “With nearly 85 other export credit agencies

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around the world trying to win jobs for their own countries, EXIM Bank helps level
the playing field for American businesses."\textsuperscript{30}

\textit{Figure 4} below shows the total financings in billions of dollars for selected
ECAs around the world. \textit{Figure 5} displays a different angle, showing export credit
assistance as a percentage of GDP. The figures show the Ex-Im Bank of the United
States is relatively conservative compared to its economic counter parts around the
globe. Consider the United States compared to South Korea. The US had roughly
$2.3USD trillion of exports in 2013, while South Korea had about $703USD billion in
the same year.\textsuperscript{31} Although US exports exceed that of South Korea nearly 3.5 times
over, Ex-Im’s expenditures were less.

Another notable country is China. The United States and China had nearly the
same export volume for 2013 – roughly $2.3USD trillion.\textsuperscript{32} However, China’s ECA
expended more than three times that of Ex-Im, giving Chinese companies access to
federal government backed financial products.

\textsuperscript{30} "The Facts About Exim Bank."
\textsuperscript{31} "Exports of goods and services (current US$)," The World Bank, Accessed 6 March 2016,
\textsuperscript{32} Ibid.
Figure 4. New Medium- and Long-Term Official Export Financing Volumes for Selected ECAs, 2013
Billions of U.S. Dollars

Source: Congressional Research Service

Figure 5. US Export Credit vs. Foreign Assistance as Percent of GDP, 2012

Source: Aerospace Industries Association

34 “Leveling The Playing Field: The Export-Import Bank and US Manufacturing.”
With comparatively liberal expenditures being made by foreign government-backed ECAs around the world, advocates believe American businesses need access to a rivaling ECA for counterbalance. Simply put, private financial institutions cannot compete with governments that are more or less unsusceptible to risk and virtually have unlimited supplies of cash.

Fills voids left by market failures

Contenders of the Ex-Im Bank suggest that even if all countries around the globe decided to collectively eliminate their respective ECAs, there would still be a need for Ex-Im to fill the holes left by the private financing market failures. They believe part of the problem lies “with domestic lending rules and market failures that prevent access to competitive credit options for a wide range of U.S. exporters.” As such, Ex-Im should exist as a “lender of last resort.”

Chad Moutray, chief economist for the National Association of Manufacturers, in his article written for CNBC Economy, describes several market failures advocates insist exist for which Ex-Im provides solutions. Consider a private lender looking to do a deal with a domestic company. Typically a lender can accept receivables as a valid form of collateral to write a loan – a common practice in the private sector. However, financial regulations declare export receivables cannot be accepted, as they are deemed too risky. Such a restriction is harmful to small businesses, because

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it eliminates many financing options.\textsuperscript{36} The Ex-Im Bank fills this gap that is created between the financial sector and demands of American companies doing business abroad.

Moutray goes on to suggest private lenders are reluctant when dealing with exports for several reasons. (1) Private lenders may be hesitant to perform due diligence. Because they don't have a specialty developed, they don't want to deal with the unfamiliarity abroad. They would rather keep their hands clean and stay in the game they already know. (2) Risk and uncertainty abroad could be avoided by pairing with foreign banks. However, private lenders are disinclined to do so, as sharing the fees with their partners would dilute their returns on the transaction. Nevertheless, export related financing can still be found in private industry, but it is generally at a high price. The Ex-Im Bank works with its customers to create more affordable options.\textsuperscript{37}

Advocates also suggest private financial institutions generally avoid long-term financing when they can – especially in emerging market where risk is higher. The reason is two fold: (1) when assessing risk, a longer repayment period parallels with higher risk. This is because the further you reach into the future; the harder it is to forecast events that will take place. (2) Building off of the risk assessment, shorter repayment periods correspond to stronger balance sheets.\textsuperscript{38} The Ex-Im Bank is not concerned with bolstering its balance sheet or securing the highest

\textsuperscript{36} Ibid.
\textsuperscript{37} Ibid.
\textsuperscript{38} Ibid.
returns possible. Instead, Ex-Im is interested in securing deals that will help American companies, and have low repayment risk.

Opponent Arguments

Challengers of the bank emerged among conservative and libertarian camps in Washington, DC. Concerns materialized when the bank’s integrity and rationale for existence began to be questioned. Joining the opposition on the hill is 56 organizations including Americans for Prosperity, Citizens Against Government Waste, and Americans for Tax Reform.\textsuperscript{39} The most common arguments against Ex-Im are discussed individually below.

A relic of the past

Having been established in 1934 by President Roosevelt, opponents suggest the bank is a depression-era relic of the past. They appeal to the original purpose of the Ex-Im Bank that was stated above in the “history” section – that the bank was established to combat “widespread unemployment and disorganization of industry”\textsuperscript{40}, by “promoting the fullest possible utilization of the present productive capacities of industries”\textsuperscript{41}, through the removal of “obstacles to the free flow of interstate and foreign commerce.”\textsuperscript{42}


\textsuperscript{40} “Executive Order 6581.”

\textsuperscript{41} Franklin D. Roosevelt, 77.

\textsuperscript{42} Ibid, 76.
With the turmoil and the widespread protectionist policies at the beginning of the 20th century, opposition believes it may have been rationale for the government to pursue such an organization. The bank could be used as a means to encourage cooperation and trade among nations. World War II showed what human beings were capable of, and Nagasaki and Hiroshima showed what is at stake. An integrated international economy was a must and could help diminish the possibility of future unnecessary bloodshed.

But its not 1945 anymore, opponents suggest, pointing to the progress that has been made: the establishment of GATT in 1947; the culminating of the WTO in 1995; the reduction of dutiable imports by over 900% since 1934.43 Trade has boomed since the 1930's and the world economy is more interdependent than ever before. With the original goals of Ex-Im - to facilitate global trade and remove trade barriers - accomplished, challengers recommend the bank be dissolved.

**Corporate welfare and crony capitalism**

The opposition contends the Ex-Im Bank is a corruptuous breeding ground with its ability to pick winners and losers, and further claim the bank engages in corporate welfare and crony capitalism. They assert the numbers showing the disbursement of resource allocation is evidence enough of a federal bureaucracy run amok.

Opponents reject the supportive argument appealing to small business. They point out that only 10% of the expenditures (by volume) from Ex-Im are directed

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towards small business (see table 1 above). The opposition effectively refers to Ex-Im as "Boeing's Bank", as Boeing consistently receives roughly 30% of the bank's annual disbursed benefits. They emphasize the fact that the majority of expenditures have been trending upwards toward the top ten beneficiaries (see figure 6), which are all corporate behemoths. Exhibit B shows the breakdown of the disbursements of direct loans, loan guarantees, working capital guarantees, and insurance to the top ten beneficiaries of 2013. Among the breakdown of each financial product, the top ten beneficiaries of each are, again, corporate giants. Exhibit B shows the top ten of each respective product received 97% of direct loans, 97% of loan guarantees, 27% of working capital, and 59% of insurance benefits.

![Figure 6. Top Ten Ex-Im Beneficiaries of 2013 and 2007](image)

Source: Mercatus Center, George Mason University

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44 Veronique de Rugy and Diane Katz, 13.
In addition to the skewed distribution of resources benefiting massive corporations, opponents point out many direct beneficiaries are foreign governments through state-owned enterprises. For example, between 2007-2014 Ex-Im approved $40.5 billion in guarantees to airlines – $19.5 billion, nearly 50%, of that amount went to companies like Air China. Opponents assert the US government should not be in the business of funding competitive government companies.

Ultimately, opponents suggest the corporate beneficiaries, who consume 90% of expenditures by volume, simply do not need government financial support.

**Reduces economic efficiency**

Robert Beekman and Brian Kench of the Mercatus Center at George Mason University provides a report – *Basic Economics of the Export-Import Bank of the United States* – that captures the economic efficiency argument used by the opposition. This section will pull from that report to help explain the argument.

To understand the economic efficiency argument, consider the following hypothetical of the tire market in the country Stonia. In this hypothetical the following assumptions are made:

- The global tire market is very large, with many producing countries
- Citizens of Stonia are price takers because the country is small relative to the world market

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• Consumers and producers cannot influence the world price of tires
• Decisions are made in marketplace based on the world price for tires
• Citizens of Stania are free to engage in international trade
• There are no trade barriers in place

Figure 7 below represents the tire market for Stania. The negatively sloped line depicts the demand for tires in Stania and the positively sloped line depicts the supply. The solid horizontal black line at $150 depicts the world price for tires (this is the equilibrium price on the global market).

Figure 7. Stania and the International Market for Tires

Source: Mercatus Center, George Mason University

Table 2 below summarizes some of the observations made in Figure 7. As Stonians are price takers in the global market, suppliers will produce 120,000 tires at the $150 price. Since buyers only demand 80,000 tires at this price, suppliers can export their 40,000-tire surplus.

The bottom three rows of table 2 show how the tire market surplus is distributed in Stonia. Notice A represents consumer surplus and B-F represents producer surplus, with the total including A-F.

Table 2. International Trade Model Without and With Foreign Producer Subsidy

<table>
<thead>
<tr>
<th></th>
<th>World price = $150</th>
<th>World price + foreign producer subsidy = $125</th>
<th>Change (a) - (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity demanded domestically</td>
<td>80,000</td>
<td>100,000</td>
<td>+20,000</td>
</tr>
<tr>
<td>Quantity supplied domestically</td>
<td>120,000</td>
<td>100,000</td>
<td>-20,000</td>
</tr>
<tr>
<td>Quantity exported</td>
<td>40,000</td>
<td>0</td>
<td>-40,000</td>
</tr>
<tr>
<td>Consumer surplus</td>
<td>A</td>
<td>A + B + C + D + E + F</td>
<td>B + D</td>
</tr>
<tr>
<td>Producer surplus</td>
<td>B + C + D + E + F</td>
<td>C + E</td>
<td>(B + D + F)</td>
</tr>
<tr>
<td>Total economic surplus</td>
<td>A + B + C + D + E + F</td>
<td>A + B + C + D + E</td>
<td>F</td>
</tr>
</tbody>
</table>

Source: Mercatus Center, George Mason University

Now consider foreign countries providing a subsidy of $25 to their respective domestic tire producers. Assume the result of the subsidies is a drop in the world price of tires to $125. This is depicted in figure 7 by the horizontal dashed line. At this price consumers and producers demand and supply the same amount – there is no longer a surplus of tires to export. Notice the consumer surplus increases and

48 Ibid.
producer surplus decreases. Also notice Stania is now worse off; that is, the total surplus has been reduced by amount F.

Should Stania respond to these foreign subsidies by providing a subsidy to its own producers thereby “leveling the playing field”? Consider table 3 below, which summarizes the effects of a Stania subsidy.

With the subsidy, suppliers are effectively receiving $150 per tire ($125 price + $25 subsidy). Consumers do not receive a subsidy, and still pay $125. At this price consumers will demand 100,000 tires and suppliers will produce 120,000, leaving 20,000 tires to export. Consumer surplus is unaffected by the subsidy, but producer surplus now includes B, D, F; an economic rent, which is an excess payment made for a factor of production over and above the amount expected by its owner.49 The area of B, D, F, G represents the cost of the subsidy – $25. The total surplus as the result of the subsidy is represented by A-E less G.

Table 3. International Trade Model with Foreign Producer Export Subsidy and Stonia Subsidy for Producers

| Source: Mercatus Center, George Mason University |  |

The point to be made by this example is that Stonia is more economically efficient if it does not retaliate by providing its own subsidy; that is, Stonia is better off if it does not provide a subsidy to its producers. With a subsidy consumers are indifferent, producers gain B, D, F, and taxpayers lose B, D, F, G. Since the loss outweighs the gain by the value of G, the subsidy is provided at a loss to Stonia.

Crowds the ability of the private financial market

Ex-Im supporters made the case that the bank needs to exist to fill the holes of market failures. Opponents suggest market failures only exist because of government intervention. In other words, government crowds out the ability of the

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50 Robert Beekman and Brian Kench, 9.
private financial sector to perform at its true potential. Opponents believe if given a chance, the private market would be sufficient for US exporter needs.

Opponents maintain the private sector is perfectly capable of providing what Ex-Im does. The private sector already provides the majority of the financing for exporters in the US. In fact, the Ex-Im bank only finances around 2% of exports annually.\textsuperscript{51} Big banks in the US financial sector have copious amounts of money and have loads of experience in the industry. Goldman Sachs, after concluding recent research on the issue said, “If the US Export-Import charter is not renewed, we believe the overall impact in the near-to-medium term would be fairly limited given the robust financing environment at present.... It would only require a small step up from each of the many other sources of financing to fill an Ex-Im gap.”\textsuperscript{52}

Opponents further proclaim the Ex-Im Bank mandate seems to contradict itself. On one hand, the bank is to provide financing to those exporters who would otherwise not be able to secure financing. On the other hand, the bank is not to extend financing to those with a high repayment risk. These two directives seem to dispute each other in practice. Opposers suggest if an exporter is unable to secure favorable financing in the private sector, it is probably because lenders have deemed them risky. That is, they would not expect to get their money back.\textsuperscript{53} Furthermore, when Ex-Im does intervene where financing is unattainable, would have had less favorable terms in the private market, or would have had a higher price tag in the private market, it distorts the true market terms and rates.\textsuperscript{54} Opponents conclude if Ex-Im does get involved in these instances, it is likely delivering financial services at a heavy discount. However, opposers point out that

\textsuperscript{51} Export-Import Bank: Overview and Reauthorization Issues, 10.
\textsuperscript{52} Timothy Carney.
\textsuperscript{54} Robert Beekman and Brian Kench, 6.
history has shown Ex-Im is quite prudent. It has consistently invested in companies that are a “solid investment”, thereby competing with the financial sector.55

CONCLUSION

After discussing the history, mandate, and controversies of the United States Export-Import Bank, let's review the findings.

Franklin D. Roosevelt established the Ex-Im Bank in 1934 to aid a depressed economy and promote international trade. In 1945 the Ex-Im Bank became an independent corporation through legislation. The bank was mandated to provide loans where the private sector fell through, and to be careful not to compete against private firms. The bank has four main tools to perform its responsibilities – direct loans, loan guarantees, working capital financing, and credit-export insurance.

Until recent years, the Ex-Im Bank enjoyed strong bipartisan support, being reauthorized regularly by voice vote or unanimous consent. Opposition, which surfaced in the late 2000's, gained momentum and successfully shut Ex-Im down for six months. The bank used the FAST Act as a vehicle for reauthorization in December 2015.

Whether Ex-Im is necessary and should continue to exist is still a debated topic. Let's consider the arguments discussed.

Justifying the existence of Ex-Im based on job and small business support seems to be a stretch. The GAO discovered several limitations and assumptions that are made when determining the number of supported jobs. The problem comes

55 Ryan Young, 5.
from how the jobs ratios are determined in the input-output method. Specifically, newly created jobs are not discerned from jobs that are merely maintained; the job numbers that are gathered treat full-time, part-time, and seasonal jobs the same; industry relationship are assumed to be the same, when in reality firms vary in the same industry; and lastly, the model does not provide an outlook of what job numbers would look like without Ex-Im financing. Furthermore, with the amount of financial options available companies would find it easy to adapt in the event of an Ex-Im closure.

As for the small business rationale, (1) the data shows 90% of the benefits of Ex-Im are used for the sake of corporate titans. (2) The definition of a “small business” seems to be one the federal government has not quite nailed down. The Federal Reserve and US Census Bureau, define a small business as employing no more than 500 people and not exceeding $7.5 million in annual revenues. The Affordable Care Act, where small business is defined as employing less than 50 people, is even further from the Ex-Im definition. To consider a company that has 1,500 employees and $21.5 million in revenues as a small business is absurd.

While there are indeed several government sponsored ECAs around the globe, basic economics shows retaliatory subsidies actually make a country worse off. Granted, the hypothetical tire market of Stonia is an extremely simplified example, the principles it conveys are persistent. Additionally, as Goldman Sachs

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analysts pointed out, with annual export support of only 2%, there would be a small void for the financial industry to fill if Ex-Im shut down. Pairing modern trade liberalization with the financial industry’s vast amounts of capital and robust knowledge base would be fairly straightforward. Tim Carney summed it up when he said, “If Ex-Im were to disappear tomorrow, Boeing would be fine.”

Proponents claim Ex-Im steps in where the market fails. After considering the findings, it seems it would be more accurate to say Ex-Im intervenes where the market decides not to engage. Turning down or charging high interest rates for a risky company is not a market failure; it’s a prudent decision made on behalf of the lender. In addition, a lender that cannot accept export receivables as collateral for a loan is not a market failure; it’s a regulatory failure.

While the Ex-Im bank does indeed aid massive corporations, there is no evidence suggesting the bank has been involved in any illegal or suspicious activity with regards to its lending. The bank has merely followed its directive, though fallacious it may be.

The environment of international trade and diplomatic relations has dramatically changed since the establishment of the Ex-Im Bank. The original goals of the Ex-Im Bank have been achieved. The bank’s structure and model has become obsolete and redundant. It is clear the bank largely used for the benefit of corporate behemoths – the last organizations that need government assistance. Over eight decades later, it is time for this tool to be retired. Great it may have been in the past, but in the modern era it is nonessential. There is no reason taxpayer dollars should

59 Timothy Carney.
be put at risk for a needless organization. The bank should be wound down over an extended period of time to avoid turbulence among beneficiaries, and to allow the financial market to readjust. Healthy competition in export financing would create more efficient and relevant products for exporters.
### EX-IM TIMELINE

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 February 1934</td>
<td>Export-Import Bank of Washington Founded</td>
<td>FDR creates the original Ex-Im bank by executive order to lend funds to Soviet Russia. The deal falls through when the USSR refuses to pay back war debt.</td>
</tr>
<tr>
<td>9 March 1934</td>
<td>2nd Export-Import Bank of Washington Established</td>
<td>Second bank created to lend funds to Cuba</td>
</tr>
<tr>
<td>17 January 1935</td>
<td>First National Transaction</td>
<td>The Ex-Im bank lends Cuba $3.8 million to purchase American silver</td>
</tr>
<tr>
<td>1 January 1936</td>
<td>First Consolidation</td>
<td>Both the Ex-Im Washington Banks are absorbed into a National Export-Import Bank with more lending authority.</td>
</tr>
<tr>
<td>1 January 1938</td>
<td>American Dollars to Build Burma Road</td>
<td>Ex-Im approves a $22 million loan to help China construct the Burma Road</td>
</tr>
<tr>
<td>1 June 1938</td>
<td>First Development Loan Approved</td>
<td>$5.5 million sent to Haiti strictly for economic development</td>
</tr>
<tr>
<td>1 January 1940</td>
<td>Pan-American Highway</td>
<td>Ex-Im finances road from Alaska to South America</td>
</tr>
<tr>
<td>2 March 1940</td>
<td>Russo-Finnish War</td>
<td>Ex-Im lending authority increased to $200 million in order to aid the Finnish war effort.</td>
</tr>
<tr>
<td>31 May 1947</td>
<td>The Marshall Plan and Ex-Im</td>
<td>Ex-Im authorizes $2 billion to put war-torn Europe back together.</td>
</tr>
<tr>
<td>31 Jul 1945</td>
<td>Export Import Bank Act of 1945</td>
<td>The Act establishes the Ex-Im Bank as an independent agency with lending authority of $3.5 billion.</td>
</tr>
<tr>
<td>1 January 1947</td>
<td>First Reauthorization</td>
<td>Ex-Im Reauthorized and incorporated into the Executive Agency</td>
</tr>
<tr>
<td>1 January 1948</td>
<td>Ex-Im Funds New Israel</td>
<td>Bank authorizes $100 million for a new Jewish state in the Middle East.</td>
</tr>
<tr>
<td>1 January 1951</td>
<td>$5 Million for African Road</td>
<td>American taxpayers finance construction of a 170-mile road in Liberia.</td>
</tr>
<tr>
<td>3 October 1951</td>
<td>Lending Authority Increased</td>
<td>Ex-Im Authorized to Lend $4.5 Billion.</td>
</tr>
<tr>
<td>1 September 1961</td>
<td>Ex-Im and FICA</td>
<td>American taxpayers responsible for $1 billion to insure U.S. exporters against political and commercial risks</td>
</tr>
<tr>
<td>23 April 1963</td>
<td>The Bridge to Portugal</td>
<td>Ex-Im lends $55 million for the construction of Lisbon’s Tagus River Bridge, the longest suspension bridge in Europe.</td>
</tr>
<tr>
<td>1 January 1968</td>
<td>Lending Standards Eased</td>
<td>Ex-Im lowers standard requirement from &quot;sufficient likelihood of repayment&quot; to &quot;reasonable assurance of repayment.&quot;</td>
</tr>
<tr>
<td>1 March 1973</td>
<td>Cold War Cash for USSR</td>
<td>Ex-Im Authorizes $199 million in loans to the USSR</td>
</tr>
<tr>
<td>1 March 1981</td>
<td>Ex-Im and China</td>
<td>Ex-Im opens Federal floodgates to finance Chinese government projects</td>
</tr>
<tr>
<td>1 January 1982</td>
<td>$10 Billion to Mexico</td>
<td>Ex-Im joins with IMF to fund Mexican financial package</td>
</tr>
<tr>
<td>1 January 1983</td>
<td>Ex-Im and Small Business</td>
<td>Congress directs Ex-Im to allocate 6 percent of funding for U.S. small business. In 1986, the amount increases to 10 percent.</td>
</tr>
<tr>
<td>1 October 1983</td>
<td>FICA Underwrites All Ex-Im Loans</td>
<td>FICA insures all risk for Ex-Im loans around the world</td>
</tr>
<tr>
<td>1 July 1993</td>
<td>Americans Jumpstart Russian Oil Industry</td>
<td>Ex-Im approves $2 billion to finance an emerging Russian Oil Industry</td>
</tr>
<tr>
<td>1 January 1994</td>
<td>The Aircraft Finance Division of Ex-Im Created</td>
<td>Ex-Im Aircraft Division created to finance the sale of American aircraft overseas</td>
</tr>
<tr>
<td>1 January 1998</td>
<td>Ex-Im Shores Up Asian Financial Crisis</td>
<td>Ex-Im accelerates funding to Asian nations in the middle of financial collapse</td>
</tr>
<tr>
<td>1 September 2000</td>
<td>Ex-Im Funds Private Russian Oil Company</td>
<td>Bank provides $500 million in guarantees to Tyumen Oil Company</td>
</tr>
<tr>
<td>15 September 2011</td>
<td>9/11 Financing</td>
<td>Ex-Im underwrites insurance risk of airliners after terrorist attacks</td>
</tr>
<tr>
<td>1 January 2002</td>
<td>Lending Authority Increased to $100 Billion</td>
<td>Voice vote in Congress raises Ex-Im's lending limit</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Date</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1 January 2004</td>
<td>Ex-Im in Iraq</td>
<td>Ex-Im provides $500 million to revitalize Iraqi banking system</td>
</tr>
<tr>
<td>1 December 2006</td>
<td>Ex-Im Announces Increased Cooperation with China</td>
<td>DIF reports to Congress that Ex-Im fails to collect adequate information on loan beneficiaries</td>
</tr>
<tr>
<td>1 September 2008</td>
<td>Inspector General Blows Whistle</td>
<td>On the presidential campaign trail, Sen. Barack Obama calls for the end of Ex-Im, an institution that functions as “little more than a fund for corporate welfare.”</td>
</tr>
<tr>
<td>22 September 2008</td>
<td>Sen. Obama Campaigns Against Ex-Im</td>
<td></td>
</tr>
<tr>
<td>1 February 2009</td>
<td>Ex-Im Celebrates 75th Anniversary</td>
<td>After a 6-year legal battle, the Ex-Im Bank settled a lawsuit filed by Green Peace, Friends of the Earth and the City of Denver, which charged the bank with providing more than $3.2 billion in loans for fossil fuel projects without “without assessing whether the projects contributed to global warming or impacted the U.S. environment”</td>
</tr>
<tr>
<td>6 February 2009</td>
<td>Ex-Im Settles 7-Year Lawsuit with Green Peace</td>
<td></td>
</tr>
<tr>
<td>1 November 2009</td>
<td>Ex-Im Goes Green</td>
<td>The bank adopts a carbon policy to encourage green technology</td>
</tr>
<tr>
<td>1 November 2010</td>
<td>Pew Reports 65% of Ex-Im Subsidies Go to Boeing Inc.</td>
<td>Over the course of two years (2007-2008) almost 65 percent of all Ex-Im loans funded the purchase of Boeing products, according to the Pew Center</td>
</tr>
<tr>
<td>1 September 2011</td>
<td>Ex-Im Defeats Legal Suit Brought by Pilots and Airlines</td>
<td>District Court rules against pilots and airlines, and in favor of Ex-Im</td>
</tr>
<tr>
<td>1 December 2011</td>
<td>Ex-Im Breaks Record for Loans</td>
<td>Ex-Im lends a record $32.7 billion in 2011</td>
</tr>
<tr>
<td>30 May 2012</td>
<td>Flip/Flop: President Obama Signs Bill Reauthorizing Ex-Im</td>
<td>President reauthorizes Ex-Im which he denounced earlier as a “fund for corporate welfare.”</td>
</tr>
<tr>
<td>6 August 2012</td>
<td>Ex-Im Loans $2 Billion to South Africa for Green Energy</td>
<td></td>
</tr>
<tr>
<td>1 September 2012</td>
<td>Ex-Im Approves $2 Billion for Arab Nuclear Power</td>
<td>Ex-Im authorizes a loan of $2 billion to Barack One Company of the United Arab Emirates for the construction of a Nuclear Power Plant</td>
</tr>
<tr>
<td>1 November 2012</td>
<td>82% of Ex-Im Loan Guarantees go to Just One Company</td>
<td>82.7 percent of loan guarantees go to Boeing Inc. according to the 2012 Ex-Im Financial Reports</td>
</tr>
<tr>
<td>1 December 2012</td>
<td>Ex-Im Breaks Earlier Lending Record</td>
<td>Bank celebrates underwriting $35 billion total</td>
</tr>
<tr>
<td>1 January 2013</td>
<td>Gov Report: 59% of Ex-Im Employees Doubt Honesty of Ex-Im Leadership</td>
<td>“Only 42 percent of bank employees agreed with the statement ‘My organization’s leaders maintain high standards of honesty and integrity.’”</td>
</tr>
<tr>
<td>1 April 2013</td>
<td>Inspector General Flags Ex-Im</td>
<td>The Office of Inspector General releases a report characterizing Ex-Im’s conduct as exhibiting weaknesses in governance and internal controls for business operations.</td>
</tr>
<tr>
<td>11 June 2013</td>
<td>Ex-Im Backs Sale of Solyndra Solar Panels</td>
<td>Ex-Im provides $10.3 million for the sale of Solyndra solar panels to Belgium</td>
</tr>
<tr>
<td>23 September 2013</td>
<td>Ex-Im Provides $33.6 Million to Spanish Solar Company</td>
<td>Ahengoa, a Spanish solar company receives loan guarantees for projects in Spain and North Africa. Former New Mexico Governor, Bill Richardson sits on the green energy company’s board of directors.</td>
</tr>
<tr>
<td>11 June 2014</td>
<td>Boeing Stock Drops with Election Loss of Key Supporter</td>
<td>Eric Cantor’s loss threatens the future of Ex-Im and billions of loans to aviation giant Boeing leading to a massive 2.3 percent stock drop</td>
</tr>
<tr>
<td>23 June 2014</td>
<td>Corruption and Kickbacks at Ex-Im</td>
<td>The Wall Street Journal reports that four officials have been removed amid allegations of improper gifts and kickbacks</td>
</tr>
</tbody>
</table>
Exhibit B

Ex-I m Bank Direct Loans, FY 2013

- Bechtel Power: $1,809 million
- General Electric: $1,429 million
- Applied Materials Inc.: $1,030 million
- Various US companies: $640 million
- Space Systems/Loral, LLC: $523 million
- Komatsu America Corp.: $495 million
- Boeing: $291 million
- Gamesa: $160 million
- Americanbe Inc.: $155 million
- Space Exploration Technologies: $105 million

Ex-I m Bank Loan Guarantees, FY 2013

- Boeing: $7,955 million
- Caterpillar: $1,342 million
- General Electric: $1,177 million
- Applied Materials Inc.: $462 million
- Sikorsky Aircraft Corporation: $265 million
- Various US small businesses: $200 million
- ABB Inc.: $89 million
- Orbital Sciences Corporation: $87 million
- Agusta Aerospace Corporation: $76 million
- Steel Equipment Specialists Inc.: $70 million

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