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The U.S. Export-Import Bank Reauthorization Debate

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Since 1934, the Export-Import Bank (Exim) has been the official U.S. export credit agency, financing the purchase of U.S. manufacturing exports by foreign governments and companies when private lenders are unavailable or unwilling. On June 30, 2015, the bank's charter expired and was not renewed, restricting its ability to extend new commitments, but allowing it to administer previous obligations. A possibility for renewal of the bank's federal charter remains, however, and continuing debate in Congress is likely.

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Background. Exim is an independent, self-sustaining Executive Branch agency with the mission of supporting American jobs by facilitating the export of U.S. goods and services. Its charter says the bank cannot compete with or detract from the private financial sector, but merely fill in the gap for American businesses when private sector lenders are unable or unwilling to provide financing. The charter requires bank-authorized transactions to demonstrate reasonable assurance of repayment and abide by international rules for government-backed export credit activity under the Organization for Economic Co-operation and Development (OECD).[1] The Exim bank extends benefits via three main mechanisms: direct loans, guarantees and insurance. Because it is backed by the full faith and credit of the United States, Exim assumes credit and country risks that the private sector is unable or unwilling to accept.[2]

Critics say the Exim bank is an example of government "crony capitalism," while supporters claim it is important to American competitiveness internationally.[3]

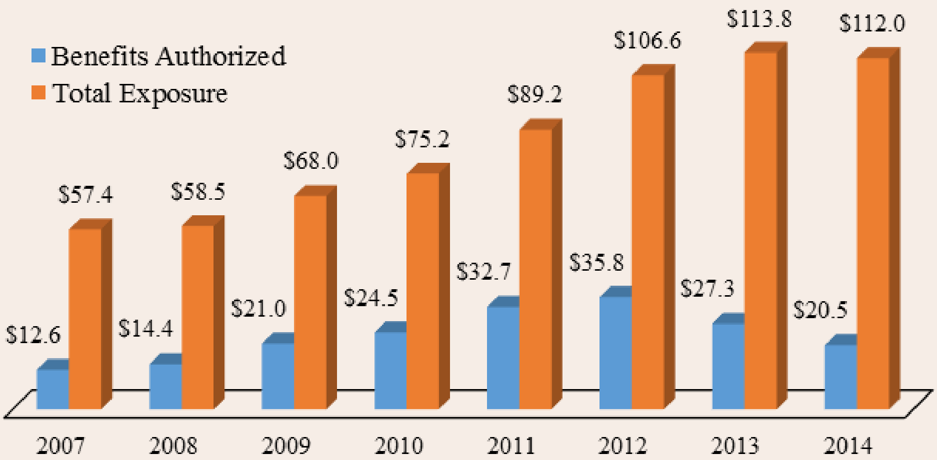
The bank's 2014 operations included:

- Authorization of over 3,700 transactions.[4]
- Outlays of $20.5 billion in total benefits.[5]
- A cumulative exposure portfolio of $112 billion, a slight decrease from 2013.[6]

Since the 2008 financial crisis, the total dollar value of benefits extended and its cumulative exposure have increased significantly. This increase is mostly attributed to a lack of available financing in the private sector. [See Figure I.][7]

Effects on U.S. Employment. The Exim bank claims the financing it provides supports jobs in the economy. According to its 2014 annual report, the bank's financing supported 164,000 U.S. jobs and a cumulative total of 1.3 million jobs since 2009.[8] However, a 2013 Government Accountability Office (GAO) report criticized the way Exim estimates employment effects, stating that Exim's calculation "does not

Figure I
2007-2014 Annual Benefits Authorized and Total Exposure
(Billions of U.S. Dollars)



Source: Compiled by NCPA from U.S. Exim Bank Annual Reports, July 17, 2015.

describe limitations of the methodology or fully detail its assumptions."[9] General Electric's CEO Jeff Immelt, reports the *Financial Times*' Ed Crooks, has warned Congress that U.S. jobs depend on the Exim bank, claiming that companies will move to countries where export financing is available.[10]

Opponents argue there is little evidence to support these claims. They say the bank's financing does create jobs in specific areas but, on a whole, merely redistributes jobs across the economy without creating more employment overall.[11] Regardless of whether it supports employment or not, the bank's expiration will not have an immediate impact. The Exim bank is unique in that the expiration of its authority will only limit its ability to offer new financing; existing obligations would not be affected through the life of loans and guarantees.

Impact on the U.S. Economy. According to the Mercatus Center, Exim-financed exports accounted for only 1.6 percent of all U.S. exports in 2013.[12] At $2.28 trillion in 2013, the value of total exports has never been higher.[13] This disparity indicates that private sector financing is abundantly available, as 98.4 percent of exports needed no financing from the government. Proponents concede that in most situations, exports do not need help with financing. They instead argue that because other countries distort market competition, there is a case for the United States to offset these interventions.

Another argument against Exim's operations is that it is corporate welfare or "crony capitalism." Proponents of this position argue that only a few large corporations receive the bulk of Exim financing, allowing the government to pick economic winners and losers. It skews market competition, creating barriers to entry for startups, and breeds inefficiency among its beneficiaries, who may not strive to reduce costs and innovate due to a lack of competition. According to the Mercatus Center, the top 10 U.S. beneficiaries of Exim loans accounted for 76 percent of total benefits funded in 2013.[14] Further, the top 10 recipients received 51 percent of all benefits authorized from 2007 to 2014.[15]

Supporters of the bank say that the dollar amount of benefits is not a good indicator of the value the bank adds. They insist beneficiaries receive large amounts to support capital intensive sales such as commercial aircraft, power plants or locomotive engines. They also point out these amounts are not so large relative to the size of a company's market cap and revenues. Further, supporters maintain the bank is crucial for the development of small businesses, with 90 percent of the number of authorizations in 2014 going to small businesses.[16]

International Competitiveness. Bank supporters note that many countries operate export credit agencies (ECAs). According to the U.S. Chamber of Commerce, there were 60 ECAs worldwide at the end of 2013, extending a combined one trillion dollars in export financing in recent years.[17] Thus, for instance, Europe finances three times as much as the U.S. Exim; China and India four times as much.[18] Supporters contend that Exim does not pick winners and losers, but helps negate distortions created by other countries. According to the 2013 and 2014 Exim Competitiveness Reports, foreign export financing activity has been decreasing among OECD members, but has increased among non-OECD members. [See Figure II.]

Conversely, the bank's charter mandates that it abide by international rules under the OECD arrangement on Export Credits. According to the bank, this is an unofficial agreement among developed countries that requires a higher level of transparency than the World Trade Organization's subsidy agreement.[19] Countries such as China and India are not OECD members and therefore do not participate in the agreement.[20]

Financial Risk for Taxpayers. The U.S. Exim bank is backed by the full faith and credit of the United States; translation: U.S. taxpayers. The bank's total exposure — or loans outstanding — increased 48 percent from 2008 to 2014, to $112 billion.[21]

Supporters contend adequate systems are in place to manage risk, citing a 0.175 percent default rate and an average 50 percent recovery rate on all defaulted credits.[22] The bank says it also reduces risk by ensuring that 80 percent of its entire portfolio is backed by some sort of collateral (such as aircraft or locomotive engines).[23] It also argues the Exim bank reduces the government deficit by returning revenues from fees and interest payments to the U.S. Treasury. Exim reported $674.7 million was returned to the U.S. Treasury in 2014, but critics say transactions that the private sector refuses to finance are inherently risky.[24]

Conclusion. While the Exim bank does support U.S. exports, it does not support free market trade. Its financing is a form of subsidy that detracts from the open market competitiveness that has made the U.S. economy the stalwart it is today. Its aggregate impact on both employment and the value of U.S. exports is difficult to estimate, obscuring its upside. It could lead to further debt and further reliance on the government, and in the event of an international economic crisis leading to widespread defaults, it could eventually present a large bill to U.S. taxpayers.

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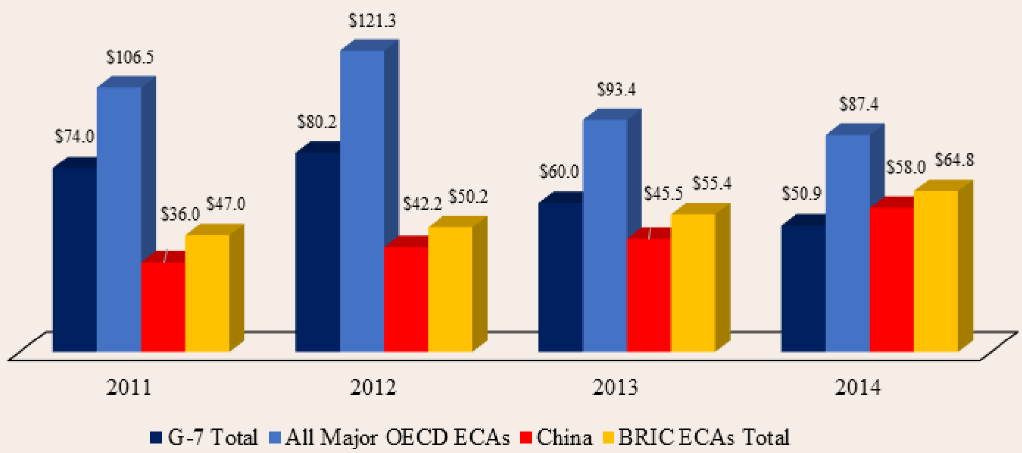
Figure II
Medium and Long Term Official Export Credit Volume
2011-2014
(Billions of U.S. Dollars)



Note: G-7 – Seven major advanced economies as reported by the International Monetary Fund: United States, United Kingdom, France, Germany, Italy, Japan, Canada. BRIC – Group acronym referring to combined economies of Brazil, Russia, India, China. OECD – Organization for Economic Cooperation and Development. ECA – Export Credit Agency.
Sources: 2013 Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition, June 2014; and 2014 Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition, June 2015.

Notes

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