THE REPUBLICAN STUDY COMMITTEE

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RSC Policy Brief:
Concerns with the Ex-Im Bank

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The mission of the Export-Import Bank ("Ex-Im"), an independent federal agency, is to support export financing of U.S. goods and services. The Bank's main products are direct loans, loan guarantees, working capital guarantees, and export credit insurance. By law, the Bank is intended only to fill gaps in commercially available financing for U.S. exports by serving as a "lender of last resort," and not competing with private lenders. Ex-Im is also required by law to work toward securing international agreements to reduce government-subsidized export financing, thereby promoting a level playing field for U.S. exporters.

Currently, the Senate and the House both have bills that may soon be scheduled for floor consideration, S. 1547 and H.R. 2072. Although there exist many arguments to justify the need for such a bank, many conservatives argue against the very existence of the Ex-Im Bank because of concerns of "corporate welfare," market distortions, and taxpayer exposure.

According to a CRS Report, the Ex-Im Bank finances less than 5% of U.S. exports a year. In light of the international financial crisis, demand for Ex-Im Bank services has grown in recent years. In FY2010, the Bank approved more than 3,500 transactions of credit and insurance support, totaling about $24 billion—the highest level of authorizations in the history of the Bank. According to the Committee Report supporting the legislation:

> Since the financial crisis of 2008, the Bank has been an integral part of the U.S. effort to resuscitate the economy by providing export credit financing when private capital is limited or unavailable. At a time when demand for Bank support is increasing, H.R. 2072 would ensure the Bank has the tools and resources it needs to meet such demand, while effectively mitigating risk. The Bank's volume continues to grow at a rate of approximately $1 billion per month. To meet this demand, H.R. 2072 would gradually increase the Bank's financing authority from $100 billion to $160 billion.

Some conservatives view this solution as a form of "corporate welfare," arguing that, during a time of huge deficits and government over-spending, it is not appropriate to leverage taxpayer dollars in order to pick economic winners and losers. Ex-Im Bank's subsidies have gone to large multi-national corporations, both as purchasers and as sellers.

In some instances, Ex-Im's practice of providing loan guarantees to less-than-creditworthy foreign purchasers has enabled foreign companies to compete with U.S. companies in ways they otherwise would not have been able to. For example, as reported in the Examiner, the lobby group for domestic airlines has filed a motion to block a $1.3 billion Ex-Im loan guarantee to Air India. Though the court ruled in Ex-Im's favor, the case exemplifies Ex-Im's participation in commerce at great cost to American businesses, as well as the Bank's financing of a non-creditworthy airline like Air India.

Supporters of the Bank point out that, since other countries are providing export financing to some of their companies, we have to do the same for ours to stay competitive—and to not do so would inherently put our companies at a competitive disadvantage. However, this argument ignores the competitive disadvantage that Ex-Im does create for American competitors of the companies who benefit from Ex-Im—and adopts the protectionist assertion that America should implement the questionable and often harmful trade and subsidy policies of less-than-free economies around the world.

Many conservatives are further concerned about Ex-Im Bank's "dual mandate", which calls on Ex-Im to finance transactions that the private sector considers too risky, yet at the same time allows it to lend only when there is a reasonable chance of repayment. This "dual mandate" seems to be paradoxical, since often an investment is seen as more risky because of a lower chance of repayment. The "dual mandate" is therefore confusing at best and risky *for the taxpayer* at worst.

Supporters of the Ex-Im Bank argue that it helps some American companies increase sales (and therefore jobs), but many conservatives believe this comes at a cost to other American companies. That is, when accounting for the potential job losses from market disadvantages created by Ex-Im for some companies and industries, it is not clear whether there would be a net increase in jobs. In fact, as noted in a CRS Report:

> [Economists] hold that subsidizing export financing merely shifts production among sectors within the economy, but does not add to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy. From this point of view, promoting exports through subsidized financing or through government-backed insurance and guarantees will not permanently raise the level of employment in the economy, but alters the composition of employment among the various sectors of the economy and, therefore performs poorly as a jobs creation mechanism.

Yet, some conservatives note that the Ex-Im Bank does not just provide financing where it otherwise would not be available, but also sometimes provides financing to companies that would not have trouble obtaining credit. This activity distorts the market and discourages innovative solutions in the free market.

Supporters of Ex-Im note that, since the previous reauthorization – even through the 2008 financial crisis – Ex-Im has generated nearly $4 billion for the U.S. Treasury. Ex-Im loans have been generally repaid with interest, and sometimes at a profit, at minimal cost to taxpayers.

However, many conservatives question the propriety of such government financing in an economy based largely on free enterprise. That is, should such an entity even exist in a free-market economy, irrespective of its ability to turn a profit? The U.S. Constitution grants Congress the power to regulate commerce, but Ex-Im is a clear example of the federal government ***participating*** in commerce. Further, taxpayers now know all too well that "exposure" backed by the full faith and credit of the United States is not a risk-free proposition – Fannie Mae and Freddie Mac, for example, have now received about $185 billion in taxpayer-funded bailouts, despite appearing fiscally sound for years.

Given these concerns, many conservatives remain skeptical of reauthorizing the Ex-Im Bank.

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