End Corporate Welfare? Start With the Ex-Im Bank

The CBO says the bank will cost U.S. taxpayers $2 billion over 10 years on a fair-value basis.

By TIM PHILLIPS

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Here's a neat trick: Ask a room full of congressmen what they think of corporate welfare. The scene will devolve into competing campaign speeches, each politician trying to one-up their peers' rhetoric. Now ask that same room what they think of the federally run Export-Import Bank. You'll only hear crickets—even though the bank is one of Washington's biggest corporate-welfare cash cows.

Congress has a chance to rectify its inconsistency in September, when the Ex-Im Bank comes up for reauthorization. If they're honest, the politicians who decry corporate welfare will let the bank, which authorized $27.3 billion in loans and guarantees in 2013, expire.

Every time Congress debates the Ex-Im Bank's future, which last happened in 2012, defenders claim that it exists primarily to serve small businesses. The bank itself proudly proclaims this near the top of its annual reports. Yet research published in April by the Mercatus Center at George Mason University shows that the bank doles out the vast majority of its funds to America's biggest corporations. Last year, 10 companies—including giants like Boeing, General Electric and Dow Chemical—received roughly three-quarters of the bank's financial assistance for exports. A similar number of companies accounted for 97% of its loan guarantees by value, along with 97% of the bank's direct loans by value.

The Ex-Im Bank's benevolence toward major publicly traded companies and their shareholders leaves taxpayers on the hook. In 2006 the bank's financial exposure was close to $60 billion, according to the Mercatus Center. That number has ballooned to $134 billion today.

The bank's defenders argue that it repays every cent it hands out, and then some. The Ex-Im website says that it has "contributed $1.6 billion to the U.S. Treasury" over the past five years.

Independent analysts and other government agencies disagree. The Ex-Im-Bank uses the widely discredited accounting practices established by the 1990 Federal Credit Reform Act (FCRA). The Congressional Budget Office has cautioned that this accounting system "does not fully account for the cost of the risk" associated with loans and loan guarantees. Simply put, it is inferior to the "fair-value approach" used by private business.

This has enormous ramifications for the Ex-Im Bank's balance sheet. In a report released in May comparing the bank's accounting practices with fair-value accounting, the CBO concluded that for fiscal
years 2015 to 2024, the "Ex-Im Bank's six largest programs would generate budgetary savings of $14 billion under FCRA accounting but cost $2 billion on a fair-value basis."

That's a $200-million-a-year hit for taxpayers for 10 years. But the real risk to taxpayers could be far worse. The Ex-Im Bank suffers from a number of serious internal issues—accounting and otherwise—that influence its financial well-being. The Government Accountability Office in 2013 found "weaknesses" in its exposure forecasting model. In 2012, the Office of the Inspector General noted that the Ex-Im Bank "lacks a systematic approach to identify, measure, price, and reserve for its portfolio risk." Last year the IG issued a report saying the bank's loan officers often failed to confirm "borrower eligibility and compliance with Ex-Im Bank credit policies and standards," check the "completeness of loan applications," and ensure that "due diligence reviews were completed and documented prior to loan approval."

These issues raise serious questions about whether the Ex-Im Bank's more than $207 billion in loans, guarantees, and insurance authorizations over the past 10 years—to say nothing of the authorizations before that—were based on sound financial data and proper vetting, rather than political pressure and lobbying efforts. Yet even if they were, it wouldn't change the fact that the bank serves a select few multinational corporations, boosting their bottom lines and shareholder dividends at the taxpayer's expense.

There isn't a politician in Washington who would support such blatant corporate welfare on the campaign trail. In September, let's hope they put their principles into practice and end the Export-Import Bank.

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