REVIEW & OUTLOOK

The GOP's Antique Bank
The Export-Import Bank is a flagship of crony capitalism.

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One issue that has Republicans at the grass roots tearing at each other instead of fighting Democrats is the sense that the Beltway GOP protects Beltway special interests. We can't think of a better way for the party's Washington leadership to show they get that message than by pulling the plug on the Export-Import Bank.

Unless you are part of the Ex-Im brotherhood, you couldn't begin to guess when it was created—in 1934 by Franklin D. Roosevelt. It's now kept on life support by the U.S. Chamber of Commerce and an in-crowd of current and retired Congressional Republicans and Democrats.

The FDR antique provides taxpayer-backed loans, loan guarantees, working capital guarantees and export credit insurance to clients of some of America's largest corporations, such as Boeing and General Electric, and to politically favored concerns such as Elon Musk's Space X. Two years ago a bipartisan coalition waved through Ex-Im's reauthorization and increased its lending cap by $40 billion, to $140 billion. This year Ex-Im wants another five-year reauthorization and a lending cap boost to $160 billion. Republicans serious about cleaning up their act might want to parse the following Ex-Im arguments for its existence before giving the bank another taxpayer fill-up.

• Ex-Im does deals that private lenders shun. If a private bank won't do an export-financing deal, why should Congress put taxpayer money at risk to clinch the deal? In today's global financial markets, companies large and small can access trade financing, either in the capital markets or from lenders.

Private loans may be more expensive, but that's because competitive markets attempt to price accurately the trade-off between risk and reward. The Ex-Im subsidy also distorts economic decision-making in developing countries. Politicians love a national airline that's flying new Boeings, but maybe their citizens would be better served with better roads.

• Ex-Im operates at "no cost" to taxpayers and even generates profits. Ex-Im CEO Fred Hochberg told the House last year that Ex-Im "has generated $1.6 billion for U.S. taxpayers over the past five years." That's true, but Ex-Im hasn't always been profitable, and as the Mercatus Center's Veronique de Rugy
has noted, Ex-Im's exposure to "loans, guarantees, and insurance" and other miscellaneous claims has exploded, rising to $113.8 billion in 2013 from $57.4 billion in 2007.

The bank’s own stress test in December predicted that its capital reserves could be wiped out in a crisis. The Congressional Budget Office recently estimated that if the bank used fair-value accounting that better measured market risk, Ex-Im would lose $2 billion over 10 years.

- **Other countries subsidize exports, so the U.S. should too.** The illogic here is that because China subsidizes exports for American consumers at the expense of the Chinese taxpayer, American taxpayers should return the favor for Chinese consumers.

There is also little evidence showing that Ex-Im is a main export driver, and in practice its guarantees favor some U.S. companies over others. One of the unfavored is Delta Airlines, which must compete with the foreign airlines that Ex-Im assists through its loans to Boeing and General Electric. As Delta put it in a letter to Mr. Hochberg, "Ex-Im is inflicting real and lasting harm on the U.S. airline industry and American jobs" by helping Delta's foreign competitors buy cheaper airplanes.

- **Ex-Im finances small businesses and creates jobs.** Let's put that differently: Congress requires Ex-Im to finance small business and purports to create jobs. Congress has layered mandates on the bank to support women- and minority-owned businesses, green companies, and firms in sub-Saharan Africa. But the bulk of its business is with very large corporations like Boeing, GE and Caterpillar.

The process by which the bank counts its jobs numbers is opaque. A May 2013 Government Accountability Office report said the bank can't distinguish between jobs "newly created" or jobs "maintained." The GAO found so many other problems that it asked the bank to "increase transparency by improving reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im supports."

The 80-year old bank doesn't much care for criticism. At Ex-Im's annual conference in April, a testy Mr. Hochberg said the bank's critics "can't stomach the thought that the government might have a role to play in empowering U.S. businesses to compete across the globe."

Not quite, Mr. Hochberg. What they can't abide is a government that continues to practice crony capitalism even after the failures of Fannie Mae, Fisker Automotive and Solyndra. Republican voters in particular want the cronyism to stop. House leaders need to show they get the message.