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Ten Reasons to Abolish the Export-Import Bank Eighty Years Is Enough

By Ryan Young*

Reauthorization votes are typically dull affairs. But this year's fight over the Export-Import Bank's reauthorization is anything but. This year, the bank celebrates its 80th anniversary, but it might not celebrate its 81st. Unlike most other agencies, the Export-Import Bank, also known as the Ex-Im Bank, will cease to exist unless Congress specifically votes to reauthorize it. Each reauthorization bill contains a date by which the next reauthorization must take place, typically within four or five years. The most recent reauthorization, in 2012, granted the Bank until September 30, 2014 before another reauthorization vote.

But in 2012, for the first time in many years, there was a political fight. The opposition took both parties' leadership by surprise. They did not succeed in stopping reauthorization, which passed 330-93 in the House and 78-20 in the Senate. Even so, the votes were the closest in many years. Libertarians, as well as conservatives with free-market leanings and progressives of a more populist bent, have long opposed the Export-Import Bank on corporate welfare grounds.

This year's Ex-Im Bank reauthorization is gearing up to be an even bigger fight. House Speaker John Boehner and House Minority Leader Nancy Pelosi have both been vocal in their support for the Bank. So have Ex-Im Bank's largest beneficiaries and business interests like the U.S. Chamber of Commerce and National Manufacturers' Association. Against the Bank stand upstart politicians from both parties, including Rep. Justin Amash (R-Mich.) and Sens. Mike Lee (R-UT), Elizabeth Warren (D-Mass.), and Bernie Sanders (I-Vt.). Sanders, an independent, caucuses with the Democrats.

The renewal fight received an additional dose of drama with House Majority Leader Eric Cantor's (R-Va.) surprise primary election defeat on June 10. Cantor favors reauthorizing Ex-Im, while his successor as Majority Leader, Rep. Kevin McCarthy (R-Calif.), opposes reauthorization.¹ McCarthy voted in favor of the 2012 reauthorization, but announced his opposition shortly after he won the vote to become Majority Leader.

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Ex-Im opponents can win three ways. One is to delay. Without a reauthorization vote, the Ex-Im Bank's charter automatically expires on September 30. At that point, the Bank would cease to exist. Its portfolio would move to the Treasury Department, and be gradually wound down over a period of several years. (Ex-Im's longest-term financial product takes 18 years to mature.) The second way is to vote it down. The third way is for Congress to pass, and President Obama to sign, the Export-Import Bank Termination Act, sponsored by Rep. Amash and Sen. Lee.²

The stage for this big political fight of 2014 was first set up on February 2, 1934, when President Franklin D. Roosevelt issued Executive Order 6581, creating the Export-Import Bank.³ Originally called the Export-Import Bank of Washington, its mission was to increase U.S. trade with the Soviet Union. The following month, FDR's Executive Order 6638 created the Second Export-Import Bank of Washington, tasked to increase trade with Cuba (pre-Castro and pre-embargo).⁴ The two Ex-Im Banks merged in 1936 and became an independent agency with the passage of the Export-Import Bank Act of 1945.⁵

For most of its history, the Export-Import Bank has directed most of its benefits to a handful of large, politically connected firms. In other words, its main function is to dispense corporate welfare. With more \$37 billion in business in 2013 and a total portfolio near its statutory limit of \$140 billion, Ex-Im is one of the federal government's largest corporate welfare programs.⁶ President Obama wants to raise the cap to \$160 billion with this year's reauthorization.⁷

This paper collects 10 reasons why the Export-Import Bank should be abolished by any of those three methods.

1. Ex-Im Is Pro-Business, Not Pro-Market. The Ex-Im reauthorization vote provides the perfect litmus test for which members of Congress are *pro-business* and which are *pro-market*. The distinction is an important one. Pro-business policies are aimed at helping specific businesses. The General Motors bailout is a good example. Pro-market policies focus on maintaining an open and fair competitive market process, under which companies succeed or fail on their merits.⁸

The Export-Import Bank is a classic example of pro-business policy that, while clearly helpful to certain businesses, is harmful to the competitive market process as a whole. Ex-Im is colloquially known as "Boeing's Bank," for good reason. In most years, Boeing accounts for more than 40 percent of the Ex-Im Bank's business. Ex-Im's top 10 beneficiaries accounted for 76 percent of its business in 2013.⁹

There is only so much investment capital to go around throughout the economy. Therefore, every time the Ex-Im Bank secures favorable terms for one of its beneficiaries, another company elsewhere has to pay more for financing, or may lose access to it entirely.

Worse, the Export-Import Bank's politically directed financing decisions are not subject to market discipline. Over the years, Ex-Im has secured financing for companies such as Enron and Solyndra.¹⁰ It also has a policy of giving special treatment to politically favored sectors, such as renewable energy and other green industries. In fact, 10 percent of Ex-Im's authorizations are required to go to renewable energy projects. Ex-Im has restrictions on financing "High-Carbon Intensity" projects.¹¹ It also considers uneconomic factors, such as the race and gender of company executives¹² and whether they are military veterans.¹³

Another uneconomic factor is political access, which creates an additional deadweight loss by diverting activity and resources away from entrepreneurship and toward lobbying.

2. Ex-Im Favors some Businesses while Hurting others. The Export-Import Bank has given financing to more than 20 foreign airlines, many of them state-owned or state-supported, to buy Boeing jets. Air India, Korean Air, Ireland-based Ryanair, and 14 other airlines each received more than \$1 billion in financing during the period 2000-2013. Emirates Airlines saves as much as \$20 million per plane purchased with Ex-Im financing, according to Congressional testimony by Delta Airlines CEO Richard Anderson.¹⁴ Air India, with Ex-Im's help, was able to drive Delta out the Indian market entirely.¹⁵

Ex-Im does not engage in much direct lending. Instead, it mostly guarantees loans taken out by companies from third-party banks. If an airline is unable or unwilling to pay back the third-party loan, Ex-Im will step in and repay it with taxpayer dollars. Ex-Im's loan guarantees allow those airlines to secure extremely favorable interest rates, saving them a great deal of money. The quid pro quo, of course, is that the airlines buy planes from Boeing instead of Airbus or Embraer.

Delta Airlines, which opposes the Export-Import Bank giving direct assistance to its foreign competitors, sued Ex-Im in 2011 and again in 2013, with Hawaiian Airlines and the Air Line Pilots Association joining as plaintiffs.¹⁶ Other domestic airlines probably have similar sentiments, but have been less vocal about it. Some politicians might argue that Delta and other aggrieved companies should receive their own subsidies to balance out Ex-Im's favors for their foreign competitors. A better policy would be for government to neither help nor hinder. Good companies that satisfy their customers will win out in the end.

Ex-Im's activities do not just harm domestic companies. They also harm domestic workers. In 2005, General Electric used a \$3 million Ex-Im grant to move one of its factories from Bloomington, Indiana, to Celaya, Mexico. "My taxes are paying to ship my job to Mexico," quipped one of the 470 laid-off workers.¹⁷

3. Ex-Im Favors Big Businesses over Small. Ex-Im touts that the vast majority of its lending activities go to smaller businesses. This is true by *number of loans*—in 2013, 2,160 out of 2,775 businesses receiving Ex-Im financing were small

businesses, a little more than 78 percent.¹⁸ But Ex-Im's claim is completely off the mark by the more important metric of *dollar value of loans*. More than 80 percent of Ex-Im financing, measured in dollars, goes to big firms.¹⁹

Ex-Im's preferential treatment of bigger firms is in direct violation of its charter, which states: "[T]he Bank shall make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns ... which shall be not less than 20 percent of such authority for each fiscal year."²⁰

Small businesses' share of Ex-Im financing failed to meet that 20 percent threshold in 2011 (18.45 percent), 2012 (17.11 percent), and 2013 (18.96 percent). Ex-Im Inspector General Osvaldo Luis Gratacos, in testimony before the House Committee on Financial Services in 2013, admitted: "Ex-Im Bank has increased the amount of money going to small business transactions, but has not met the 20 percent threshold."²¹ Also worth noting is that Ex-Im's definition of small businesses covers firms with up to 1,500 employees.

4. Ex-Im Invites Corruption. When government has a lot of money and power, it is natural for people to curry its favor. It is just as natural for those wielding money and power to use it for personal gain. The Export-Import Bank provides numerous real-world examples of this human frailty. On June 23, *The Wall Street Journal* reported that four Ex-Im employees have been removed or suspended in recent months, "amid investigations into allegations of gifts and kickbacks."²²

Former Ex-Im employee Johnny Gutierrez allegedly accepted cash payments from an executive of Impex Associates, a Florida-based construction equipment manufacturer that has received Ex-Im financing on multiple occasions. The other cases involve two "allegations of improperly awarding contracts to help run the agency," and another employee who accepted gifts from an Ex-Im suitor. A spokesman responded to the allegations by drily noting, "[T]he Export-Import Bank takes extremely seriously its commitment to taxpayers and its mission to support U.S. jobs."²³

These are not isolated incidents. In 2010, Bloomberg News reported that Exxon Mobil Corp. paid for nearly \$100,000 of travel expenses for Ex-Im employees to locations including London, the South Pacific, and Tokyo.²⁴ Exxon Mobil was seeking \$3 billion in financing from Ex-Im at the time, and received it 11 months later. The Heritage Foundation's Diane Katz found that 74 potential cases of fraud have occurred since April 2009.²⁵ For an agency with only 400 employees, this is a very serious problem.

These corruption allegations offer another reason to end the Export-Import Bank. With Ex-Im gone, its beneficiaries would spend less time wooing government officials and more time actually creating value for consumers.

5. Ex-Im’s Dual Mandate Contradicts Itself. One plank of the Export-Import Bank’s mission is to give financing to companies that might not be able to get it otherwise. But Ex-Im is also supposed to keep risk in check by only making or backing loans with a high likelihood of being paid back. Both planks sound reasonable on their own, but in practice they contradict each other. If the private sector is unwilling to lend to a company, it is probably because banks do not expect to get their money back.

Prudence dictates that Ex-Im also stay away from such risky investments, despite its mandate to provide financing where the private sector will not. Moreover, a company that looks like a solid investment, with very little risk of default, would meet Ex-Im’s risk management criteria, but it would also have very little trouble securing private sector financing.

6. Ex-Im Perpetuates Discredited Mercantilist Economics. Many people believe U.S. companies should export as much as possible, and buy imports only when necessary. Adam Smith called this balance-of-trade obsession “mercantilism,” and he spent hundreds of pages debunking it in *The Wealth of Nations*, noting that “in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer.”²⁶ Right now, the U.S. runs a current account deficit, popularly called the trade deficit, of \$47.2 billion.²⁷ Trade balancers—today’s modern mercantilists—would rather see a current account surplus. A major part of Ex-Im’s mission is to move the trade balance in a more mercantilist direction.

There is an easier way to shift America’s balance of trade toward exports, without need for the Ex-Im Bank.²⁸ First, fill a container ship with American-made goods. If the goods are expensive and compact enough, a single ship could easily hold billions of dollars of cargo. When the ship is completely full, send it out to sea. Once it leaves U.S. territorial waters, the goods count as exports in official statistics. Before the ship reaches port overseas, the crew sinks the vessel (and escape safely, of course). As far as U.S. trade balance statistics are concerned, the best place for all those goods is on the ocean floor, because that way they cannot be exchanged for imports.

Now suppose a foreign country adopts a similar balance-of-trade scheme, but instead of sinking their goods-laden ship, it allows it to reach port in the U.S. The ship’s crew then leave the goods on the dock, free for the taking, and return home empty-handed. That way, the foreign ship does not import anything back home, which would ruin its home country’s balance of trade statistics. The result for U.S. consumers is a bunch of free stuff. Even if this disadvantages U.S. businesses that make similar goods, the American people are undeniably better off.

These stories illustrate a simple truth: *Exports are the price we pay for imports.* Exports are a good thing when the person or company doing the exporting gets something in exchange that it values more highly than what it gives up.²⁹ The Export-Import Bank, by artificially increasing exports, is not making sure its beneficiaries are making

worthwhile exchanges or that U.S. consumers have access to all the goods they would like.

Other U.S. government policies make it artificially difficult for companies to export, including the highest corporate tax rate among OECD countries and derivative rules from the 2010 Dodd-Frank financial regulation bill. If increasing exports is one of the federal government's policy goals, it should remove these barriers rather than try to offset them with other interventions such as Ex-Im. Supporting deregulation and opposing corporate welfare, it turns out, are two sides of the same coin.

7. Ex-Im Subsidizes Banks. The United States, along with many other countries, is adopting the Basel III capital standards for banks.³⁰ The Basel standards are complicated, and require different levels of capital financing (stock ownership) for different kinds of assets. The general rule is that riskier investments are required to be financed with a higher proportion of capital. Less risky assets have lower capital standards. In other words, the required mix of liabilities—owners' equity and borrowing—used to finance assets changes with the expected risk of those assets.

Since the Basel standards were written by governments with some help from the world's major banks, they give favorable treatment to government debt held by banks. In fact, the risk-weighted capital requirement for U.S. government debt or U.S. government-backed debt is zero.³¹ This gives banks an incentive to invest in more government debt and government-backed securities than they would without this preferential treatment. By investing in government-backed debt, banks can artificially increase their return on equity.

Enter Ex-Im. If a bank makes a loan to a foreign firm to buy U.S. products, Ex-Im can guarantee that debt. The full faith and credit of the U.S. government attaches to Ex-Im guarantees, eliminating any commercial or other risk the bank has taken on. Courtesy of Ex-Im, the bank now holds a risk-free asset with a greater return than other risk-free assets. In addition, the Basel rules let the bank be funded with less capital because of the government's support for the Ex-Im-backed loan. That lets the bank generate higher profits relative to its stock, artificially boosting bank owner profits by putting taxpayers on the hook if the loans go bad.

8. "Other Governments Do It" Doesn't Make It Right. One justification for Ex-Im is that its activities offset unfair advantages that other governments give to their domestic industries—a fallacy economist Joan Robinson refuted thusly: "Even if your trading partner dumps rocks into his harbor to obstruct arriving cargo ships, you do not make yourself better off by dumping rocks into your own harbor."³²

Other countries are taking money away from their taxpayers and giving them to businesses, which then export their goods to the U.S. more cheaply. Depending on a country's circumstances, this often amounts to a gift from the global poor to rich U.S. consumers, who benefit from artificially cheap goods. This regressive income transfer scheme may not be wise policy on the part of developing countries, but it is a

gift to us just the same. Yet, the U.S. government insists on reciprocating with similarly misguided policies of its own.³³

9. Ex-Im Is a Rent-Seeking Operation. In economics, an above-normal profit is called a rent. Rents can be gained honestly through innovation or sound business practices, or dishonestly. Rent-seeking is using government to gain rents through subsidies, regulations, barriers to entry, and other dishonest means.³⁴ The Export-Import Bank is one such method. If Ex-Im beneficiaries want government handouts, it would be far more efficient for the government to simply give them cash. Such a policy would not distort financial markets and international business decisions. But a naked cash grab would strike voters as unseemly.

To illustrate, the late economist Gordon Tullock devised the Tullock Economic Development Plan. It “involves placing a dollar of additional tax on each income tax form in the United States and paying the resulting funds to Tullock, whose economy would develop rapidly. Most would agree that politically this measure, regardless of its desirability, has not the slightest chance of going through.”³⁵

For such a scheme to be politically viable, it needs a cover story that can be sold to the public. The Export-Import Bank is just such a cover story. An official logo, sophisticated-sounding economic rhetoric, and appeals to American jobs and patriotism are designed to make people feel good about the special favors Ex-Im performs for businesses.³⁶ The trouble is that cover stories such as Ex-Im cause real harm. Capital-needy startups have a harder time finding financing because Ex-Im uses up capital that could go to them instead. Established companies like Delta Airlines are harmed by Ex-Im’s subsidies to its foreign competitors.

Cover stories are also inefficient. Paying staff salaries and renting office space are far more expensive than simply cutting checks to Ex-Im beneficiaries. The result is that resources which could have instead been put to other uses become a deadweight loss.

10. Ex-Im Loses Money. The Export-Import bank claims to make an annual profit of roughly \$1 billion per year.³⁷ But a recent Congressional Budget Office (CBO) report finds the Bank actually runs at a loss.³⁸ The reason for the difference is that Ex-Im uses accounting standards to make its activities look as favorable as possible.

In estimating the present value of its portfolio, Ex-Im uses Federal Credit Reporting Act standards, which use a discount rate equal to the yield of U.S. Treasury bonds. Treasury bonds are backed by the full faith and credit of the U.S. government, so markets treat them as essentially riskless. As a result, they have a very low interest rate. Other investments, whether stocks, bonds, or Ex-Im’s own financial products, tend to have higher yields than Treasury bonds. Because its portfolio outperforms Treasury bonds as an investment opportunity, Ex-Im claims to make money for the government. What this really tells us is that the Bank succeeds in jumping over the lowest of all possible hurdles.

Ex-Im's portfolio does not perform nearly as well under more widely used fair-value accounting standards, the dominant standard for both the private sector and many government agencies. Fair-value accounting, which uses discount rates set by market values to account for risk, gives a more accurate picture of how risky Ex-Im's portfolio truly is, and how it performs compared to similar alternative investments. By this standard, CBO estimates that Ex-Im will lose the government about \$2 billion over the period 2015-2024, instead of gaining it \$14 billion.

Even if Ex-Im were to turn a profit, that would indicate that the private sector can handle Ex-Im's export financing work.

Moreover, Ex-Im's financial decisions are politically directed, so any profits come with outsized opportunity costs. If the next Google or Facebook is denied financing because Ex-Im used the capital instead, the Treasury could potentially lose out on a large amount of tax revenue those companies would generate in a more free market setting. Arguing that Ex-Im more than covers its costs does not mean that its activities are revenue-maximizing. Consumers, rarely mentioned in the Ex-Im debate, would also lose out on the value such a company could create for them.

Conclusion. The Export-Import Bank should be closed as soon as possible. This can happen by letting Ex-Im's charter expire on September 30, by actively voting against reauthorizing the charter, or by passing the Export-Import Bank Termination Act. Whichever course of action lawmakers take, the outcome will be welcome.

Ex-Im helps some businesses at the cost of hurting other businesses. It has a longstanding problem with fraud and corruption. The Bank's dual mandate is self-contradictory, making it impossible for it to fulfill its mission. Ex-Im favors big businesses over small businesses in a way that violates its charter. It operates along economic ideas that were debunked two centuries ago. Ex-Im subsidizes banks. It is a bad policy intended, at least in part, to counter other countries' similarly bad policies. It enables billions of dollars of unfair corporate rent-seeking. Finally, Ex-Im's claim that it makes a profit is false.

Businesses and consumers are better served by pro-market policies. Politics should be left out of financial decisions. Investors would get higher returns, and deserving companies would have easier access to capital. Consumers would be the ultimate beneficiaries of a financial system that rewards value creation over political connections.

Notes

- ¹ “Kevin McCarthy: Allow Export-Import Bank to Close,” *Politico*, June 22, 2014, <http://www.politico.com/story/2014/06/kevin-mccarthy-export-import-bank-108159.html>.
- ² The House version is H.R. 2263, the Export-Import Termination Act, sponsored by Rep. Justin Amash (R-Mich), <https://beta.congress.gov/bill/113th-congress/house-bill/2263/text>. The Senate version is sponsored by Sen. Mike Lee (R-Ut.), <https://beta.congress.gov/bill/113th-congress/senate-bill/1102>.
- ³ Executive Order 6581, “Creating the Export-Import Bank of Washington,” <http://www.presidency.ucsb.edu/ws/index.php?pid=14772>.
- ⁴ Executive Order 6638, “Authorizing the Formation of a Banking Corporation to Be Known as Second Export-Import Bank of Washington, D.C.,” archived online at http://www.fdrlibrary.marist.edu/_resources/images/eo/eo0018.pdf#search, pages 11-14.
- ⁵ Export-Import Act of 1945, <http://legcounsel.house.gov/Comps/EIBA45.pdf>.
- ⁶ Export-Import Bank 2013 Annual Report, <http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf>.
- ⁷ Brian Wingfield, “Ex-Im Chairman Hochberg Defends Against Republican Foes,” *Bloomberg News*, June 25, 2014, <http://www.bloomberg.com/news/2014-06-25/republican-backing-ex-im-s-demise-spars-with-democrat.html>.
- ⁸ A classic example of pro-market thought is F.A. Hayek, “Competition as a Discovery Procedure,” *The Quarterly Journal of Austrian Economics*, Vol. 5, No. 3 (Fall 2002), 9-23, http://mises.org/journals/qjae/pdf/qjae5_3_3.pdf.
- ⁹ The Mercatus Center at George Mason University’s Veronique de Rugy compiled a series of helpful charts, <http://mercatus.org/sites/default/files/derugy-exim-exporters-final.pdf>.
- ¹⁰ The Bank notes that it did not provide direct financing to either Enron or Solyndra. Instead, it provided “export financing support to the company’s foreign customers who purchased services or products from Enron,” and “provided a loan guarantee to a Belgian bank that in turn financed the purchase of solar panels from Solyndra.” This still qualifies as giving Enron and Solyndra special favorable treatment, which is the larger point. “The Facts about Ex-Im Bank,” Ex-Im website, undated, <http://www.exim.gov/newsandevents/the-facts-about-ex-im-bank.cfm>.
- ¹¹ “About Us, What We Do, Special Assistance, Environment,” Ex-Im website, undated, <http://exim.gov/about/whatwedo/specialinitiatives/environment/>.
- ¹² “About Us, What We Do, Special Assistance, Woman and Minority-Owned Businesses,” Ex-Im website, undated, <http://exim.gov/about/whatwedo/specialassistance/women-and-minorities.cfm>.
- ¹³ “About Us, What We Do, Special Assistance, Veterans,” Ex-Im website, undated, <http://exim.gov/about/whatwedo/specialassistance/veterans.cfm>.
- ¹⁴ Written testimony of Richard Anderson before the House Financial Services Committee, June 25, 2014, p. 5, <http://financialservices.house.gov/uploadedfiles/hrg-113-ba00-wstate-randerson-20140625.pdf>.
- ¹⁵ *Ibid*, p. 7.
- ¹⁶ David Ingram, “Delta Sues U.S. Export-Import Bank over Aircraft Subsidies,” *Reuters*, February 13, 2013, <http://www.reuters.com/article/2013/02/14/us-usa-delta-lawsuit-idUSBRE91D01J20130214>.
- ¹⁷ Timothy P. Carney, “Lights Out at GE,” *The American Conservative*, May 9, 2005, <http://www.theamericanconservative.com/articles/lights-out-at-ge/>.
- ¹⁸ Data from Export-Import Banks, http://exim.gov/customcf/congressionalmap/us_map.cfm.
- ¹⁹ Export-Import Bank, 2013 Annual Report, p. 2, <http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf>.
- ²⁰ Export-Import Bank, “The Charter of the Export-Import Bank of the United States,” August 30, 2012, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
- ²¹ Osvaldo Luis Gratacos, testimony before the House Financial Services Committee, June 13, 2013, <http://financialservices.house.gov/uploadedfiles/113-30.pdf>.

²² Damian Paletta, “Officials at Ex-Im Bank Face Investigations,” *The Wall Street Journal*, June 23, 2014, <http://online.wsj.com/articles/officials-at-ex-im-bank-face-investigations-1403563954>.

²³ *Ibid.*

²⁴ Mark Drajem, “Exxon Gets Export Financing After Paying for Trip,” Bloomberg News, March 25, 2010, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=am7fi7GYgEF4>

²⁵ Diane Katz, “At Least 74 Cases of Fraud and Corruption at Ex-Im Bank Since 2009,” The Daily Signal, June 24, 2014. <http://dailysignal.com/2014/06/24/fraud-corruption-rampant-ex-im-bank/>

²⁶ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, (New York: Modern Library, 1994 (1776)), 715.

²⁷ <http://www.bea.gov/newsreleases/international/trade/tradnewsrelease.htm>

²⁸ David Friedman tells a similar story in *Hidden Order: The Economics of Everyday Life*, (New York: HarperCollins, 1996), 70. Steven Landsburg expands on it in “The Iowa Car Crop” in *The Armchair Economist: Economics & Everyday Life* (New York: The Free Press, 1993), 197-99.

²⁹ In fact, an exchange will not happen at all unless both parties place a higher value on what they’re getting than what they give up. In other words, a U.S. company will not agree to export unless it receives in exchange something it values *even more*.

³⁰ CEI’s John Berlau briefly makes the case against implementing the Basel III standards in the first place in “‘Basel Cliff’ Looms for Community Banks,” The Daily Caller, November 21, 2012. <http://dailycaller.com/2012/11/21/basel-cliff-looms-for-community-banks/>

³¹ If a bank holds nothing but U.S. Government debt or U.S. Government-backed debt, it could in theory be financed with no capital under the risk-weighting approach! This is limited in practice, however, by additional leverage-based capital requirements that do not use risk weights.

³² Quoted from Lawrence White, *Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years* (Cambridge: Cambridge University Press, 2012), 360.

³³ Veronique de Rugy, “Key Argument for Export-Import Bank Invalid: Less Than One-Third of Bank’s Activities Offsets Foreign Export Subsidies,” Mercatus Center at George Mason University, June 11, 2014. <http://mercatus.org/publication/key-argument-export-import-bank-invalid>. Data from the Export-Import Bank’s *Annual Report 2013*,

<http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf>. The late economist William Niskanen offered a compromise solution that appeals to Congress’ protectionist tendencies, and thus may have some political viability. Instead of countering other countries’ loans with our own loans, enact a tariff set to exactly neutralize the subsidies foreign companies receive from their governments. This would negate any price advantage subsidized foreign companies have over domestic competitors. Simple unilateral liberalization would be a better deal for U.S. consumers than any tariff regime. William A. Niskanen, “Should the Export-Import Bank Be Retired?” in *Reflections of a Political Economist: Selected Articles on Government Policies and Political Processes* (Washington: Cato Institute, 2008), 80-82. A neutralizing tariff could be a politically feasible second-best option, or a bridge step from the status quo to something more closely resembling free trade. The idea is original to Robert Axelrod, *The Evolution of Cooperation*, (New York: Basic Books, 1984).

³⁴ The concept was first developed by Gordon Tullock in 1967 and named by Anne O. Krueger in 1974. Gordon Tullock, “The Welfare Costs of Tariffs, Monopolies, and Theft,” *Western Economic Journal* 5 (June 1967), 224-32, and Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” *American Economic Review* 64 (June 1974), 291-303.

³⁵ Gordon Tullock, “Rents, Ignorance, and Ideology,” in *The Rent-Seeking Society: The Selected Works of Gordon Tullock, Volume 5*, (Indianapolis: Liberty Fund, 2005), 222.

³⁶ The Aerospace Industry Association, which supports reauthorizing Ex-Im, even tried to appeal to conservatives with a full-page advertisement in *Politico* featuring a large picture of Ronald Reagan. The advertisement appeared on page 2 of the June 18 issue of *Politico*. This author blogged about it at <http://cei.org/blog/ex-im-reauthorization-fight-release-reagan>.

³⁷ Highlights from Ex-Im’s 2013 Annual Report,

<http://www.exim.gov/about/library/reports/annualreports/2013/highlights.html>

³⁸ Congressional Budget Office, “Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015-2024, May 2014.

<https://www.cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf> .