**Research: Ex-Im Bank Hurts Economy, Shifts Burden onto Businesses**

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The charter of the U.S. Export-Import Bank was set to expire on September 30, but received a nine-month extension, courtesy of provisions inserted into the Continuing Appropriations Resolution. It remains to be seen whether Ex-Im is finally terminated on June 30, 2015, which is an outcome that may depend on greater awareness of the collateral damage the Bank inflicts on unwitting victims.

Through loans to foreign buyers and loan guarantees to banks, Ex-Im provides financing for U.S. export sales that private lenders allegedly are unwilling to offer. According to supporters, Ex-Im facilitates exports and creates jobs without costing taxpayers a dime — America wins, fist bump, end of story.

In reality, however, there are at least three sets of costs associated with every Ex-Im transaction, which are ignored or downplayed in the propagandized telling of Ex-Im's greatness.

First, the "Opportunity Cost" is the value-added activity which would have occurred, had Ex-Im's resources been deployed optimally — or, at least, more efficiently in the private sector. Second, the "Intra-Industry Cost" is the relative cost disadvantage experienced by domestic competitors — the unsubsidized U.S. firms in the same industry as a firm receiving Ex-Im subsidies. Third, the "Downstream Industry Cost" is the relative cost disadvantage imposed on the U.S. competitors of the subsidized foreign customer.

Much like how an import tariff on sugar benefits some domestic beet and cane processors while harming confectionaries, beverage manufacturers, and other sugar-using producers, an Ex-Im-financed transaction benefits the exporter in question, while harming U.S. firms that consuming the export in question — even more so if the foreign customer is a direct competitor.

Using Export-Import Bank transaction data and input-output tables from the Bureau of Economic Analysis, the Cato Institute worked to estimate the downstream costs for each of 236 U.S. manufacturing sub-industries. The "net benefits" of Ex-Im were then calculated as the aggregated export finance subsidies received by each industry minus the downstream costs imposed on each industry.

The results indicate that, out of $50 billion in Ex-Im subsidies granted to non-aircraft U.S. manufacturers between 2007 and 2013, $40 billion shows up downstream, as costs imposed on other businesses.

The average company, in four out of every five manufacturing industries, incurs negative net benefits, meaning it is a "victim" of the Export-Import Bank. 189 out of 236 manufacturing sub-industries — as defined by the 6-digit specification of the North American Industry Classification System (NAICS), which encompasses 21 broad manufacturing industries — incurred costs in excess of benefits, to the tune of an aggregate $2.8 billion per year.

The five broad industries incurring the greatest net ExIm-related costs are producers of electrical equipment, appliances and components; furniture; food; non-metallic mineral products; and chemicals.

Manufacturing firms in every U.S. state can also be counted among Ex-Im's victims. The most important or second most important manufacturing industries in 47 states — in terms of added value to the economy — are among Ex-Im's ten largest victims. Of those 47 states, Ex-Im has the most significant negative impact on North Carolina, Delaware, New Jersey, Virginia, Nebraska, West Virginia, and Maryland.

However, not all industries are Ex-Im victims. 47 out of 236 sub-industries, across 13 of 21 industry categories can be counted as Ex-Im's "winners," realizing $4.2 billion in annual net benefits. Viewed holistically, Ex-Im policies represent a net annual tax liability of $2.8 billion per year levied against 189 sub-industries, or $15 million per industry, and a net wealth transfer of $4.2 billion per year to 47 specific sub-industries. One would be hard-pressed to find a better example of a policy that "picks winners and losers."

Policymakers should be wary of claims of Ex-Im's costless benefits. They should know that the Bank's policies reward a few companies while hurting many more. Appreciating the hidden costs is essential to any informed judgments about the future of the Export-Import Bank.

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