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The Export-Import Bank's Hidden Tax on America's Companies

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For those hoping the Republican congress will allow the charter of the Export-Import Bank to expire on June 30, two recent House reauthorization bills and an imminent bipartisan Senate bill to accomplish the same are not particularly reassuring.

What's not to like about the Export-Import Bank? The U.S. government's official export credit agency finances sales of American companies to foreign customers, increasing exports, stimulating output, and creating jobs. Only the most cynical, anti-government zealots could have a problem with this vital engine of economic growth and global engagement. Well…not so fast.

Ex-Im supporters – mostly corporate beneficiaries and politicians – work hard to sculpt the Bank's image as an institution of costless necessity. But closer examinations have revealed corruption, corporate welfare, and hidden taxation on thousands of U.S. businesses. Victims abound across the country.

Despite the Bank's claims that it primarily serves small and medium enterprises and that it provides financing for transactions that the private sector won't service, in 2013 about 75 percent of Ex-Im largesse was dispensed to the benefit of ten large, creditworthy companies, including Boeing, General Electric, Bechtel, Dow Chemical, and Caterpillar. But another large company, Delta Airlines, raised objections last year over Ex-Im's financing of Boeing aircraft sales to foreign carriers, such as Air India. Delta's complaint was that the U.S. government, as a matter of policy, was subsidizing Delta's foreign competition by reducing Air India's cost of acquiring airplanes. Those lower capital costs enabled Air India to offer lower prices than it otherwise could, which had an obvious, adverse impact on Delta's bottom line. In essence, Ex-Im forces taxpayers to underwrite the success of some U.S. companies at the expense of others.

This same dynamic has been playing out across the U.S. manufacturing sector, where American companies are put at similar disadvantages because their suppliers are getting Ex-Im to subsidize sales to their foreign competitors. In other words, Ex-Im's transactions benefit two parties: the

U.S. exporter and the foreign customer. And, accordingly, those transactions tax two sets of parties: the U.S. competitors of the lucky U.S. exporter (the intra-industry cost) and the U.S. competitors of the lucky foreign customer (the downstream industry cost). So, for Ex-Im subsidies that allegedly prime U.S. economic activity, there are serious costs imposed on unsuspecting American businesses.

According to the findings in a recent Cato Institute study, the downstream costs alone amount to a tax of approximately $2.8 billion every year. The victims of this shell game include companies in each of the 21 broad U.S. manufacturing industry classifications used by the government to compiles statistics. And they are scattered across the country in every state. Among the stealthily taxed were companies such as Western Digital and Seagate Technologies – two California-based computer storage device producers that employ 125,000 workers; Chicago-based Schneider Electric Holdings, which employs 23,000 workers in the manufacture of environmental control products, and; ViaSystems, a St. Louis-based printed circuit board producer with 12,000 employees. These companies haven't received Ex-Im subsidies, but companies in their supplier industries have, which effectively lowers the costs of their foreign competitors.

While it is relatively easy for a big company like Delta to connect the dots and see that Boeing is being favored at its expense (airplanes constitute a large share of Delta's total costs), most manufacturing companies are unaware that they are shouldering the costs of government subsidies to their own competitors. But the victims include big and small producers – of electrical equipment, appliances, furniture, food, chemicals, computers, electronics, plastics and rubber products, paper, metal, textiles – from across the country. Companies producing telecommunications equipment incur an estimated collective tax of $125 million per year.

The industries in which companies bear the greatest burdens – where the costs of Ex-Im's subsidies to foreign competitors are the highest – are of vital importance to the manufacturing economies of most states. In Oregon, Delaware, Idaho, New Jersey, Nevada, and Maryland, the 10 industries shouldering the greatest costs account for at least 80 percent of the state's manufacturing output. The most important industry is among the ten most burdened by these costs in 33 of 50 states. The chemical industry, which bears a cost of $107 million per year, is the largest manufacturing industry in 12 states.

For all the praise Ex-Im heaps upon itself for its role as a costless pillar of the economy, it is difficult to make sense of the collateral damage left in its wake. Thousands of U.S. companies would be better off if Ex-Im's charter were allowed to expire, as scheduled, on June 30. But efforts to reauthorize are underway and sadly it is Boeing, GE and the Bank's other largest beneficiaries who have the ears of Congress. When will the victims speak up?

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