



Lobbyists keep Export-Import bank alive despite economists concerns about cronyism

By: Eric Boehm
July 7, 2014

For four years running, Gina Rinehart has been ranked the richest person in Australia.

This year, her estimated net worth exceeds \$20 billion, though that's down a bit from an estimated \$29 billion net worth in 2012, according to Business Review Weekly, which tracks the richest people in the Land Down Under.

Hancock Prospecting, the company Rinehart has chaired since 1992, is doing equally well for itself. In 2011, it earned more than \$870 million, and it is one of the most successful mining and mineral companies in the world.

But in 2012, the United States government handed over nearly \$700 million in taxpayer-financed loans to a subsidiary of Hancock Prospecting, Roy Hill Holdings, ostensibly so the multibillion company could afford to purchase American-made mining and construction equipment for a massive new iron ore mine in the Australian outback.

The loan was financed through the Export-Import Bank, a little-known entity of the federal government that was established in 1938 and routinely hands out American tax dollars to companies in other countries so those same companies can use those funds to buy American products.

In theory, the bank is supposed to boost American exports essentially by using taxpayers to subsidize foreign firms' purchases. But critics of the bank say it is little more than another tool for crony capitalism — a way to make sure taxpayers' money flows to favored companies.

Essentially, it boosts the bottom lines of certain U.S. exporters by giving foreign companies an incentive to buy from those specific, favored, companies, said Dan Ikenson, director of trade policy studies at the Cato Institute, a libertarian think tank, while hurting all other competitors in the process.

“It's crony capitalism. It's corporate welfare,” Ikenson told Watchdog Radio this week. “We really are helping some companies' exports at the expense of the well-being of multitudes of other U.S. industries and workers.”

The \$700 million loan to Roy Hill Holdings is only one example in a checkered history of questionable deals by the Export-Import bank. The bank has a long history of helping Boeing — which, no surprise, spends millions on lobbyists each year — by subsidizing the purchase of aircraft by airlines based in other countries, like the \$1.1 billion loan given to Indonesia’s Lion Air last year.

Now, the Export-Import Bank figures to be one of the next big congressional showdowns, with fiscally conservative Republicans increasingly questioning its function while an army of corporation lobbyists that benefits from the bank’s back-door subsidies fight to keep it alive.

Left and right agree: Ex-Im is bad news for free trade

One argument for the bank’s existence is that it helps American companies by providing a line of credit to companies that would otherwise not be able to afford large purchases like aircraft and mining equipment.

But if that were true, argues Diana Katz of the Heritage Foundation, an economically conservative think tank, then the bank would be doing most of its business in the developing world — in Africa and Latin America — where credit risks are the greatest.

Instead, most of the bank’s investments are targeted to companies in developed nations in Asia and Europe, where there is plenty of private investment available. And the bank fails to take into account what investments would occur if it wasn’t putting its thumb on the scale.

“Ex-Im officials assume that the economic activity they subsidize would not occur absent bank financing,” Katz said. “That is an absurd notion, but it is prevalent among bureaucrats who cannot fathom that business actually functions without them.”

But if conservative think tanks like Heritage and libertarian ones like Cato are against reauthorizing the bank, surely it isn’t liberals who support the back-door subsidies to big corporations?

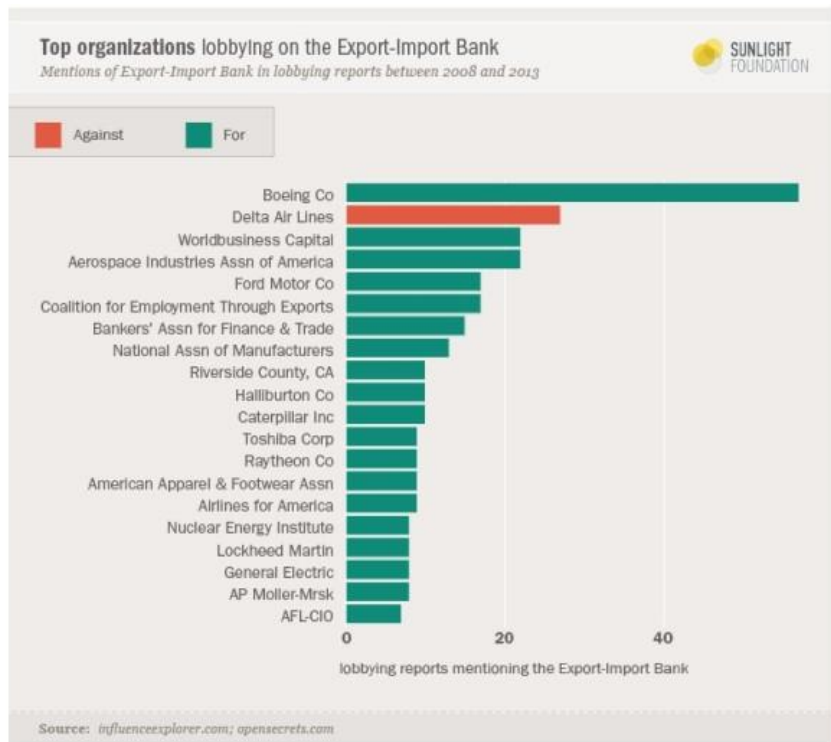
Nope, they don’t like it either.

Dean Baker, co-director of the Center for Economic and Policy Research, a progressive think tank, wrote last week that if defenders of the bank “have taken into economics they would know that by diverting capital to the winners picked by the Ex-Im Bank, we are raising the price of capital for other firms.”

“This means that all the small businesses that are not privileged with subsidies from the Ex-Im Bank are now penalized by paying higher interest rates than would otherwise be the case,” Baker said.

Powerful lobbyists keep the bank going

So how has something so roundly criticized by the Washington intelligentsia survived for more than seven decades? Lots of well-funded lobbyists.



It's a list of Washington heavy-hitters. Among those supporting the bank are Boeing, General Electric, the Ford Motor Co., Halliburton, Lockheed-Martin and the AFL-CIO.

Of the top 20, the only one lobbying against the bank is Delta Airlines, whose CEO said the bank gives an unfair advantage to foreign airlines by subsidizing their purchases of Boeing jets, thus putting American-based airlines at a disadvantage.

If the lobbyists aren't enough, there are even some members of Congress who benefit directly from the bank's existence.

U.S. Rep. Chris Collins, R-N.Y., is one of them. A company he co-founded benefited from \$8 million in Export-Import Bank loan guarantees since 2007, according to records obtained by the Heritage Foundation.

Under the congressional microscope

But now, the bank is getting more scrutiny from members of Congress who want to cut back on cronyism.

A \$160-billion reauthorization of the bank is being debated by the U.S. House of Representatives, but it's unclear whether the bill will make it through.

U.S. Rep. Kevin McCarthy, R-Calif., recently elected the Majority Leader in the House after the upset primary loss by U.S. Rep. Eric Cantor, R-Va., is perhaps the most important figure to express skepticism about the bank's purpose.

“One of the biggest problems with government is that they go and take hard-earned money so others do things that the private sector can do. That's what the Ex-Im Bank does,” he told Chris Wallace last week. “I think Ex-Im Bank is one that's something government does not have to be involved in. The private sector can do it.”

It's a powerful statement coming from McCarthy. Aside from being the newly minted second-in-command of the House GOP, McCarthy was previously a defender of the Import-Export Bank and supported its last authorization.

On the other side of the coin is President Barack Obama, who was skeptical about the bank before being elected president — once calling the bank “a slush fund for corporate welfare” during the 2008 campaign — but is now calling for its reauthorization.

Ikenson said the reauthorization of the Export-Import Bank should be a litmus test for fiscal conservatives in Congress and around the country.

“If you're a conservative and you believe in limited government, here's a isolated example where we can stop funding this program and see that the sky won't fall,” he said.