

Yuri Vanetik: Venturing into socialism?

By: YURI VANETIK – December 3rd, 2012

The Export-Import Bank is a federal agency that may be unknown to many Americans. The companies it has loaned money to, however – including Enron and Solyndra – speaks volumes about this special interest subsidy organization that is akin to "venture socialism." Now, in a blatant violation of the bank's charter, the Obama administration has expanded its role into financing domestic sales in addition to exports. Not only does the Ex-Im Bank's expansion into domestic financing frustrate the process of free market capitalism, but it continues to place up to \$160 billion of taxpayer money at risk through questionable investments.

For many of those unfamiliar with the Ex-Im Bank, it is the official export credit agency of the federal government and, historically, it has been marginally relevant. It was established in 1934 by Executive Order 6581 issued by President Franklin D. Roosevelt with the express purpose of financing and insuring foreign purchases of U.S. goods. Interestingly, the Ex-Im Bank's first transaction was a \$3.8 million loan to Cuba in 1935 for the purchase of U.S. silver ingots.

Sallie James, a policy analyst at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, argues the Ex-Im Bank "picks favorites among U.S. producers ... acting as a sort of financier of industrial policy" that supports politically connected businesses, leaving taxpayers exposed to billions of dollars in potential losses in loan guarantees.

Should the Ex-Im Bank have the authority to wade so heavily into private markets abroad, and now domestically, doling out its largess by way of loan guarantees to politically connected enterprises? Let's examine the three primary arguments offered up by its supporters.

First, Ex-Im Bank fans claim that the loans create new jobs for Americans. This argument has been proven to be empirically false. Ultimately, subsidies like those given out by the Ex-Im Bank take away from the GDP and cost jobs rather than create them.

Second, supporters insist that the loans, and loan guarantees, level the playing field with foreign competitors that are purportedly heavily subsidized by their own governments. But as James points out, "Spending by rich-country governments on official export credit has actually fallen in recent years." The data also shows that between 2002 and 2010, just under 40 percent of the bank's transactions by value were authorized to "meet competition."

Finally, the president of the Ex-Im Bank, Fred Hochberg, claims it turns a profit, supposedly creating jobs at no cost to taxpayers. Evidence shows, however, that the agency is neither self-sustaining nor profitable for taxpayers, as it consistently provides financing to suspect companies that the private sector won't touch, calling into question the likelihood of a return on investment.

In September 2012, Congress voted to extend the Ex-Im Bank's charter for another two years. As history shows, Congress's normal reaction to wayward institutions is to extend their lives, expand their mandates and increase their money supply.

As James' compelling piece, "Time to X Out the Ex-Im Bank," illustrates, picking American winners, as the Ex-Im Bank does, also creates American losers. For example, the Obama administration is directing the Ex-Im Bank to offer United Airlines a subsidy to match any subsidy Canada offers to persuade United to choose the Montreal-made Bombardier over Boeing and Airbus. Therefore, American taxpayers will subsidize United to support Boeing, which is already being subsidized in ways injurious to Delta and others.

There is an understandable urge to counter the subsidies that foreign governments give to companies competing with U.S. businesses. However, government favors predominantly flow to the politically connected.

This can be harmful to a market-based economy, argues Sen. Jim DeMint from South Carolina, since "in free-market finance, we all benefit as businesses compete for investment that follows those with the best innovations, highest quality, at a price buyers are willing to pay. Not so with government-run finance, where funding decisions are made more often based on politics instead of economics."

Today, the administration is attempting to turn the Ex-Im Bank into a government-run venture capital firm, financing what it believes are particularly promising industries. To this end, the Ex-Im Bank has been favoring special interests over U.S. taxpayers. These heavily subsidized corporations include Enron, defense contractors such as Boeing and politically inspired causes such as green energy.

The Obama administration wants to make credit subsidies a standard in doing business domestically and abroad. This is a misguided effort. It micromanages free markets, costs taxpayers billions, and exceeds the legitimate constitutional role of the federal government.

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