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**Deconstructing "Time to X Out the Ex-Im Bank"**
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**By Sallie James[1], Cato Institute**

## Preface

On its website, the Cato Institute describes itself as a "public policy research organization — a think tank – dedicated to the principles of individual liberty, limited government, free markets and peace." In continues, "Our vision is to create free, open, and civil societies founded on libertarian principles." Later, it describes these as "simple, timeless principles."

Cato pursues these goals with aggressive outreach and communications efforts, and prides itself on how much media attention it gets. According to its latest annual report, "In 2012, Cato's policy experts were cited in 3,684 news articles, authored 389 op-eds, appeared in 705 television interviews, and participated in 1,127 radio interviews. In particular, the perspectives of Cato's scholars on economic and legal issues were highly sought throughout the year."

## James and Her Paper

Dr. Sallie James is one of Cato's most prominent advocates against government involvement in our economy, including the Export- Import Bank. She is one of only four women in Cato's roster of 64 "policy scholars."

Among critics of Ex-Im, she stands out for her air of scholarly rigor, most notably by her paper, "Time to X Out the Ex-Im Bank." Published by Cato on July 6, 2011 as a major study, its 20 pages are amply footnoted and documented. Its substance has provided many of Ex-Im's opponents with the intellectual underpinning for their sustained attacks of the last two years.

However, despite its ostensible substance, her paper provides little verifiable supportive evidence. Instead she relies on outdated information, irrelevant analogies, misrepresentations of source documents, and over-reliance on earlier Cato papers, to name a few shortcomings.

These add up to a dishonest polemic disguised as scholarship designed to mislead readers about how Ex-Im conducts business, its impact on our economic recovery, its necessary role in correcting market failures, and the nature of global trade competition.

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**Her Criticisms of Ex-Im Bank**

Published in time to influence debate over the reauthorization of the Bank's charter in 2012, her paper advocates eliminating the Export-Import Bank completely. James urges Congress to allow Ex-Im's charter to expire and to wind down its existing financial commitments, leaving the future of export credit to private financiers alone. She has since repeated many of these criticisms in public remarks, testimony and blogs during the past two years.

In more detail, here are her arguments:

1. Ex-Im financing is a form of "mercantilist interventionism" that misallocates capital by its decisions, "picking winners and losers." The "free market for export finance" may not operate perfectly, but the unintended harmful consequences of Ex-Im export financing are worse.

2. Despite Ex-Im's claim to offer financing at competitive rates only, it amounts to "subsidized export credit" because it is provided "at less than its full risk-adjusted premium." According to her, governments assume that "a few hundred central-agency bureaucrats" know better than the free market.

3. Free market economics are preferable to government interventions. If the private sector will not finance certain ventures, it is because "tens of thousands of private-sector investors and analysts with their own money at stake" believe these are not "profitable financing opportunities."

4. Further, most Ex-Im financing benefits large, wealthy U.S. exporters and foreign importers who could find private financing on their own and don't need Ex-Im Bank to help them succeed.

5. Not only that, by financing export sales of U.S. capital goods, such as airplanes and mining equipment, Ex-Im "stack[s] the deck against U.S. industries by subsidizing their foreign competitors." Their resulting lower costs enable them to compete unfairly against U.S. companies. Ex-Im loans to Pemex are a "questionable use of taxpayer dollars to say the least."

6. The number of jobs created by its financing subtracts a similar number of jobs from enterprises not receiving such financing. Ex-Im can report the number of jobs it creates as a plus, but nobody calculates or reports the number of jobs destroyed (or never created) because it interferes with free markets.

7. Ex-Im is wrong to finance and encourage exports. “There is no special reason why U.S. exporters deserved special treatment over domestically focused firms.”

8. Ex-Im’s export credit is too small to affect overall job growth. Other factors are much more influential. Eliminating Ex-Im would produce a more efficient economy with a higher standard of living. And it would stop Ex-Im financing from bidding up the dollar’s value, making all U.S. exports less competitive.

9. Ex-Im’s claim that it helps level an un-level playing field in global markets is wrong. Instead, developed countries have been lowering export subsidies, “the escalating arms race of export credits appears to be waning,” and the free market will produce a level playing field on its own.

10. Based on 2005-2008 data, developing countries have higher subsidies, but differing percentages among them cloud the relationship between levels of support and export performance. Therefore, subsidized credit must not be critical to their levels of exports

11. By its access to “interest-free warrants from the Treasury,” Ex-Im financing puts at risk “tens of billions of dollars of loans and guarantees” just as Fannie Mae and Freddie Mac did with disastrous results. In fact, “the Constitution does not authorize the use of taxpayers’ funds to benefit politically favored groups.”

12. Although not included in this paper, in other writings for Cato, James cites Ex-Im financing of Solyndra and Enron exports, implying that Ex-Im recklessly gambled away taxpayer funds.

**Cribbing from a 2002 Cato Report**

Careful reading shows that this report by James is a point-by-point rewrite of an earlier Cato Institute report, “Rethinking the Export-Import Bank” by Aaron Lukas and Ian Vasquez, published March 12, 2002 as a Trade Briefing Paper. She at least acknowledges that her paper “builds upon” their earlier paper.

With almost no variation she repeats, in the same sequence, its major points about the Bank. In some cases she paraphrases the same language. For example:

James:

> "The bank's attitude reflects a common and misguided assumption in Washington that a few hundred central-agency bureaucrats are more accurately able to price risk and manage economic activities than tens of thousands of private sector investors and analysts with their own money at stake."
>
> Lukas and Vasquez:
>
> "The assertion that an agency with a staff of 400 people is able to more accurately price risk than tens of thousands of private sector investors and analysts is highly suspect."

She even uses the same statistical tables, using more recent data, and presents as evidence some of the same quotations from GAO and other experts – including the same misrepresentations of what those sources actually stated.

Beating the same horse to death nine years later may not amount to plagiarism, but at least she could have used a different whip.

**Misrepresenting Her Evidence**

Like her Cato Institute colleagues, James assumes that the superiority of unfettered free markets is so unassailable that little evidence is required to prove this. What evidence she does present is misleading, inaccurate, outdated, irrelevant, illogical, or all of the above.

In her most glaring misrepresentations, James cites GAO, CRS and ITC statements several times to document her claim that Ex-Im financing has little impact on levels of exports, economic growth or job creation.

For example:

- On page 2 of her report, she cites a 1992 GAO report stating that "export promotion programs cannot produce a substantial change in the U.S. trade balance."
    - She omits the following sentences in that GAO report, "However, export promotion programs play an important role in the following situations . . . [fourth,] when U.S. businesses need competitive financing, loan

guarantees or insurance to close an export sale." Which is, of course, what Ex-Im Bank does.

- In one paragraph on page 5, she quotes statements by a senior GAO official, Jay Etta Hecker, in 1997 in support of her claim that Ex-Im's export finance merely shifts production without boosting overall exports.

  - However, her quote is a sentence fragment of the original, omitting his introductory phrase, "At the national level*, under conditions of full employment* . . . " [emphasis mine]. This changes the meaning drastically.
  - She refers again on page 6 to the same statement by Hecker, omitting his qualifier about full employment.

- In the same paragraph, she quotes a CRS analyst, Shayerah Elias, in 2011 in support of her claim that Ex-Im's export finance merely shifts production without boosting overall exports.

  - James states that Elias was "concurring" with her claim when he was, in fact, summarizing statements he credited to "some critics of the bank."

- On pages 7 and 8, in denying that Ex-Im had any constructive role, she quotes a statement by ITC economists Jesse Mora and William M. Powers in 2009[2] that the drop in trade finance had "at most a moderate role in reducing global trade."

  - She neglects to quote Mora and Powers in the following page of their paper, which states, "Development banks and government agencies worldwide have played an important role in improving access to trade financing, aiding the recovery of trade."
  - And, "Surveys and government reports show that the additional liquidity provided by multilateral development banks (MDBs), national governments, and export credit agencies is paying a positive role."

**Over-Reliance on Other Cato Experts**

Finding no support from outside authorities, she builds her case against Ex-Im Bank by turning to other Cato Institute authors: Lukas and Vasquez, William Niskanen, Daniel Griswold, Daniel Ikenson, Duanje Chen and Jack Mintz.

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[2] Jesse Mora and William M. Powers, "Decline and Gradual Recovery of Global Trade Financing: US and Global Perspectives," 27 November 2009, VoxEU.org.

- The only exception is a self-serving claim by Wells Fargo Bank CEO John Stumpf that the lack of bank credit for small businesses was, in effect, their own fault, not the banks'.

Twelve of her 67 footnotes cite Cato Institute authors expressing the same criticisms of Ex-Im Bank and other government involvement in the economy.

- For example, she quotes as high authority an odd *non sequitur* by the late chairman emeritus of Cato, William Niskanen, "The Soviet Union has collapsed, and there is now an opportunity to end the continuing cold war of export credit subsidies."

- She also quotes Niskanen's unsupported hypothesis that unavailable export credit is not a market failure: "In a competitive credit market among lenders that face the same costs and alternatives, the best terms will be offered by the potential lender that is most optimistic about the commercial and political risks of a specific loan."

- She cites the 2002 paper (the one she cribbed) by Cato's Aaron Lukas and Ian Vasquez as her authority that "when loans or other credits are extended to essentially uncreditworthy countries, they become aid rather than export promotion." Lukas and Vasquez, in turn, cited as their authority a 1969 World Bank commission statement, as well as 2001 data. Neither is recent enough to reflect the much improved economies in once-distressed developing countries in the past decade.

Then there are 13 footnotes by third parties like the CRS or GAO. But as noted above, James misrepresents their content, claiming their support when they were either neutral or they actually supported the Ex-Im role. Her other footnotes are for either factual details, such as Ex-Im annual reports or testimony, or supportive of Ex-Im.

**She Gets Ex-Im Very Wrong**

In her critique, James repeatedly either fails to understand or deliberately misrepresents the Export-Import Bank and how it operates.

<u>"Subsidies"</u>

She repeatedly characterizes Ex-Im's export financing as "subsidies," twisting the accepted meaning of the term (direct payments, below-market financing, or tax expenditures) – none of which applies to Ex-Im.

Instead, Ex-Im finances its operations from fees and interest from customers and receives no appropriations of taxpayer funds.

- Its reserve account to cover potential losses (currently $4.6 billion, or 4.3 percent of total exposure) is from the same sources. Results in fiscal year 2012 were:

    - Ex-Im authorizations - $35.8 billion
    - Ex-Im administrative expenses - $98.7 million
    - Ex-Im allowance for losses - $4.6 billion
    - Ex-Im actual losses - $36.7million

- There are no “interest-free Treasury warrants,” as she writes. Ex–Im borrows from the Treasury, paying the same interest rate that money center banks pay the Treasury when they borrow.

- Ex-Im returns more to the Treasury than it borrows. It is a “negative subsidy program,” which the GAO defines as “those in which the present value of estimated collections is expected to exceed the present value of estimated payments.”

    - Ex-Im transferred $1.1 billion in excess earnings (also known as profits) to the Treasury in fiscal year 2012 and the first quarter of 2013.

<u>Risks to Taxpayers</u>

She also raises alarms about risks of defaults on bad loans, but cites no evidence that this is bound to happen. She fails to acknowledge that Ex-Im’s very low default rates (0.26 percent as of July 2013) could be the result of prudent management by Ex-Im staff and directors.

This prudence is deeply imbedded in its policies and procedures, which include the following.

- Ex-Im authorizes financing only when there is a “reasonable assurance of repayment” determined by rigorous due diligence by a staff with a proven record of success.

- Ex-Im finances no more than 85 percent of a transaction, requires risk-based “exposure fees” and, when advised, additional collateral.

- Once they disburse the funds, staff update a transaction's risk rating at least annually after assessing an obligor's capacity to repay, the value of pledged collateral, ability to weather adverse market changes, and on-site visits.

- Ex-Im also monitors private-sector lenders with delegated authority to make guaranteed loans. This monitoring looks for compliance with credit policies, volume of problem loans and loan loss claim history, among several indicators.

- Fiscal year 2012's default rate was only 0.34 percent of its active portfolio. (It was 0.26 percent in the most recent quarter ending June 30, 2013.) That reflects a steady decline of defaults in recent years, and was significantly less than 2006's default rate of 1.6 percent.

- Likewise, Ex-Im's level of impaired assets (many are restructured and do not default) has also fallen – from about six percent of total exposure in 2008 to about 2.5 percent last year.

- Concerns have been raised that Exim's 150-percent increase in authorizations since 2009 created a portfolio of loans and guarantees in their default-prone early years. This poses much greater risks of defaults not reflected in Ex-Im's risk policies.

    - However, Ex-Im since 2012 adopted improved monitoring procedures, in keeping with Inspector General and GAO recommendations. Pending is appointment of a Chief Risk Office, another recommendation.
    - Ex-Im had also increased its reserves at the beginning of the Great Recession, in case there would be rising default rates. But these defaults did not happen – leaving the Bank with an added cushion for any future defaults.
    - Also, the overall credit rating of those receiving financing has steadily improved in recent years – because many creditworthy exporters could no longer obtain affordable commercial bank financing.

<u>A Typical Aircraft Financing</u>

An example of a typical aircraft financing transaction illustrates Ex-Im's risk approach:

A recent Ex-Im 12-year guaranteed loan, at 2.75 percent interest, payable quarterly, enabled a European cargo airline to purchase a new Boeing aircraft.

- The terms included an Ex-Im guarantee for 85 percent of the purchase price (the remainder paid in cash by the airline), quarterly payments beginning at delivery, a three-percent exposure fee up front, senior debt status, and a first priority security interest in the purchased aircraft and some of the cargo airline's other aircraft.

- The debt is rated investment grade, and the airline has been current on all debt payments on earlier Ex-Im loans it obtained.

- The above airline needed Ex-Im financing because air cargo market conditions, volatile fuel prices and its high debt service discouraged commercial financiers. Plus, competing credit offers from Airbus required Ex-Im's counteroffer to close the sale for Boeing.

Mistaking How the Bank Operates

James appears confused about other aspects of the bank's operation, as well.

- She accuses the Bank of "picking winners and losers" and thus distorting our economy. She ignores that Ex-Im's financing is demand driven, that it results from U.S. exporters and foreign importers applying for financing on their own. The Bank makes special efforts to inform small businesses about the opportunities to export, but the rest is up to the exporters and importers themselves. The "winners" pick themselves.

- She claims that Ex-Im's authorizations of financing for export transactions "politicize the market" by financing large, wealthy corporations like Boeing. She ignores the rigorous due diligence by professional staff. Ex-Im's very low default rate would undoubtedly be much higher if its approach was indeed political, as she charges.

- She also fails to acknowledge the thousands of small business suppliers that participate in designing, manufacturing and maintaining Boeing commercial aircraft. Boeing estimates that some 23,000 suppliers produced over 60 percent of the end value of its products.

Denying the Importance of Exporting

Perhaps her most astonishing statement is, "There is no special reason why U.S. exporters deserved special treatment over domestically focused firms." This ignores the crucial role that expanded exports have had on our economic recovery – and can have in future growth.

- There is no "special treatment" for exporters over any other business. Businesses choose to come to Ex-Im for financing to enable successful transactions with foreign buyers of their goods or services.

- In fact, Ex-Im encourages "domestically focused" firms to begin exporting as a sound strategy to ensure their future by selling to the 95 percent of global consumers who live outside the U.S. If they do not export, it is their choice.

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- With annual domestic economic growth hovering around two percent in recent years – while the economies of developing economies are growing at two to three times that rate – the need for expanded exports should not need explaining.

- Moreover, some 60 percent of Ex-Im's authorizations financed manufactured goods – many of them advanced, sophisticated U.S. capital goods known for reliability and value – built by skilled, well-paid U.S. workers. These have played a crucial role in reversing the sharp decline in U.S. manufacturing jobs in the last decade. More is needed.

<u>Missing the Reality of Global Competition</u>

James reveals little understanding of the reality of today's global competitive challenges, as shown by her preoccupation with rich country competitors. Recent improvements in OECD rules have, in fact, reduced unfair credit subsidies by most of them.

However, she largely ignores the often unfair competition that grows more serious every year from developing countries like China, India, Brazil, Russia and South Korea.

- The first four do not belong to, and do not follow, the credit guidelines to which all OECD member export credit agencies subscribe. Their financing and other inducements give companies in these countries advantages not enjoyed by American competitors.

- China's export strategies alone debunk her argument. Its success in expanding export sales for Sub-Saharan Africa's many infrastructure projects are the result of massive credit subsidies and related aid programs. These pose a major threat to U.S. exporters competing for a share of the infrastructure spending boom underway in Africa today.

- Even in the large commercial aircraft market – with Airbus now the only real competition to Boeing – we can expect that emerging competitors in Canada, Brazil, Russia and China will use export credit and aid programs to win sales from Boeing. Canada's Bombardier is moving forward with an all-new 120-seat plane, scheduled for its debut in 2015, competing directly against similar planes by Boeing and Airbus.

Big Versus Small Businesses

Her claim that Ex-Im benefits mostly large U.S. exporters and large foreign buyers able to finance themselves ignores the prevalence of extensive supply chains among U.S. manufacturers.

More important, she ignores the near-catastrophic collapse beginning in 2008 of conventional export financing because of the Great Recession – and the difficulties of obtaining long-term financing for large, long-term projects. Even the most creditworthy exporters find the loan windows closed to them.

But, then, it doesn't matter anyway, she claims.

For "at least anecdotal reasons," she writes, credit problems were "not fatal for small businesses, even during the financial crisis." To document this outlandish claim, she quotes Wells Fargo Bank CEO John Stumpf statement in 2010 that small businesses needed more equity and profits, not more credit – a self-serving observation to divert attention away from banks' lack of interest in export credit then and continued reluctance today.

Financing America's Competitors

James claims that Ex-Im "stacks the deck against U.S. industries by subsidizing their foreign competitors." She cites Delta Air Lines as Exhibit A, uncritically accepting Delta's claim that Ex-Im's financing of Air India's purchase of long-range Boeing aircraft lowered its cost to less than what Delta would have to pay, thus giving a foreign airline an unfair advantage on routes both fly.

- In reality, if Delta indeed has higher financing costs, it may be because it went bankrupt in 2005 "after a decade of management missteps made largely out of hubris," *Business* Week wrote at the time.

- It emerged from bankruptcy in 2007, paying unsecured creditors between 62 and 78 percent of their claims, paid in shares of new Delta stock, not cash – a loss not easily forgotten by financiers everywhere.

- Those troubles redound today. Even though S & P's Rating Services raised Delta's credit rating on May 9, 2013 to B-plus, that rating is four steps into junk grade territory.

- Also, curious for an airline pleading poverty, Delta in 2013 authorized a $500 million stock repurchase, which can have the effect of raising share prices and, presumably, executive compensation.

- Delta also announced plans in 2013 to return more than $1 billion in dividends to shareholders over the next three years.

- James remains silent on the need for Ex-Im financing to compete against similar export credit offers from European countries that support Airbus sales to foreign airlines.

- She neglects in later writing to correct this record, failing to acknowledge Delta's mixed messages undermining its claimed injuries from Ex-Im's foreign airline financing. On May 24, 2013, Delta CEO Richard Anderson declared:

    - "Delta had a quite profitable year last year and 2013 will be the fourth year in a row of significant profitability. 2013 should be our most profitable year in our history. … And today, Delta is the most profitable airline in the United States, if not the most profitable in the world."[3]

James also cites Ex-Im's financing of Pemex's purchases of U.S. oil and gas industry equipment and services as a "questionable use of taxpayer dollar to say the least" – a remarkably shallow observation for a Ph.D. economist.

- She ignores the well-known synergies between the U.S. and Mexican oil industries, including how Pemex ships large volumes of produced crude to U.S. refineries which sell back much of those refined products to Mexico, as one example.

[3] http://www.marketplace.org/topics/business/deltas-ceo-passenger-fees-mergers-and-why-subsidies-are-bad-business

- U.S. exploration and production companies benefit greatly from sales of equipment and services to Pemex – a business that is bound to expand dramatically when Mexico reforms its oil and gas laws to allow more foreign involvement.

- American consumers will depend on at least some imported oil for decades to come and will benefit greatly from having much of these future supplies coming from a friendly, stable neighbor only a short tanker voyage away.

**Because We Say So, That's Why**

It is an article of faith for all Cato Institute authors that government is bad and private is good – period. They proceed from "a stringent, crystalline vision of the free market," a description coined by historian Kim Phillips-Fein.[4].

In their view, sweeping claims require no explanation or evidence. As shown above, they offer little. Here are some of those unsupported claims in James's paper:

- "By diverting resources from the private sector, the bank's activities produce a less-efficient economy and lower general standard of living than would occur in a free market for export finance." No data provided.

- "The Ex-Im Bank . . . inserts politics into what should be purely commercial decisions." She used Boeing as an example, ignoring the fact that it is America's leading exporter.

- ". . . if, on the other hand, the private sector wouldn't finance a transaction, it is a signal that taxpayers should not be exposed to the risk, either." You just have to trust them on this.

- "On the other hand, when loans or other credits are extended to essentially uncreditworthy countries, they become aid rather than export promotion." No example offered of such problem countries for Ex-Im.

- "The bank tries to avoid displacing private-sector sources of finance, but it is impossible to avoid displacement entirely. Because the Ex-Im Bank is ready to step in with financing, no one can know what terms might have been offered by private lenders had the bank not existed." *Impossible* to know*? No one can know?* That's it?

[4] In her 2009 book, *Invisible Hands: The Businessmen's Crusade Against the New Deal.*

- “By providing credit at less than its full risk-adjusted premium . . .” No evidence offered – or claim asserted – about what a “full risk-adjusted premium” should be. Just that it’s presumably higher than Ex-Im’s.

- Ex-Im financing “bids up the dollar’s value in exchange markets . . . and raises the price of U.S. exports generally.“ That’s our theory, so it’s true.

- “[T]he real impact of the Ex-Im financing is to divert export demand to politically connected clients of the bank.” No evidence.

- Jobs created by Exim are visible, “whereas the jobs destroyed (or never created in the first place) are unseen.” Maybe they’re unseen because she hasn’t bothered to calculate a number, if they actually exist.

- “Like other subsidies, export credit programs place a higher burden on domestic taxpayers in the granting nation than on competitors.” Whatever the validity of a burden – she cites no examples – she unjustifiably conflates Ex-Im export financing with “subsidies.”

- Without any context, she includes this: “Congress should not finance this negative-sum game because *the Constitution does not authorize* [emphasis mine] the use of taxpayers’ funds to benefit politically favored groups.” Huh?

**Dreamy Optimism**

Having painted herself into a corner of the free markets room, James leaps to “setting the example” as her escape.

She invokes Niskanen’s unsupported claim in 2002 that the U.S. can bring down other nations’ use of unfair export credit incentives by unilaterally abandoning Ex-Im financing.

- She writes, “Recognizing the costs of export credit programs *will hopefully* modify opinions of their value, too, and in the meantime a unilateral reduction in export credit subsidies *would be a good first move* on the part of the United States.” [emphasis mine]

- Then, “For export credits, too, other countries *may follow* the United States, because adopting sound policies is in their best interests and because American promises to lock in current practices are considered valuable. “ She knows their best interests, and they don’t.

James ignores Ex-Im's and President Obama's efforts on all fronts to expand free trade agreements and negotiate bilateral and multilateral export credit rules that could further limit unfair export credit incentives.

She compounds that omission by urging a unilateral disarmament that would harm American exporters of all sizes and jeopardize our nation's economic recovery – using such unpersuasive language as "hopefully" and "may." This is appeasement at its most pathetic.

**The Enron, Solyndra, Fannie Mae, Freddie Mac Canards**

When James and other critics run low on other ammunition, they bring up Ex-Im financing that supported foreign purchases of Solyndra and Enron services and products, falsely implying that taxpayers lost money on too-risky transactions involving these notorious companies. In reality, Ex-Im did not lose money in either case and, in fact, made money.

- Ex-Im provided financing to Enron's overseas customers in the 1990s. The customers repaid these loans in full, as required. In fact, the Bank earned over $119 million in fees and interests from these transactions.

- Ex-Im provided a loan guarantee for the purchase in Belgium of solar panels made by Solyndra. The panels are installed and operating. The buyer has made all required payments, and the Bank has collected over $300,000 in fees.

James falsely implies that Ex-Im's portfolio will cost taxpayers the same kinds of multibillion dollar losses that Fannie Mae and Freddie Mac did several years ago. In reality, there is no valid comparison.

- Both Fannie Mae and Freddie Mac were publicly-traded government-supported enterprises centered on one industry – housing. They operated much like commercial banks, complete with lavish executive pay and bonuses linked to earnings, generous campaign contributions to Congressional supporters, promises of ever-rising quarterly dividends, and other incentives to expand recklessly.

- In contrast, Ex-Im is a federal agency staffed by career civil servants. There are no shares or lavish pay or bonuses, risks are carefully monitored by Congress and other agencies, and its portfolio is spread across 180 countries and dozens of industries.

**The Soviet Union Parting Shot**

Both James and Niskanen practically giggle when they repeat that Ex-Im was founded in 1934 for the purpose of extending credit to the Soviet Union. They hope readers will infer that the origin of Ex-Im was some sort of New Deal flirtation with Soviet Communism.

They are correct that Ex-Im was founded initially to finance U.S. exports to the Soviet Union, but both James and Niskanen ignore its historical context.

American business interest in exporting there surged in the 1920s, encouraged by Commerce Secretary Herbert Hoover, among others. By 1926, the U.S. exported more to the Soviet Union than to any other country, according to business historians William H. Becker and William M. McClenahan Jr.

Later, in the depths of the Great Depression, U.S. business leaders saw a welcome selling opportunity there, especially when the Soviets' First Five-Year Plan produced dramatic economic results and surging demand for raw materials and capital goods from the West. By Ex-Im's founding in 1934, the Soviet Union was two years into its Second Five-Year Plan of rapid industrialization, emphasizing heavy industries.

The Soviet Union amazed other nations with its 12 to 13 percent annual industrial growth rate maintained during that decade. The number of industrial workers in that country tripled from 1928 to 1940, to 12.6 million.

Every major industrial country, even Nazi Germany, competed to recover from the Great Depression by exporting capital and other goods to the Soviets in those years. Ford, General Motors, International Harvester and General Electric were some of many U.S. corporations competing for business there. Ford succeeded better than most, selling to the Soviets both vehicles and the machinery and services to build a huge truck factory in Nizhny Novgorod.

Ultimately, because of Soviet barriers to capitalism, Ex-Im made no loans there. Ex-Im reorganized and focused on other export markets, beginning with Cuba in 1934.

**Conclusion**

Sallie James makes neither a convincing nor honest case against the Export-Import Bank, relying instead on smug generalizations. Her shallow paper is a notable example of the dumbing down of intellectual discourse by opponents of government involvement in our society.

A close reading shows that her documentation ranges from weak to nonexistent, while her “stringent and crystalline” free-market ideology is unrelenting, no matter how divorced from reality. This is a central characteristic of the all-out attacks on government by the Cato Institute, propelled by its long-standing institutional narcissism.

Her later writings display even less of an obligation to document her arguments against Ex-Im Bank, and we can expect her and her acolytes in other organizations to increase such attacks as the reauthorization debate gets underway later in 2013.

However, facts still count. The Ex-Im Bank has an excellent record of creating hundreds of thousands of export-related jobs during the Great Recession and other accomplishments. Ex-Im and its supporters should counter specious arguments with such facts at every opportunity.

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