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Terry McLaughlin: Much reform work needed for Ex-Im Bank

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Former Rep. Scott Garrett of New Jersey was announced on April 14 as President Trump's pick to head the Export-Import Bank, an institution I suspect is a mystery to most of us.

The Export-Import Bank of the United States (Ex-Im Bank) is a government corporation chartered by Congress, which provides loans, loan guarantees, and insurance products intended to create and sustain U.S. jobs by financing sales of U.S. exports to international buyers. The bank's charter directs that the Ex-Im Bank not compete with private sector lenders, but rather provide financing for transactions that would otherwise not occur because private or commercial lenders would be unable or unwilling to accept the risks inherent in the deal.

The Ex-Im Bank uses taxpayer dollars to guarantee loans for foreign purchasers of U.S. exports. Approximately 65 percent of these funds support major corporations such as Boeing (the top beneficiary), Caterpillar, Bechtel and Ford Motor Company. In 2012, a full 82 percent of the bank's loan guarantees went to Boeing customers. It is hard to imagine that any American commercial lender would fear the risk of lending money to a company such as Boeing (which made almost $5 billion in net income last year), which may explain much of the controversy over the continued existence of the Export-Import Bank.

In 2014, Forbes contributor Doug Bandow wrote "The agency piously claims not to provide subsidies since it charges fees and interest, but it exists only to offer business a better credit deal than is available in the marketplace. The bank uses its ability to borrow at government rates to provide loans, loan guarantees, working capital guarantees, and loan insurance."

There are legitimate concerns that government favoritism subsidizing certain corporations causes market distortions and favors the biggest companies who can hire the best lobbyists.

A National Bureau of Economic Research paper written by Debbie Lucas of MIT suggests that Ex-Im Bank profits are an accounting delusion, as the bank's long-term loan guarantee program actually provides guarantees at a loss to the taxpayer. Her analysis revealed that the Ex-Im Bank's loan guarantees were made at such generous terms that borrowers received subsidies of about 1 percent of the amount borrowed — which translated to a $200 million cost for taxpayers in 2012. It was predicted that losses over a 10-year period would be approximately $2 billion.

In September 2008, then-Senator Barack Obama stated that the Export-Import Bank was "little more than a fund for corporate welfare." Many politicians, both progressive and conservative, agreed with him, and continue to agree with that statement today. Yet on July 22, 2015, when President Obama was lobbying for the reauthorization of the Ex-Im Bank, he said "You'll hear some critics suggest this is just corporate welfare for big multi-nationals."

Well, yes, we did hear critics suggest that — Obama, as a senator, himself being one of those critics

Scott Garrett, President Trump's pick to lead the Ex-Im Bank, is also one of those critics, and that is the reason why many who support the bank are opposing his appointment.

Lobbyists in Washington want Garrett's nomination to be withdrawn and one of his most prominent critics is National Association of Manufacturers President and CEO Jay Timmons. Timmons wrote in the July 11 Wall Street Journal that "those like Mr. Garrett who have stood in the path of a fully functioning Ex-Im Bank are responsible for moving our jobs, our wealth and our factories to other countries."

The opposite may be true, as when government intervenes in the market place it often destroys the free market and creates a system in which consumers reward corporations when they are successful and taxpayers protect corporations when they are not. And don't forget that General Electric and other manufacturers moved thousands of jobs abroad while the Ex-Im Bank was thriving.

Fraud and corruption are among a long list of operational problems at the bank. In 2012, the Office of Inspector General submitted a report to Congress noting that the bank failed to collect adequate credit information and history from borrowers and that "Ex-Im's risk management framework and governance structure are not commensurate with the size, scope and strategic ambitions of the institution." This was followed by a 2013 report from the IG characterizing the Ex-Im Bank as exhibiting "weaknesses in governance and internal controls for business operations."

A 2013 survey of employees of the Ex-Im Bank as reported in the Wall Street Journal showed that ethical conduct is not among Ex-Im's strengths. Only 42 percent of bank employees could agree with the statement "My organization's leaders maintain high standards of honesty and integrity," and only half felt they could disclose a suspected violation of a law, rule or regulation without fear of reprisal.

An examination of fraud cases revealed a pattern of carelessness in doling out taxpayer money. Dozens of cases of serious wrongdoing involving Ex-Im beneficiaries have been investigated by the Inspector General's office, and in a six-months span of 2013/2014 a total of 47 criminal judgments and 42 pleas were obtained.

While Garrett cannot independently abolish the Ex-Im Bank, he understands fully the many problems with the institution, including fraud, abuse and mismanagement.

Having this knowledge, Garrett can flag inappropriate loans, and ensure, for example, that the United States is not loaning money to Iran to buy Boeing airplanes. There are legitimate concerns that government favoritism subsidizing certain corporations causes market distortions and favors the biggest companies who can hire the best lobbyists. Hopefully Scott Garrett can address these concerns and put in place some much-needed reforms.