



Pull the U.S. out of the European Bank for Reconstruction and Development

I've spent years arguing that the Export-Import Bank, the official United States export credit agency, is a wasteful and corrupt bureaucracy. It exists to subsidize big companies, especially Boeing and other politically connected firms. Not only is this unfair; it undermines growth because these subsidies distort the allocation of capital. I don't mind if companies earn profits by providing value to consumers, but they shouldn't line their pockets simply because politicians are granting them favors.

It's disappointing that Republicans won't shut down the Ex-Im Bank and are even thinking about giving it a new boost. They control Washington and have the power to uphold the principles of genuine free enterprise. Instead, they're kowtowing to the swamp even as the data show that exports are doing well and formerly subsidized companies are doing A-OK.

But let's look at this from an optimistic perspective. Maybe Republicans are willing to do the right thing, and they simply need to start with an easier target. If that's the case, an obvious choice is the European Bank for Reconstruction and Development, or EBRD. This international bureaucracy was set up in 1991 after the collapse of the Soviet empire, ostensibly for the purpose of promoting capitalism in the post-communist world, and the United States is its largest financial supporter. Not surprisingly, its mission has since expanded to cover many other countries, as well as various noble-sounding causes.

Like the Ex-Im Bank, its basic approach is to provide subsidized capital for various private companies, which arguably couldn't have access to capital in order to transition toward more a more market-based economy. It's great news for vested interests that have political power and connections, but it's not good if we want these nations to develop honest free markets with a level playing field.

There are countless flaws with the EBRD, but three of them stand out.

First, its loan programs create capital misallocations. Consider the guaranteed loans. They transfer the risk of lending away from private lenders to the taxpayers, which drastically reduces the incentives to evaluate applicants and projects thoroughly or apply proper oversight. These programs privatize gains and socialize losses — in other words, taxpayers bear the downside risk and the companies and the banks that receive the guarantees get the upside benefit. These loans also give an incentive to lenders to shift resources toward subsidized projects and away from nonsubsidized ones, independent of the merits of the projects.



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Second, the EBRD is cronyism, plain and simple. The bank picks winners and losers in the marketplace. The winners — often better-connected firms — benefit from an unfair advantage over their competition in the form of subsidies, lower borrowing costs and other perks. Tough luck if you're an unsubsidized firm competing in that market.

Third, it breeds corruption: A study by the Center for Freedom and Prosperity on the issue highlights all the ways “that monies ostensibly disbursed for the purpose of development assistance wind up lining the pockets of corrupt insiders. For all intents and purposes, the EBRD and other dispensers of aid enable and sustain patterns of corruption.” The study lists a few examples, such as the bank granting funding for projects in less-than-democratic countries (contrary to the stated goal of the bank) and employees accepting bribes. It also notes an analysis that finds bank officials don't really care, as “serious allegations of corruption do not seem to have had an impact on the EBRD's stance towards the project or the company leading the projects.”

By the way, these are almost identical to the reasons why American taxpayers shouldn't be subsidizing the Ex-Im Bank. We are talking about the same basic issue of whether politicians should have the power to shift capital to the cronies. That's bad when it happens here at home, and it's bad when it happens overseas.

I won't give up in the fight against domestic cronyism, but I know it's an uphill battle since many of the big companies with their snouts in the trough are also big contributors to Congress.

Yet it's very bizarre that through the EBRD, American politicians also are subsidizing cronyism in countries like Serbia, Kazakhstan and Mongolia. Maybe they don't even know that we're squandering money on cronyism in remote parts of the world because the federal government is such a sprawling behemoth of waste? Either way, that needs to end.

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