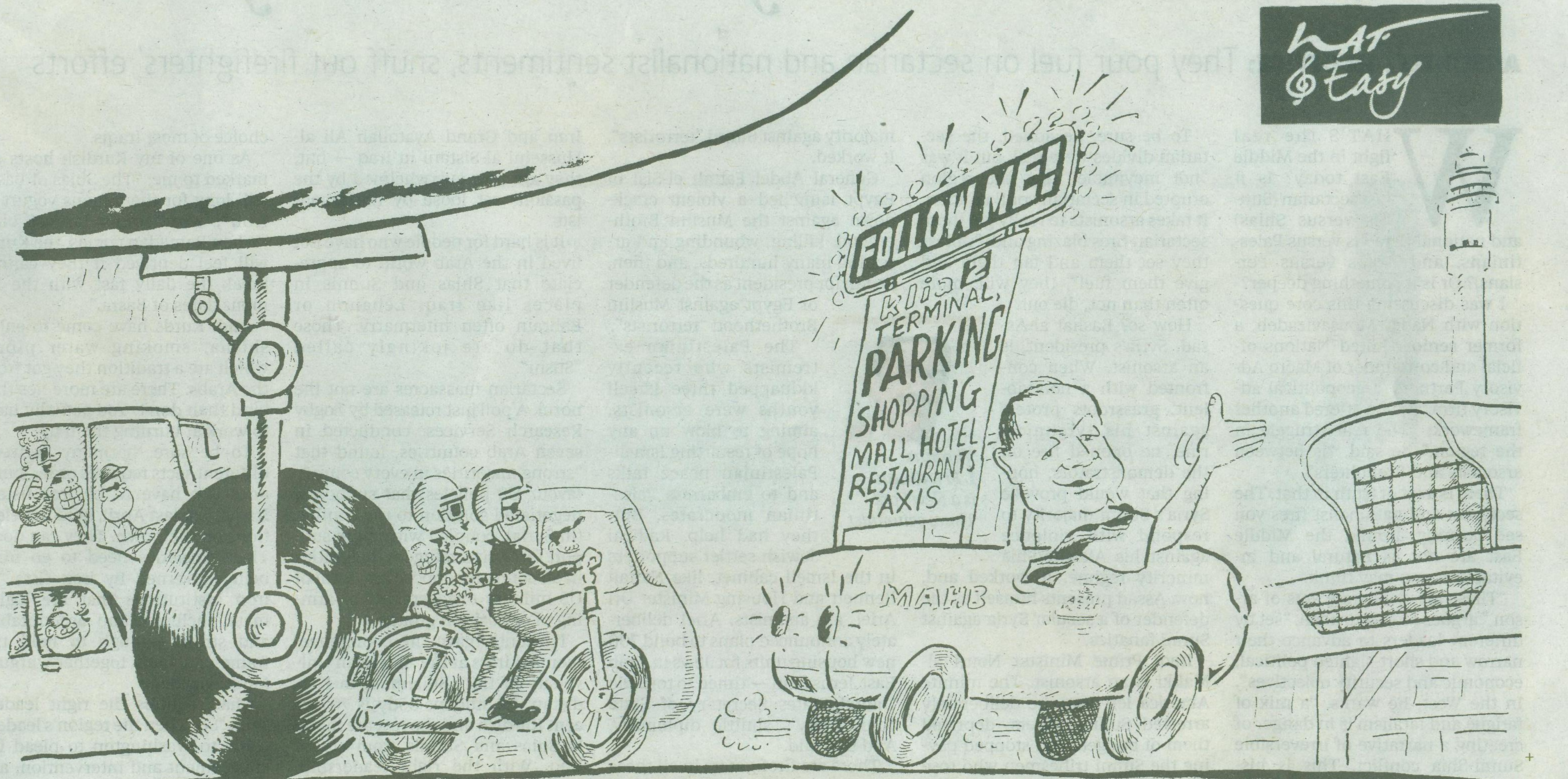
The real stokers of Mid-East fires

They pour fuel on sectarian and nationalist sentiments, snuff out firefighters' efforts

Lat & Easy



Beware a dangerous chain reaction

EMBATTLED: Opposition to Export-Import Bank could extend to the Fed and beyond, write *William G. Borges* and *Ahmed Razman Abdul Latiff*

THE Export-Import Bank of the United States (Ex-Im Bank) is in serious trouble. Unless supporters of the 80-year-old institution beat back growing opposition to the bank's demise, it will close when its current authorisation expires on Sept 30 this year.

Ex-Im Bank's closure could set off a chain reaction, toppling or crippling better-known and embattled institutions of finance, including the Federal Reserve (Fed), International Monetary Fund (IMF) and World Bank.

The Fed is an American agency; IMF and World Bank are international entities dominated by American players.

Ex-Im Bank has long been controversial because of its blatant support of huge companies, which often comes at the expense of small- and medium-sized companies, their employees and American consumers.

The purpose of this bank is straightforward: to offer financing, loan guarantees and assorted types of insurance to help facilitate transactions in the event that private-market lenders refuse to bear the risks associated with international trade.

Defenders of Ex-Im Bank correctly point out that it does not compete with commercial banks for business. What they usually downplay, however, is the fact that the institution's interference in international free trade provides large companies, including multinational companies, a distinct advantage over their smaller competitors.

Ex-Im Bank is in immediate danger because of opposition to its existence by members of the Republican Party (GOP), who already control the US House of Representatives and stand a very good chance of capturing the Senate this November.

Re-authorisation of the bank will be decided by Congress — and the agency is despised and distrusted by GOP's Tea Party faction, which is very conservative and led by populists who distrust big business and big government. Its members believe that Ex-Im Bank perpetrates large-scale cronyism.

This month, the Tea Party managed to defeat one of GOP's most powerful leaders, Eric Cantor, who supported Ex-Im Bank. The House's new leadership trio — Speaker John Boehner, Majority Leader Kevin McCarthy and newly elected Whip Steve Scalise — are not supporters of the bank. McCarthy and Scalise have said they oppose it, and Boehner said he would not defend its re-authorisation.

The US Chamber of Commerce and National Association of Manufacturers, along with huge companies and gigantic labour unions, are going all out to save Ex-Im Bank. These parties claim that the bank promotes American economic interests and preserves jobs. But, they face an uphill battle, especially since the House alone could block re-authorisation.

Perhaps, the most important question to arise from a defunct Ex-Im Bank would be the obvious one: which financial behemoth will be next? Tea Party populists are sworn enemies of the Fed, IMF and World Bank — and they are joined by many moderate Republicans and a fair number of populist-minded Democrats, who distrust big business.

The first obvious target, following discontinuation of Ex-Im Bank, would be the Fed, which Republicans believe is worsening national and global economic conditions by pursuing foolish monetary policies, particularly that of quantitative easing — that is, excessive injection of paper money into the economy.

Just this year, financial publisher and two-time presidential candidate Steve Forbes penned a book condemning the Fed and calling for the return to a gold-linked dollar. Forbes is not a fringe extremist, but a serious, respected critic of the Fed, and his message is resonating in America.

It is also important to consider other challenges to the world's system of banking, which relies on the fractional reserve banking system that has the multiplier effect on the dangers of compounded interest rate and fiat money.

Challenges to all of these financial entities have ramifications for people around the world. Indeed, most Malaysians fondly remember when, in 1997 and 1998, then prime minister Tun Dr Mahathir Mohamad defiantly challenged IMF verbally and with a range of policies, including capital and foreign-exchange controls, and linking the ringgit to the dollar.

This resulted in Malaysia — unlike many developing nations — weathering the currency and economic crises of the decade. In Putra Business School, we are working hard with academics and industry practitioners to come up with a viable and sustainable alternative funding and financing system that is grounded in human governance philosophy.

So, we advise people to stay tuned.

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