tions, which can prove itself capable of recovering the economy's flexibility in responding to crisis situations, which will clear the way for solutions to the structural problems we are debating here today. We must have a leadership that can create an environment favorable to the development of the different regions of the world, that will return to the free market forces the freedom of initiative.

Without this, our efforts will stand as a denial of the very essence of humanity, which is permanent growth, and we certainly will not achieve the superior goals of increasing production, enlarging employment opportunities, and improving the world's standard of living.

Egyptian central bank

From an interview with Aly Mohamed Negm, Deputy Governor, Central Bank of Egypt, and Vice-Chairman of the Group of 24, conducted Sept. 7 in Toronto:

EIR: Mr. Governor, the Group of 24 communiqué refers to the problem of high interest rates and the debt-service burden. . . .

Negm: Yes, the debt is one of the major problems. Our economies need all the capital we can get for economic development, and to raise the living standards of our populations. However, with the contraction in the world economy, many countries are now unable to support rising debt burdens considering their falling foreign trade.

EIR: The nations of Latin America are growing increasingly aware that they have a great deal of power, if they act in cooperation, and that they can take leadership in attempting to redirect the world economy. Can Egypt take the leadership in the Arab world, to support the efforts of Latin America, and to demand progress for the developing nations?

Negm: Yes, certainly, as Arabs as well as Africans, we understand the problems of the area. We are a good example of this. We have to fight our battle, as well, to survive. Then, we must fight a battle to develop our economies as rapidly as possible. The Group of 24 communiqué reflects these efforts and problems of the developing nations.

That is why it stresses the magnitude of the problem represented by the external debt burden, and the question which we have, which is, how to have acess to, and, to increase, our resources, of foreign currencies needed for economic development. I cannot comment on the details of the Mexican program, but I may say that we want Mexico to survive. We stand beside Mexico as a developing country, in its battle to develop its economy and to industrialize.

Don Regan's insane posture in Toronto

by Kathy Burdman

U.S. Treasury Secretary Donald Regan, British Chancellor Sir Geoffrey Howe, and the other Group of 10 industrial nations at the IMF Annual Meeting this week re-enacted Shakespeare's "Merchant of Venice." Rejecting charges by the Group of 24 LDCs that the West's austerity is about to cause a world "collapse," and ignoring Mexico's refusal to accept IMF austerity, the G-10 in a Sept. 3 communiqué demanded the Third World tighten its belt, and pay its debts.

On Sept. 4, the Interim Committee of the IMF, the IMF's policy body, issued an identical communiqué, largely written by the G-10, which controls the IMF. It blamed the world's problems upon excess spending by the LDCs. Not only will no new funds be made available, the IMF's final communiqué stated, but any country that refuses to immediately tighten its belt will be cut off from world credit.

"Current difficulties" in the Third World, according to the Interim Committee communiqué, "have stemmed from unduly expansionary financial policies . . . external debt has reached historically high levels in many countries. The Committee stressed the importance, at a time when private financial flows are less readily available, to be taking steps toward *realistic adjustment*."

Playing the role of Shylock was Donald Regan, who personally scuttled even the G-24's foolish plan to expand IMF resources from $69 billion to $140 billion in the Eighth Quota Review. In fact, Regan acted instead to ensure that "no new quotas will be available until April 1985," as he said in a Sept. 6 press conference. As a result, the Interim Committee final communiqué announced no new funds for the IMF.

Instead, Regan prescribed more austerity for the world. Tight money and budget cuts have licked inflation in the U.S., he lied; "the U.S economy is now up beat, and the recovery is under way." As for the Third World, he said Mexico and others have been "over-ambitious. We've had to cut back, others will have to do it too. It's tough."

Free-market bull

"Listening to U.S. Treasury Secretary Donald Regan making a public fool of himself," a spokesman for *EIR* founder Lyndon H. LaRouche commented Sept. 7, "the only sensible reaction would have been to shout at the poor jerk: 'Enough of your bull, Merrill Lynch.' "

"Whom the gods would destroy, they first make mad. Not only the mentally sick Friedmanites around Washington, but most of the representatives of the leading industrialized nations—The Group of 10—at that International Monetary Fund conference were behaving as the most pathetic pack of hysterical fools seen at any major intergovernmental conference of the post-war period.

"We are on the edge of the worst financial collapse in modern history, far worse than 1931-32. To roll over the debt of nations for even six months or so, will require between $500 and $700 billion. What is the discussion among the Group of 10? The issue is whether to raise the kitty to $100 or $120 billion dollars of 'bailout funds' to tide the bankrupt monetary system through the next month!"

Leading U.S. bankers at the meeting exhibited the same symptoms of insanity. "It is not necessary for the IMF to hand out any more money," G. A. Costanzo, recently retired Vice-Chairman of Citibank told *EIR*. "The LDCs must cut their deficits. They must cut their borrowing. They must not declare debt moratoria! We will never negotiate with anyone who seeks to violate their debt contracts. The debt must be paid." From Chase Manhattan Chairman Willard Butcher, to Henry Fowler of Goldman Sachs; Anthony Solomon of the New York Federal Reserve and Dennis Weatherstone, Chairman of the Morgan Bank, the responses were identical.

The British disease

Behind Regan, as usual in international affairs, was the Malthusian policy of Great Britain, whose Chancellor Sir Geoffrey Howe, in a Sept. 4 interview with the *Toronto Globe and Mail*, announced that "I am happy to see," that the IMF has been following "the policies of Britain" for the past several years.

Howe and IMF Managing Director Jacques de Larosière, had evidently decided upon the old British military strategy of "aura of power." If the G-10 reacted viciously enough to the Third World's demands for debt relief, the victims would come begging to the IMF, regardless of the fact that the IMF has no actual power.

De Larosière stated as much at his press conference following the Interim Committee communiqué's release. Asked by a Mexican reporter whether the communiqué's demand for "realistic adjustment" was a threat to Mexico, he replied: "That is a paragraph which should be read over and over again, by every government, and, yes, it is a warning."

Indeed, every other industrial nation lined up behind the British strategy. "Stepped-up adjustment efforts by borrowing countries are clearly required," West German Finance Minister Manfred Lahnstein said in his Sept. 6 speech. "Borrowing countries must restore economic discipline," Japanese Finance Minister Michio Watanabe said, and added, "IMF conditionalities are a means of preventing inflation and Japan endorses them," in a Sept. 7 press conference.

"The U.S. policy is insane," a high Brazilian official told *EIR*. "It is a very bad policy. Donald Regan's actions will destroy his own banking system."

'This is a warning to Mexico'

Excerpts from questions and answers during press conference of the Interim Committee of the International Monetary Fund on Sept. 4.

EIR: After Mexico's nationalization of the banking system, an entire group of Latin American countries, including Venezuela, Colombia, Bolivia and Brazil, are prepared to join Mexico in a declaration of debt moratorium in opposition to the policies you have put forward. This could crash the entire $1 trillion interbank market. What do you intend to do about the private commercial banks? What does the Bank for International Settlements intend to do?
Delarosière: I am not going to comment about individual countries. However, since your question deserves an answer, I will try to answer it. As to what the BIS will do, you had better ask them.

EIR: I just spoke with Mr. Lamfalussy, the chief economist of the BIS, and he told me to ask you (laughter).
Delarosière: In the Fund, we treat balance of payments problems as they arise. When member countries ask us to provide assistance, we try to respond promptly. We do not act in global terms, but strictly on a specific basis with each country. When countries do ask, we try to negotiate an adjustment program. That is the way we operate. However, if the question implies that we were on the verge of widespread slippage, I do not share your view. The international financial system is sound and flexible, and has shown its resilience in the past years and months.

Q: Does the recent decline in interest rates bring us nearer to recovery, or represent a change from a strict monetary policy?
Delarosière: No. If, in present circumstances, the whole apparatus were let go and replaced by the wrong program of a monetary character, there would be a rise in inflation.

Q: Was the U.S. delegation the only one to oppose a substantial increase in quotas?
Canadian Finance Minister MacEachen: It's not possible to poll every delegation, but the U.S. was the only major country opposed.

El Universal (Mexico): The Interim Committee communiqué says "current difficulties in many countries come from unduly expansionary policies which have generated domestic inflation and misallocation of resources. There must be adjustment." Can that be interpreted as a specific warning to Mexico?

Delarosière: That is a paragraph which should be read again and again, and studied by all concerned. And, yes, it is a warning.

Delarosière relays dictates

Statement by J. Delarosière, Chairman of the Executive Board and Managing Director of the International Monetary Fund in Presenting the Thirty-Seventh Annual Report of the Executive Directors to the Board of Governors of the Fund.

. . . [C]onsiderably more adjustment is needed on the part of many countries if external deficits are to be brought down to a sustainable level and debt crises avoided. This means that countries must shape their economic policies in such a way as to keep their external deficits within manageable bounds in terms of their debt service capacity. . . . And the Fund, as the agent of adjustment in the system, has a vital role to play in helping member countries to put together and implement the adjustment programs that are needed.

The commercial banks have played a rapidly expanding role in the international financial system. Banking practices should now conform to this wider role. . . .

When financing only has the effect of allowing a country to live beyond its means by, for example, supporting excessive consumption, it serves neither the interests of the borrower nor that of the financial community. . . .

'Overly ambitious planning'

From the statement by Donald Regan, Secretary of the Treasury and Governor of the Fund and Bank for the United States, to the IMF conference on Sept. 6:

. . .The experience of the past few months underscores the basic strength and resilience of the international financial system. The system is sound. It has coped with some difficult liquidity and debt problems, and I am confident that it will do so in the future.

At the same time, it is clear that the rapid growth of international debt has placed strains on the world banking system. Ironically, many current problems stem from government policies designed to stimulate rapid growth but which—because of their excesses and reliance on controls—have produced little or no growth and have greatly damaged economic performance in all respects.

All too often, governments have tried to follow overly ambitious national economic plans that exceed the real and financial resources of their nations. Confronted with the gap between aspirations and resources, the temptation is great to spend beyond one's means—a problem not unheard of in Washington. There are pressures for massive government deficit spending and temptations to monetize budget deficits, thus fueling inflation. And there are heavy pressures to borrow excessively abroad—to the point that a nation loses access to foreign credit markets altogether.

The results are inevitable: too little growth, too much inflation, too much debt. Confidence in the borrower's economy becomes shaken and money flees to other countries and to other currencies.

The lessons here for all of us—creditors and debtors—are plain. The international financial system is tough and resilient, but its resources are not inexhaustible. Societies cannot grow faster than their resources will allow. Attempts to promote unrealistic growth rates lead only to inflation.

The real solution to the problems we all face is to be found through a series of courageous and concerted steps toward adjustment. . . .

'Monetary system is sound'

At his press conference, and in his speech the next day to the IMF Annual Meeting, U.S. Treasury Secretary Donald Regan demanded openly that the nations of the world, beginning with Mexico, capitulate *politically* to the IMF's call for world austerity.

Lying baldly, and to general laughter from reporters, Regan stated that due to the austerity measures taken here in the last year, "The U.S. economy is now upbeat, and the recovery is underway. The leading economic indicators show it," he said. "Since last year, the U.S. has succeeded in getting interest rates down, in getting inflation down, by cutting our expenditures."

"Regarding the worldwide situation," Regan said, "we'll be more upbeat than others," because he said the U.S. is confident all nations will take austerity measures. "Mexico is in a serious situation," he said, "but if there is a *political result* and response by Mexico," to agree to the austerity conditions of the IMF, "the situation can be handled."

EIR's Kathy Burdman then shocked the press conference by asserting Mexico would not give in, and indicting the IMF for violation of the Nuremberg statutes.

EIR: Mr. Secretary, with respect to your statement that Mexico must politically submit to the IMF: Lyndon H. LaRouche, the editor of my magazine, this morning made two charges against the IMF Board of Governors to which I'd like your response. First, is it not in fact true that Mexico will not submit to the IMF, that in fact Mexico, Argentina, Brazil, Venezuela, and other nations are soon about to default on some $250 billion in foreign debt, and that this means the IMF is under the threat of the worst international financial collapse since the 14th century? And second, how do you answer the charge that IMF conditionalities have caused famine, epidemics, and homicidal strife throughout the developing sector amounting to crimes against humanity in violation of the Nuremburg code?
Regan: I'll try to dignify that with an answer. The International Monetary Fund is not on verge of collapse—

EIR: Not the IMF, sir, the system. The system.
Regan: The Fund has plenty of money, and it has the ability to borrow any additional funds it may need on the international markets. The U.S. has proposed a special emergency fund for use by any members facing emergencies. The international monetary system is sound, the situation with the international banking system can be handled, I expect no individual crisis which can shake the system.

As far as crimes are concerned, this is an erroneous charge. I don't think any such thing has happened.

In subsequent questions, Mr. Regan continued to insist that IMF austerity programs would prevent default.

Q: Mr. Regan, the nine largest banks in the U.S. have lent amounts surpassing 40 percent of their capital to Mexico. It is estimated that $240 billion in debt must be financed this year. You have said the IMF will not be expanded. What is the alternative to the IMF? What will you do about the U.S. banks?
Regan: They'll get along just like any other banks. Take Poland. The Poles haven't paid their debt, but their bankers are getting along fine. They've had rescheduling and stretchouts. These things can be handled. You don't get a default and total collapse of the banking system. We'd like to see the IMF handle it, but there are many other ways it can be done.

Q: But Mr. Secretary, Mexico cannot pay its debts.
Regan: Mexico has been over-ambitious. You have to cut your cloth to suit your pattern, and if the pattern is less revenue, you have to cut back. We've had to cut back. We don't have unlimited money. Others will have to do it too. It's tough.

Q: But Mr. Secretary, what about the so-called "IMF riots?" Doesn't the IMF cause political instability?
Regan: Look, belt tightening is something everyone has to go through, and it's up to the political leaders of these countries to explain that to their people.

'Mexico model' could rally the continent

by Cynthia Rush

Mexico's nationalization of its private banking system and imposition of other dirigist economic measures to defend itself from the IMF, has put the rest of the developing sector, and especially the debt-ridden nations of Ibero-America, on the spot.

The IMF is on the spot as well: it knows what Mexico's defiance of its policies signifies, and it fears that other Ibero-American nations may follow suit. The Sept. 8 edition of the New York *Journal of Commerce,* reported that Mexico's bold action "cast more gloom over the annual [IMF] meeting than has been seen in many years."

Delegates from Nicaragua, Venezuela and Brazil denounced IMF conditionalities and detailed the effect on their economies of Paul Volcker's interest-rate madness. The intervention by Brazilian Finance Minister Ernane Galvaes did not go unnoticed by strategists who are counting on keeping Brazil out of a "debtors' cartel" or away from plans for joint debt renegotiation, with promises of new credits and a better credit rating.

Brazil's leadership continues to insist that their country "is different," and knows how to "manage" its $80 billion in foreign debt. But Galvaes forthrightly attacked IMF policies. "The industrialized countries are blindly insisting on the maintenance of economic policies which have extraordinarily perverse repercussions on the developing countries," Galvaes told a luncheon gathering. Without the "leadership that can create an environment favorable to the development of the different regions of the world . . . our efforts will stand as a denial of the very essence of humanity, which is permanent growth."

As for Argentina, while Finance Minister Jorge Wehbe told the IMF that non-payment of debt would constitute "moral effrontery," and indicated willingness to subject Argentina to the austerity conditions of a "stabilization program," nationalists in the Air Force in Buenos Aires issued a sharp public declaration that further undercut the limited authority Wehbe had when he left home.

To those pro-British monetarists who want to give in to the blackmail of the international banks and unfreeze British assets in Buenos Aires in exchange for foreign credits, the Sept. 3 Air Force statement warned that "no demand for the prior lifting of the blockade [as a condition for] the refinanc-