
Interview: Arnon Gafny

Economic growth can underwrite peace

Mr. Gafny was former governor of the Bank of Israel.

EIR: At the beginning of your speech to the Tel Aviv conference [the Armand Hammer Conference on Economic Cooperation in the Middle East], you mentioned that both Egypt and Israel are heavily indebted, as a result of the military expenditures both had to make for their defense, and this obviously places a constraint on the possibility to free up resources for a development plan. What is your view of renegotiating this debt? Could this be an area in which Egypt and Israel could collaborate?

Gafny: I think that collaboration between Israel, Egypt, and maybe other Arab countries in the area on this matter should be done through a multilateral mechanism. I have thought for many years, that multilateral arrangements . . . to recycle the defense loans into longer-term development loans, would be the best mechanism, for the following reason. When I was, for many years, the person responsible in Israel for the debt, when I was governor of the Bank of Israel and earlier, in the ministry of finance, I was always against Israel's asking for forgiveness or rescheduling of debts, because I believed that we can manage our economy. Even when we have a larger problem, we can agree, we can put through a tough economic policy and overcome the crisis—although the crises in the last years were more significant and worse than the crises before. I thought that countries that want to continue to get credit for development for productive matters, should try the maximum to repay their debts.

Now, if it is a matter of negotiation with the creditor countries, mainly the United States, concerning recycling from defense to development, and connected somehow with the broadening of the peace process, I think this is a positive attitude politically, and it would help both the creditor and the debtor countries. To go into a rescheduling negotiation by itself, means you are practically bankrupt, not able to repay your debt; you declare yourself bankrupt, and you cannot expect to get new loans, at least not from banks and governments. So, because most of the debts were created for political reasons, I thought that a political mechanism concerning the peace would be a solution. Now concerning negotiations with Egypt or any other countries, I can say only this for now, that I have enough basis to know, through

discussions with Egyptian and Arab friends—and I do not want to mention names, because it will not be helpful now—that the same kind of thoughts exist there. I have good reason to think that mechanisms to recycle these debts into development loans would be a good basis for cooperation between the debtor countries and the creditor countries.

EIR: You talked about the creation of a multinational fund, the Mideast Peace Development Fund, which should administer or generate the funds which will be necessary for this plan, and you say that members of the Fund should be drawn from the nations which should take part in the projects, both internationally and in the region. Will the Palestinians also have a representative in this group?

Gafny: Look, I know that the organization and development of such a mechanism, the Fund, of the type I was talking about, has many political fruits, but also many political pitfalls. We have to be very careful. I think that a beautiful thing about such a scheme, is that it can be remodeled according to needs, with time and members. Instead of saying cooperation between countries, you can say cooperation between peoples, between members, and I do not see any reason why Palestinians could not be part of this—I mean material reasons, real reasons. Of course, there may be political reasons. I tried to go around the political aspects of it, although I am aware of them. I tried to go around them, because I did not want this to become a substitute for dealing with the real political issues. You cannot just say that having the Palestinians in will “solve the Palestinian question.” But I think that such a multinational organization can be set up and framed and phrased in the context of an international agreement, in such a way that each member, on a voluntary basis, does not have to give up immediately his political stand in the process. You can choose: You may not talk to one of the members, so it is done through somebody else, but you participate in the joint work.

Now, if this plan were to come after a political peace settlement, then it is easy politically to arrange. You still have all the problems, financial relationships, economic relationships and representation, and many, many economic and organizational problems, but not political difficulties. If, as I think, it should start now, because the period is suitable, it should be phrased in such a way that Palestinians and other Arab nations can accept it, as well as Israel, Europeans, Japan, and others. This is how I tried to phrase it.

Now if there are some pitfalls or mines that I did not notice, they will come out in the negotiations, and I think that this is something that could start. In this framework, I do not see any difficulties—on the contrary, I see many reasons why Palestinians should be in it. You must find formulas in which they can participate. There are countries which believe in a Palestinian state, others that believe in a Palestinian nation, and others that believe in a federation with Jordan. You must find a formula which does not close off

any areas of political solutions. So it does not come from political solutions as such, but, you are dealing with economic and financial well-being.

EIR: In terms of philosophy, how does your idea stand vis-à-vis the International Monetary Fund, concerning conditionalities, high interest rates, and so on?

Gafny: First I want to make one remark: I want to stress that I do not take it as my plan. Prime Minister [Shimon] Peres was not taking it as his plan, even if it is called the Peres plan. I tried in the paper I presented to describe it as it evolved in discussions and in papers with various international experts. I liked—rather, loved—the idea, so I spent a lot of time when I was free from the Israel Central Bank, and I deliberately did it in Europe and not here. I went for two years to Geneva where I lived. I wanted it to be very clearly international. We have several international experts, even from Georgetown University. There were also Arab experts and political people who were involved, but unofficially. It is a plan which was developed by a group of people I had the honor to belong to, and I am happy to be one to continue it. . . . And one of the people who reacted with great interest to it, is Prime Minister Peres, who went with it on the political level.

Now, to the question: It is not similar to the IMF, but the similarity can be seen more to the Regional Development Banks. The difference, which I thought was important for political reasons and also for acceptability by the countries, is first of all, not to declare it a bank, but a fund; it can be a temporary matter—"temporary" means not less than 10 years—but it can, after 10 years, be dissolved. If it played its role, we do not have to continue it with staff and payments, or to worry politicians and leaders that you are going to make commitments for generations, like a bank. And if you want to have a bank, then you can create a bank later.

Second, the criteria of the Regional Development Bank are the level of the GNP of people and how to increase it. The priority is around the level of income, I mean the general development of a country to increase the standard of living of people, the standard of education, the production capacity, and so on. Now, here I would like to see a major criterion added, i.e., what it contributes to peace. I do not know if this would be accepted politically by all, but this would be a golden opportunity. Now it is true that many of the other criteria are also good for the criterion of peace, because I believe that if you have a higher standard of living, if you have less hunger, if you have more production, more exports, fewer imports, more stability, it is good for the moderate regimes, which are more oriented to peace. But if I say for peace, this means joint regional projects, going across countries, to create exchange of relations without dangerous dependence.

Let me give you an example, between Israel and Egypt. Egypt produces not only oil, but a lot of gas, and has large

unused reservoirs. There are laws concerning the export of natural gas, because [the Egyptians] want to create their own reserve for the future, but especially today there is something we have to consider: One of the only places to which Egypt could export gas by pipeline is the south of Israel, where we have electric stations in Ashqelon. The first part of the station, built earlier, is operating with oil; the second part is planned to be operated by coal. Oil we buy from Egypt, but not coal. Now if the second part could be operated by gas transported by pipeline, it would be a very easy development project, and it is a benefit for both countries, because now that the oil revenues are decreasing in Egypt, it would be interested in selling by-products. In this field of energy, we are buying and want to continue buying oil from Egypt and will buy as much as we can. Furthermore, if this supply were cut, it is not something which would lead to war, so you move to coal again. [The oil] is a small part of the electricity, a small part of the energy consumption of Israel; it is a small

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part of the energy export of Egypt, but it benefits both countries, and I think it can contribute to the peace process.

This [trade] can be done bilaterally, but I think it is easier to be done through multilateral funding, which will have the funds consisting in loans, the political insurance that if something will happen, it can be done by private entrepreneurship also. It can be a German or an American or a French company that builds this, with the agreement, of course, of the two governments, through financing of such a fund, and it [the fund] would by itself enable repayment of debts, because it would pay both countries. . . .

Now on the difference between the regional banks and the Fund. We tried to learn, with legal experts of the regional banks, what the problems were that made the work difficult, and to correct them in this new mechanism. One of the most important ones is the creation of political risk insurance for the investors. I belong to the group of experts involved in this. Edmond de Rothschild was part of it. His foundation and also American friends and some European friends believe in private enterprise, that this can do the job maybe

better than the government. But the government must do its job. So we tried to combine this in a mechanism that is public, with international public funds, which make up the minority of the funds. These public funds serve as leverage to entrepreneurs to invest in the region. It is easy to tell entrepreneurs to invest in the region, but the first thing they are afraid of is instability, losing their interests. They have had enough bad experiences. So the insurance fund for the investments is a very important thing for igniting private entrepreneurship in the area.

EIR: We have being very critical of the International Monetary Fund and the World Bank, precisely to the extent that these institutions had privileged what they called "appropriate technologies" for the developing sector, for example vis-à-vis Africa. Also, regarding Egypt, the great projects, so-called, are considered castles in the desert, a waste of money. What is your approach? Mr. Ya'acobi talked about irrigation, a nuclear plant in the Sinai. . . .

Gafny: I think that the decision shall not be according to size, unless you have the funding. I am afraid that the World Bank and the IMF had the problem of the size of investments, because of the enormous requests they have compared to the funding, and they have a philosophy also of rationing money for projects. I think we should go and look for priorities. I see priorities, for example, in areas of food and agriculture, food and agro-industry. Of course it can be different in each country. I think that the countries have the right to decide for themselves. . . . Agro-industrial production should be encouraged. This means irrigation, new fishing industries, new protein production, up to a very important matter, which is the whole chain of production from farm production to transportation, warehouses, cooling houses, transportation to the export facilities, to the sale markets.

We have to look on the big scale, which does not mean immediately big amounts of money. You plan, but you have to look at the big plan in each area. Then you can go into parts. The increase in standard of living means public works, roads, harbors, which can be looked at as regional development projects. With a peaceful process, you can look at harbors on the regional scale, as in Europe, with container terminals, and if you have congestion in one harbor, you can shift part [of the cargo] to another one. So, if we have congestion in the Israeli port, we could shift to the Egyptian port, establishing connecting facilities between the ports.

EIR: Mr. LaRouche has emphasized on several occasions, that one needs great projects to develop a region, capable of functioning as a driving force or catalyst for other smaller projects. . . .

Gafny: It is true that such big projects, if they are wisely planned, can be the leading factor of growth. The mechanism we are talking about here, may supply the effect of a big project, even if it is divided into several projects, but done at

the same time in various areas and connected by a philosophy of planning. If, in view of what you create in industrial exports, and in agricultural growing areas, you create a transportation system with warehousing and distribution, you will actually have big projects that you do not leave by themselves, but ensure that they gear into industrial projects.

I would like to see the funds which can support bigger projects; this is why I suggested the mobilization of at least \$30 billion for 10 years, which will mean \$3 billion a year, and will give you the facility, till you start planning, of accumulated funds, some from the governments, some private. This will allow subsidizing interest for infrastructure projects, that is, big projects, which must be, by nature, implemented by governments or intergovernmental agencies. The Fund will coordinate them among the member countries. You have to coordinate the general economic policy, as in the Western industrialized countries. In the developing countries, coming out from underdevelopment or war, you need to get them together to plan at least the development of the infrastructure by governments, together with smaller projects of private entrepreneurs.

government, the smaller ones by entrepreneurs, assisted by the government protection that you need until you get to a certain level. . . .

I am an Israeli, was educated here, and had my master classes in Europe. Since 1954 I have been working with the Israeli economy, mostly in the ministry of finance, later in the Bank of Israel. At a certain period, I worked for 10 years with the port authority, building infrastructure, and my observation was that part of the Israel's success in developing its productive economy, despite terrible conditions and even serious inflation, was that for years in the period of growth, we had a mix of government funds in the form of loans and grants, and subsidized loans given to industry and agriculture with funds coming from the government, funds which were not used by government agencies, but given to entrepreneurs.

EIR: What you are describing sounds like a combination of the American system of economics of Alexander Hamilton—which uses government credit, long-term and at low interest rates, to support development through public and private enterprises—with the contribution of Friedrich List and his policy to protect emerging national industry.

Gafny: Yes, I believe in this way, and I think that we succeeded in Israel in this way. . . . The group of experts working on the the plan looked in particular for projects which involved two or more countries at the same time, something that was given less attention by the countries themselves. These are projects that can be presented to any type of agreement, and I think that it is important that works and research like this be done.

EIR: Israel has a small population, but with a very high skill level in scientific, medical, and other areas; Egypt has a very

large, relatively skilled labor force and also a very large unskilled population. Have you given thought to how certain projects—in particular construction of houses, hospitals, infrastructure—could be used in assimilating this labor and at the same time training it? Are you working on training programs?

Gafny: Training is very important, especially job training. I believe that each country should do things with its own workforce, and there should be cooperation in exchange of know-how, technology, entrepreneurship. I would like to see an Israeli entrepreneur investing in Egypt and Egyptian entrepreneurs coming into Israel. But I think that the best is to use manpower locally, and if needed, you bring the experts in to educate the labor force. I'm looking at education as part of the investment policy of the government.

I want to stress at the end, one important thing, for people like me who have been working for years on this, from various countries of the area and outside. We put our idea forward as a practical one, down to the technical details, although this does not mean that we will fight for every detail and idea we had. I think that it is important to start an international discussion on this matter, and for this I value your contribution, because I think that you will contribute also to international discussion. For years we kept it low-key, quiet and inside, because of fears that it would be used as a political substitute for solving politics; but now Prime Minister Peres has brought it into the open. I think it should be discussed. I hope that it will not be interpreted as a substitute for political solutions, but as complementary.

EIR: Do you have some particular message to give Americans and Europeans?

Gafny: Americans have invested in the Mideast, both in loans and grants for arms, for defense, and also in economic aid. They have invested a tremendous amount. The Marshall Plan for Europe is dwarfed in comparison with the amount of aid that the Americans have given in the Mideast. European countries have done, in this sense, much less, although they have done quite a lot in technical cooperation and in some financial aid. I think that Europe has emerged into an important economic power in the last few years, and now, with the reduction of the oil price, it is one of the main beneficiaries. That is why I think this is the time that Europe can contribute. It would do justice to the U.S.A.; it will also help Europe, because without any doubt, countries that give also get in return.

For the United States it is also good, because if the U.S.A. does not do it [the Marshall Plan], the debt can strangle the economies of the Mideast, and we will have problems to repay the debt. Mainly the U.S.A. should recycle the debt, while Europe should add resources. I had many talks with European and American leaders, and this strengthens my belief, particularly now, that we can do it.

Interview: Haim Ben-Shahar

The approach of the Hammer Fund

Professor Haim Ben-Shahar was former president of the Tel Aviv University, candidate finance minister for the Labor Party during the 1981 elections, and is now chairman of the Armand Hammer Fund for Economic Cooperation in the Middle East.

EIR: Can you tell us something of the history of the Hammer Fund?

Ben-Shahar: It goes back to 1976. I was president of the university from 1975 to 1983. We wanted to develop some ideas for the future, so that if peace came, we would be ready to move and to handle the situation. I met with David Rockefeller at the end of 1976 to discuss with him the idea of setting up an international institution for economic cooperation—not only for the Mideast. He liked the idea very much. The Congress had voted against the notion of a boycott, and people were looking for a more positive approach.

Sadat came to Israel in 1977 and our idea became more possible. Then we wanted to create a joint institute of research in cooperation between Tel Aviv University and an Egyptian one. David Rockefeller took the document and proposal to Sadat in February 1978. Later he came to Israel to say that for Sadat, the idea was not ready yet. We took, at that time, the strategic decision to go on with the research with or without the other neighbors. Rockefeller took the decision to support the idea and get others to do the same.

In the middle of 1978, I had the opportunity to meet with Mr. Hammer and I presented to him the program. This meeting was one of the most important. I told him that he was the first to open contact with the Soviets, opening an era of détente, so he could eventually do the same with the Mideast and Arab problem. He supported us. Two months later we got the Camp David agreement. We planned a meeting with the Egyptians and the Brookings Institution, for Egyptian-Israeli cooperation. In 1980 Hammer called for a meeting and committed a large amount of funds and research. And from that point on, there was no interruption of funding for the group of researchers at Tel Aviv University. The work went on for five years, without publishing the results.

We had meetings, for example with [Egyptian Foreign Minister] Butros Ghali and Mustafa Khalil, prime minister under Sadat and deputy chairman of Egypt's ruling party. In