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The Wallich Plan for the Fourth World

The IMF bill passed by Congress contains a provision advancing the Club of Rome's murderous policies.

Credit to "Fourth World" nations in Africa, Central America, and other areas will be triaged under sections of the recent U.S. bill providing an \$8.5 billion bailout for the International Monetary Fund. The plan, which imposes "penalty reserves" on lending to such debtors, was devised by Federal Reserve Board Governor Henry Wallich.

Wallich is under investigation by *EIR* as one of the officials who has done most to undercut the Western nations by promoting IMF austerity and population reduction. In addition to throwing millions in the Fourth World—the very poorest countries—into the path of genocide, the Wallich measure will also shut down European exports to such nations, further crippling European economies and currencies and forcing Europe into ever-greater dependence on the Soviet bloc for trade.

Wallich himself, in a speech last April entitled "Limits to Growth Revisited," made it clear that his banking regulations proceed from Club of Rome's policy of reducing Third World population. "The growth of population will be slowed or stopped by the diminishing return and rising cost of rearing a large family," he stated, citing the model of China's forced-abortion policy.

Wallich's career was in fact patronized by the Club of Rome. In 1951, Wallich became a member of the Cowles Foundation at Yale University, along with economists Robert Triffin and Tjalling Koopmans. All were sponsors of the founding of the Club of Rome and of its East-West counterpart, the International Association of Applied Systems Analysis (IAASA) in Vienna.

According to documents just released by U.S. regulators, under the Wallich-inspired section 905(a) of the International Lending Supervision Act of 1983, otherwise known as the IMF bill, U.S. banks will now be forced to set aside "penalty reserves" on loans to certain countries. This means that banks will have to take direct losses in the amount of reserves thus set aside, in effect, writing off the debt of these nations.

As described in the Dec. 15, 1983 joint news release by the FDIC, Comptroller of the Currency, and Federal Reserve Board, titled "Interagency Statement on Examination and Treatment of International Loans," penalty reserves or "Allocated Transfer Risk Reserves (ATTR)," must be established for all loans "whose value has been found by the agencies to have been significantly impaired by protracted transfer risk. . . . 'Value impaired' applies when a country has protracted arrearages as indicated by more than one of the following:

"1. The country has not fully paid its interest for six months.

"2. The country has not complied with IMF programs and there is no immediate prospect for compliance.

"3. The country has not met rescheduling terms for over one year.

"4. The country shows no definite prospects for an orderly restoration of debt service."

"The Act requires that such reserves be charged against current income and not be considered as part of capital," the regulators continue. "A banking institution would have the option to write down all or part of the assets that are subject to special reserves."

The amounts to be written off will "normally be 10 percent of the principal" during the first year, the regulators state. "Additional reserves may be required in subsequent years, generally in increments of 15 percent of the principal amount."

Deputy Comptroller Robert Bench told *EIR* on Jan. 6 that because more than one of the four provisions must apply, the timing is for the penalty reserves to be assed after a loan is "somewhere between six months and a year in arrears. In arrears means 30 days overdue, so this is a seven-month minimum."

The plan will kill the weakest debtors first; the first penalties will not apply immediately to major debtors such as Brazil and Mexico, which are cooking their books to stay only three months or so behind on debt payments. "I'm not aware of any major loans to those governments which fall within such parameters for arrearages," said Bench.

Instead, first hit will be "Fourth World" countries "such as Zaire, Sudan, Ethiopia, Honduras, Poland, and other countries which have been behind for six months to a year or more," sources told *EIR*.

"This plan will kill these borrowers," said one pro-trade regional banker. "Once the banks actually have to take losses on them, no one will ever lend them a cent again, not even short-term credits. Once these countries are made an example of, then the Fed will see how the big debtors behave themselves," he added.

The Wallich plan is to be implemented by March 30.

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