Foreign Exchange by David Goldman

Blocked accounts model: Nazi finance

Fed governor Henry Wallich reveals the prototype of the Fed's soft-currency debt-repayment scheme.

In an exclusive interview provided to *EIR* by a West German journalist, Federal Reserve Governor Henry Wallich stated on March 7 that the Fed's plan to use Ibero-American soft currencies to repay dollar debt is modeled on the "blocked accounts" policy of Hitler's economics minister, the man who did so much to bring Hitler in power, Hjalmar Schacht.

Wallich stated that "it bespeaks the German situation during the 1930s, when you had the *Konversionskasse*. . . for the Reichsmark." The *Konversionkasse* was the monetary stabilization program of Hjalmar Schacht, through which he earned his title of Nazi "financial wizard."

Under U.S. banking law, loans whose interest is not paid for more than 90 days are "non-performing." Ibero-American nations are well over 90 days in arrears on $10 billion in such interest payments. To deal with this, as *EIR* has been the only source to report, Wallich and Federal Reserve chairman Paul Volcker have told the largest banks that they may take interest payments in Brazilian cruzeiros, Argentine pesos, and other debtors' currencies.

First, Wallich observed that the huge debt burden of Ibero-America is having the same economic and political effect as the World War I reparations levied against Germany.

"The underlying problem, which produces resistance, is that the debt mountain becomes a political symbol which worsens relations," Wallich stated. "It has a certain similarity, indeed, with the German reparations and the Allied war debt. That was also a political problem."

The Fed, he said, expects the IMF to enforce its policies at all costs. "I would rather say that the fact that most of these countries have gone to the IMF is the most important, and it is not surprising that there is criticism and resistance there. . . . The programs are not devised to create political problems for these countries, or to make poor people suffer, but to pull out the maximum economic activity. If subsidies must be cut and prices raised—these things would never have been introduced in rational economies."

Given that the debtors have no dollars to repay debt, Wallich was asked about the use of debtor currencies. He responded by stating that the soft-currency scheme secures *no real payment* of interest (or principal).

"That really has very little significance [for the debt problem], since it is not really a transfer" of funds from debtors to creditors, he said, admitting that any bank loan paid in this fashion is a bad loan.

"Rather," Wallich continued, "it bespeaks the German situation during the 1930s, when you had the so-called conversion account (*Konversionskasse*). Then you paid in deutschemarks when you couldn't get foreign exchange; if you were a solvent firm, you paid in deustchemarks, or rather, Reichsmarks back then, and the conversion account made over paper to the creditors, I believe, so that the interest would be capitalized."

When Germany went bankrupt in 1931, it was in much the position of Brazil today. The Hoover moratorium suspended Germany's massive World War I reparations debt—but trade credits and all other foreign loans were cut off by foreign banks. The German economy was bled dry.

When appointed Hitler's economics minister, Hjalmar Schacht set up a scam for buying key imports to build the Nazi war machine. Schacht agreed that German firms and banks would pay Germany's creditors and trading partners in Reichsmarks, which Schacht's Reichsbank (the central bank) would simply print and deposit into blocked accounts in the creditors' name.

Schacht's U.S. bankers, such as Chase National, stepmother of Chase Manhattan, were able to claim that their bad German debts were good—and finance the shipment of chemicals and other illegal goods to Nazi Germany. Schacht also created a trade bloc with Eastern European exporters of goods to fuel the Nazi war machine, which were paid for with the blocked accounts.

This "financed" the famous Nazi export of a lifetime supply of Bayer aspirin to Yugoslavia, in return for huge shipments of Yugoslav machinery.

Wallich concluded that no matter how much Ibero-American currencies may collapse, the debts must be reckoned at current exchange rates:

"I don't see much advantage in getting local currency if an additional guarantee does not stand behind it that it will be converted one day. For this reason the exchange rate must be fixed; there's no sense in sitting on Argentine pesos which devalue by 50 percent or whatever. You just fix the exchange rate by agreement, and then you have 100 pesos which are worth one dollar on day one, and three years later when you get them back, the peso has indeed fallen, but these pesos are still 100 to one."