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Ref.: A Plan for Euro Area Sovereign Debt Redemption & Banking Reform

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Letter to the Ministers of Finance for the Euro Area
14 June 2012

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Pakthongchai, Thailand,
14 June 2012

Dear Ministers of Finance for the Euro Area:

The so called "sovereign debt crisis" and the "Euro crisis" are signs of a faulty system that can be fixed tomorrow. But people, with respect, including yourself, have difficulty 'seeing the wood for the trees' — cannot see the true value and soundness of the Euro for all the sovereign debts which the 'financial markets' now shun. Sovereings of the Euro Area don't need the financial markets, they need you… so please read on.

If the national debts of the countries are an indicator for the soundness of their currencies, as is the custom (and as I show in my booklet, "The Euro is Still the Strongest Currency Around,' see table "Total Money Created in the Jurisdiction, less Central Government Debt" on page 14), then I prove to you that the Euro is still the strongest major currency around, much more sound than the US dollar, and that possible defaults by the national government of Greece and such other nations will not diminish the Euro's value because Greece did not, does not, and will not create the Euro which is perfectly intact except in the pockets of other recipients, no longer in the government of Greece's that merely borrowed the Euros and spent them like any other entity. How can the bankruptcy of General Motors, the State of California, etc., for example, affect the US Dollar? It does not, and sovereign debt issues are quite apart from the Euro currency.

Sovereign nations have the money power, but this power was unwittingly ceded to the private commercial banks, and the sovereigns borrow their 'money' which it is not (see Michael Schemmann. 2012. "Accounting Perversion in Bank Financial Statements — Root Cause of the Ongoing Global Financial Crisis." IICPA.com Publications). The ill-conceived process is reversible in a way that is inflation-sterile.

Under the plan that I have proposed for many years (since 1991 in my booklet "Money in Crisis" – 2nd ed. 2009) a central bank, here the European Central Bank (ECB), can take over Greece's debt from the *private commercial banks*, shown on the banks' balance sheets as a switch in assets that do not create additional inflationary money supply. While Germany opposes such a move — and Germany is right to be cautious given their Reichsmark debacles of the past — but is right only for the wrong reasons, namely the false fear of increasing the money supply causing price inflation, which my plan does not do. As demonstrated in this booklet ("A Plan for Eurozone National Debt Redemption" and also in the present book, "The Euro is Still the Strongest Currency Around") Germany should think again. The *privately held national debts* (not held by commercial banks) is another matter and must follow a different procedure that keeps the proposed "national debt redemption certificates" issued by the ECB out of the money supply.

Another widespread misconception abounds, to increase banks' capital, but this is not the answer to strengthen the financial system for the very simple reason that banks do not need capital which is on the wrong side of the balance sheet to redeem depositors' money; liquid assets are required, liquid assets in the form of central bank money — the only legal tender for the payment of all debts, public and private. (See my publication, Michael Schemmann. 2011. "European Banking Authority's *Stress Teasing*. The fallacy of capital adequacy requirements for commercial banks." IICPA.com Publications.)

The economic literature is not well read but has all the necessary explanations and concepts, from Thomas Jefferson's lamentations that money-creating "banks are more dangerous to our liberties than standing armies" and that nothing but federal funds must be money instead of the private commercial banks' worthless trash, to John Maynard Keynes's (1913) "Indian Currency and Finance" in which Keynes describes how the private country banks circumvented Britain's Prime Minister Robert Peel's *Bank Charter Act of 1844* by the perfection of their cheque-book-money system which we effectively have today, to Irving Fisher's (1935) "100% Money", and John Kenneth Galbraith's (1975) writings "Money. Whence it came, where it went."

The over-abundance of creation of that so called 'trash' is at the root of the Global Financial Crisis, but can be annulled and replaced by central bank money tomorrow, if only our central bankers had the courage to go against the private banks' hegemony — which would actually help the banks, as Fisher points out in his *100% Money* book — instead of bending over backwards against the public interest by bailing them out. **The reform can be enacted tomorrow; does not need years of harmful austerity programs and will redeem the sovereign debts of the Euro Area in one wash.** (This is not entirely my own idea, but was proposed in principle by Irving Fisher (1935), "100% Money" which I have reprinted. All of the publications mentioned are available at amazon.com, both, in paperback and as Kindle eBooks online.)

Private commercial banks have no power except that which is given to them by the Parliaments who have the actual constitutional money power, but that power lies idle and unused; instead governments keep borrowing the private banks' book money, imposing needless and stupid austerity programs to curtail public spending in order to one day pay off that debt… over 20 years for the Eurozone, and double that for the United States… pay it off by a time the politicians who intend to do so are long dead. Incredible!

Now come Fitch, Standard & Poor's, and Moody's, to tell the private financial markets that the sovereigns are not quite so able to repay their debt, downgrading the sovereigns debt default ratings, and the rating agencies are right but for the wrong reasons: Yes, the national debts cannot be repaid with taxes raised in the form of private bank money, but can be repaid tomorrow inflation-free with the sovereign's own money, namely that high-powered money of their central banks. An Irving Fisher-type monetary reform is needed, correcting the faulty system, but alas! our politicians are looking at curing deficits instead of fixing the system by taking back their constitutional money power.

The American *Colm-Dodge-Goldsmith Plan* of 1946 repaired Germany's post WWII national debt and banking breakdown to create Europe's strongest currency, the Deutsche Mark, that became the backbone of the Euro. (I have reprinted the CDG plan. See www.iicpa.com click on "Publications".

The Euro is money or "simply that which the State declares from time to time to be a good legal discharge of money contracts" — as Keynes (1924) writes in his "Tract on Monetary Reform" — an abstract based on a convention. Governmental austerity programs are preventative measures that cannot reverse the mistakes of the past. The plan that I have proposed since 1991 and again in this book for the Eurozone will.

The US dollar would also benefit from the plan as is outlined in my "Money in Crisis" (2009) publication, but cannot completely eradicate the United States' national debt under my plan because the $15 trillion national debt exeeds twice the money created by private commercial banks and borrowed by the US Treasury. The table on page 14 of "The Euro is Still the Strongest Currency Around" explains why. The same situation as in the U.S. exists for the Japanese yen. Japan's national debt is also past the point of no return. Both the U.S. dollar and the Japanese yen will eventually be 'inflated' loosing half the current value of purchasing power; not so for the Euro, which is why the Euro is still the strongest currency around!

With all my best wishes,

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