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21 February 2015

TO:

Prof. Yanis Varoufakis, PhD
Minister of Finance of the Hellenic Republic
Karagiorgi Servias 10
10562 Athens, Greece
minister@minfin.gr

AND TO:

Governing Council, European Central Bank
60640 Frankfurt am Main, Germany
info@ecb.europa.eu

AND TO:

- Ministers of Finance of the Euro Area
- Klaus Regling, EFSF Luxembourg
- Christine Lagarde, IMF, Washington, DC

Dear Dr. Varoufakis:

Greece's Debt / GDP a misconceived measure
A Plan for National Debt Redemption

Greece's General Government Debt to GDP Ratio of 175% (2013) is not an indicator of the country's ability to service let alone redeem its national debt. There is no rational relationship between a country's GDP and its Government's Debt.

There is a relation between tax revenues and government debt. But NO government is willing or able to repay its national debt from taxes.

By comparison, Germany's Gen. Govt. Debt / GDP is 77% (2013); the Euro Area's average 91%. But Germany cannot repay its national debt of 2.2 trillion euros from taxes unless it raises its general tax rate from currently, say, 50% of GDP to, say, 60% to use the surplus, facing a revolution by tomorrow morning. Germany's Finance Minister has only vowed to incur NO NEW DEBT. But the Bundeswehr's equipment and airplanes are defunct, compromising NATO's defense capabilities, 3 million Germans are living below the poverty line, and so forth.

So called “Saving the Euro”

The Eurogroup is serving only the best interests of the private and commercial banks. But even so, if the government of Greece was to become insolvent, Greece would survive just as no one in the United States ever thought that the U.S. dollar was in jeopardy only because New York City or a State of the Union was bankrupt. The money that the City or State doesn’t have is simply in other peoples’ pockets; and the money supply of the nation as a whole is unchanged.

State insolvency does not jeopardize the currency in use in the country. It merely means that banks that have created their fiat money out of nothing, then lent it to the State which spent it into circulation becoming new bank deposits by the people, these money creating banks have non-performing loans on their books forcing them into technical bankruptcy for lack of liquidity, but liquid they never were; only the central banks’ legal tender is liquid.

Therefore, if your Greek government is not cooperating with the Eurogroup, then the Eurogroup’s EFSF, the ECB and the IMF have a problem how to write off or service the hundred some billion euros in debt which the EFSF incurred in the markets. The country of Greece, if repudiating its debt, would be debt free. Germany has done it. If State assets were to be sold against whatever currency, the government could even be liquid again. The interests of the Eurogroup, misconceived as it was to bail-out your predecessor government, does not have any trump cards in their hands to force your government to do anything.

You have a unique chance in history.

National Debt Redemption and Monetary Reform

National debt repayments, say “repudiation,” come naturally by way of monetary reform, and have for centuries by hundreds of bubbles, crashes, bank failures and breakdowns.[1] Think of Germany’s complete collapses in 1923 and again in 1945. Its Monetary Reform of 1948 was based on the American Colm-Dodge-Goldsmith Plan[2]. The plan was successful by restructuring the banks from their liability side, not by replacing defunct State debt; so does our plan.

The reform promoted by Irving Fisher (1935), myself, and citizens’ action groups such as Monetative e.V. in Berlin, will put an end to private bank-created fiat money out of nothing, replacing the private money creation power by that of the State, in particular its

[1] Michael Schemmann. 1992. “Money in Crisis;” and 2014, “The Ten Day Banker.” IICPA Publications.
[2] **A Plan for the Liquidation of War Finance and the Financial Rehabilitation of Germany (1946)** by Gerhard Colm, Joseph M. Dodge and Raymond W. Goldsmith. Republished by IICPA, January 2010, available at Amazon.

own monetary agency: here the European Central Bank. The British banking reform is splitting the banks into deposit banks and into lending banks, also in accordance with Irving Fisher's plan, or even as far back as Thomas Jefferson's demands.

The Court of Justice of the European Union affirms the ECB's power to act in its 14th January 2015 press release 2/15.

The ECB's Outright Monetary Transactions (OMT), or "Quantitative Easing" to use the U.S. Fed's terminology, of monetizing the national debt is not sterile but increases the money supply, except when the government debt is acquired from the banks and the ECB's cash in payment would simply mean what accountants call an "asset switch;" instead of "General Government Debt Securities," the banks would show "Cash on deposit at the ECB" on their balance sheets.

Instead of buying up troubled government debt in the markets as a "monetary instrument to protect the currency," the ECB could have done the monetization of government debt from the outset if this was allowed by the Treaty of the European Union, which it is not. But under the EU Treaty the banks can do anything they wish and want, while the governments' own central banks are strangled.

Since 14th January 2015, the ECB is free to act.

Allowable National Debt Limits – Allocation of Redemption Receipts

The total Euro Area's General Government Debt amounts to 9.2 trillion euros (2013), which is about 55% of the Euro Area's total bank deposits of 16.6 trillion euros (2013). The ECB would issue 9.2 trillion euros of redemption certificates (as outlined in my letter to you and the ECB's Governing Council of 13th February 2015) which are convertible into bank equity to keep the money supply unchanged and stable, and surrendered at the ECB by the banks for cash, while increasing reserve requirements accordingly, preventing banks from embarking on lending spree by fiat-money creation.

The problem of allocating an equitable and equal amount of ECB redemption certificates to individual Euro Area member states would be done on the basis of the member states' populations, namely € 27,700 per capita. (€ 9.2 trillion total General Govt. Debt divided by a total Euro Area Population of 334 million people).

The computation of this ECB General Government Debt Redemption Allocation is shown in Table 1 attached. The following results stand out:

Cyprus shows a surplus of	€ 12 billion
Germany shows a surplus of	€ 68 billion
Portugal shows a surplus of	€ 72 billion
Spain shows a surplus of	€ 329 billion
Greece shows a deficit	**(€ 12 billion)**
Austria shows a deficit	(€ 34 billion)
Ireland shows a deficit	(€ 88 billion)
Belgium shows a deficit	(€ 105 billion)
France shows a deficit	(€ 130 billion)
Italy shows a deficit	(€ 421 billion)

Both Portugal and Spain have been vilified and forced into needless austerity programs, creating a generation of unemployed and disillusioned youths, a political powder keg, while the countries in need of attention, if any, should have rather been Belgium, France and Italy, the public finance ideologies of the European monetary watchdogs, and consequently the markets, standing on their heads.

Greece is not in dangerous financial straights, but made to look as if it is, only because its per capita GDP is smaller than that of highly industrialized Germany whose debt of €26.900 per capita is on exactly the same level as Greece's debt of €28.800 per capita.

As a mathematician and professor of economics, Dr. Varoufakis, you have all of the knowledge and tools at your disposal to save your country and a few others from the ruins of needless austerity.

With all best wishes,

[signed]

Michael Schemmann, PhD, CPA, CMA
Director of the IICPA

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Attachment: Table 1

TABLE 1

Determination of Allowable Debt Limits of Euro Area Member States Based on Populations
Allocation of Euro Area's General Government Debt Redemption Certificates to Member States

Country	EU Gen. Govt gross debt Million 2013	**Euro Area Gen Govt Debt Million 2013**	Country's Population Million 2012	Gen Govt Debt per Person EUR thous.	**Gen Govt Debt Monetary Allocat Limit EUR 27.7K per capita**	**Allowable Mont. Limit less Gen Govt Debt 2013 Surplus (Deficit)**
Belgium	413,245.7	**413,245.7**	11,128	37.136 €	**308,245.6 €**	**(105,000.1 €)**
Bulgaria	7,532.0					
Czech Republic	68,152.2					
Denmark	114,098.5					
Germany	2,159,467.9	**2,159,467.9**	80,426	26.850 €	**2,227,800.2 €**	**68,332.3 €**
Estonia	1,887.5	**1,887.5**	1,329	1.420 €	**36,813.3 €**	**34,925.8 €**
Ireland	215,550.0	**215,550.0**	4,587	46.991 €	**127,059.9 €**	**(88,490.1 €)**
Greece	319,133.0	**319,133.0**	11,093	28.769 €	**307,276.1 €**	**(11,856.9 €)**
Spain	966,181.0	**966,181.0**	46,761	20.662 €	**1,295,279.7 €**	**329,098.7 €**
France	1,949,475.0	**1,949,475.0**	65,697	29.674 €	**1,819,806.9 €**	**(129,668.1 €)**
Croatia	32,758.9					0.0 €
Italy	2,069,840.9	**2,069,840.9**	59,540	34.764 €	**1,649,258.0 €**	**(420,582.9 €)**
Cyprus	18,518.8	**18,518.8**	1,129	16.403 €	**30,483.0 €**	**11,964.2 €**
Latvia	8,876.0					0.0 €
Lithuania	13,636.5	**13,636.5**	2,944	4.632 €	**81,548.8 €**	**67,912.3 €**
Luxembourg	10,668.9	**10,668.9**	531	20.092 €	**14,337.0 €**	**3,668.1 €**
Hungary	77,716.8					0.0 €
Malta	5,241.0	**5,241.0**	419	12.508 €	**11,606.3 €**	**6,365.3 €**
Netherlands	441,039.0	**441,039.0**	16,755	26.323 €	**464,113.5 €**	**23,074.5 €**
Austria	261,977.8	**261,977.8**	8,430	31.077 €	**227,610.0 €**	**(34,367.8 €)**
Poland	222,926.4					
Portugal	219,225.0	**219,225.0**	10,515	20.849 €	**291,265.5 €**	**72,040.5 €**
Romania	54,170.0					
Slovenia	25,428.1	**25,428.1**	2,057	12.362 €	**56,978.9 €**	**31,550.8 €**
Slovakia	40,178.4	**40,178.4**	5,408	7.429 €	**149,801.6 €**	**109,623.2 €**
Finland	112,664.0	**112,664.0**	5,414	20.810 €	**149,967.8 €**	**37,303.8 €**
Sweden	164,420.2					
United Kingdom	1,792,797.2					
Total or Average	11,786,806.70	**9,243,358.5**	334,163	27.661 €	**9,249,252.1 €**	**zero (rounding)**