Preface: IMF betrayed its mission in Greece, captive to EMU
(The Telegraph, June 5th, 2015 – by Ambrose Evans-Pritchard)

The IMF’s Original Sin in Greece was to let Strauss-Kahn hijack the institution to save Europe’s banks and the euro when the crisis erupted, dooming Greece to disaster. Minutes from the IMF board meetings showed that all the emerging market members (and Switzerland) opposed the terms of the first loan package for Greece. They protested that it was intended to save the euro, not Greece. It is a public policy scandal of the first order, dooming Greece to disaster while the Fund’s mission is to save countries, not currencies or banks.

The IMF has pushed the austerity agenda ....This would be justifiable (sort of) if the other side of the usual IMF bargain were available: debt relief and devaluation. This how IMF programmes normally work: impose tough reforms but also wipe the slate clean on debt and restore crippled countries to external viability. It is a very successful formula. ....All of this went out of the window in Greece. ...On the rare occasion when the IMF goes wrong it is usually because it tries to prop up a fixed-exchange rate long past its sell-by date.

....The IMF enforced brute liquidation without compensating stimulus or relief with the worst possible outcome. It claimed that its policies would lead to a 2.6pc contraction of GDP in 2010 followed by brisk recovery. ....What in fact happened was six years of depression, a deflationary spiral, a 26pc fall in GDP, 60pc youth unemployment, mass exodus of the
young and the brightest, chronic hysteresis that will blight Greece’s prospects for a decade to come, and to cap it all the debt ratio exploded because of the mathematical – and predictable – denominator effect of shrinking nominal GDP.

What is applicable to Greece is also applicable to other Euro-countries such as Portugal, Spain and Italy.

The Euro-crisis in a nutshell

Because of the diversity and economic divergence between the respective Euro-countries, since the introduction of it ‘the one-size-fits-all/none’ exchange-rate of the Euro developed itself on one hand as much too expensive for Greece, Italy, Portugal and Spain, and on the other hand as much too cheap for Germany, the Netherlands, Ireland and Austria (see graphic below).

<table>
<thead>
<tr>
<th>Country</th>
<th>EUR/USD Equivalent</th>
<th>Valuation from EUR/USD Fair Value</th>
<th>Country Under/Over Valuation from Spot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1.59</td>
<td>-17%</td>
<td>-34%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.43</td>
<td>-8%</td>
<td>-26%</td>
</tr>
<tr>
<td>Austria</td>
<td>1.34</td>
<td>-1%</td>
<td>-21%</td>
</tr>
<tr>
<td>France</td>
<td>1.27</td>
<td>4%</td>
<td>-17%</td>
</tr>
<tr>
<td>Finland</td>
<td>1.27</td>
<td>5%</td>
<td>-16%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.25</td>
<td>6%</td>
<td>-15%</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.24</td>
<td>7%</td>
<td>-15%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.24</td>
<td>7%</td>
<td>-15%</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.23</td>
<td>8%</td>
<td>-14%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.16</td>
<td>14%</td>
<td>-9%</td>
</tr>
<tr>
<td>Greece</td>
<td>1.09</td>
<td>21%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Research

Morgan Stanley Research (April 2015) – The unfair value of the Euro for all Euro-countries according to Morgan Stanley’s 2015 PPP-analyses of the relative changes in competitiveness (consumer and producer prices) for each country since 1999 – Because only the Netherlands entered the Euro with its national currency substantially (13%) undervalued, for the Netherlands the present ‘fair value’ Euro exchange rate is now $1.40.

Conclusion: Regarding these given internal differences, Germany, Ireland, The Netherlands and perhaps Austria on the one hand, and Greece and Italy on the other do not belong in this European monetary union!

Moreover, in the first years after the introduction of the Euro the ‘one-size-fits-all/none’ ECB interest-rate-policy caused (real estate) bubbles in the Netherlands, Spain and Ireland. These bubbles burst with enormous financial damages. Nowadays, because of the ultra-low (even negative) ECB-interest-rates new bubbles arise at the stock-markets. Sooner or later these new bubbles will burst as well …with similar devastating consequences.

Since the end of 2009 the Euro crisis exposed itself and involves 3 main elements:

1. The fact that the ‘one-size-fits-all/none’ Euro Pact (exchange-rate and interest) is not appropriate for the mutually diverse and economic divergent Euro countries – the cure:
every individual Euro country needs a suitable national oriented exchange rate and a suitable national oriented interest rate;

2. The fact that the State debts of several Euro countries are unsustainable – the cure: State debts should be reduced to bearable proportions;

3. The fact that stability of the European financial system is threatened by the deplorable capital-position of many European system-banks – the cure: the Euro zone needs a smart and taxpayers’ money saving construction for bank recapitalization.

For the result of this ‘one-size-fits-all/none’ European monetary union, see in the graphic below:

![Graph showing Unemployment development in Greece, Spain, Italy, The Netherlands and Germany since the introduction in 2002 of the euro as the single currency](image)

NB! Notice also the difference in unemployment development between The Netherlands and Germany (two stronger Euro-countries).

**The Matheo Solution (TMS)**

The Matheo Solution (TMS), in 2010 presented by Dutch Euro-researcher André ten Dam, is a comprehensive and common sense approach to the Euro-crisis, ...and is as well a blue print for a bright and prosperous future of the Economic and Monetary Union (EMU), for the Euro (zone) and for all Euro-countries.

Within the existing EU-Treaty economic and legal framework of ‘Fair competition’, ‘Sustainable price-stability’ and ‘Individual responsibility’ TMS concentrates on realizing 4 objectives:

A. Sustainable sound real economic growth, in all Euro countries;
B. Solid and sustainable state finances in all Euro countries;
C. A solid and stable financial system in the Euro zone;
D. The Euro to finally become an reliable, stable, strong and lasting international (reserve) currency.

The prestigious German economic research centre IFO and the largest German employers’ organization Bundesverband Mittelständische Wirtschaft (BVMW) have paid significant attention to TMS.
'The Matheo Solution (TMS)’ offers a way to fulfil the precondition by the European political elite to preserve the Euro and the Euro zone within the frame-work of the mutually economic divers Euro-countries, and therefore addresses all the 3 aforementioned elements of the Euro crisis:

1. **TMS: The ECU-ERM – monetary flexibility within the Euro Pact**

As a major contribution to international economic science, The TMS core-concept has introduced an internal monetary ‘flexible’ (lean & mean) model for a monetary union, without the need for a full-blown political union and without the necessity of a financial transfer-mechanism to absorb internal asymmetric shocks or tsunamis.

This innovative but simple and easy-to-implement model, for the Euro Pact called the **Euro-Currency-Units-Exchange-Rate-Mechanism (ECU-ERM)**, has strong parallels to the ‘**Bancor-principles**’ (1942-1943) by John Maynard Keynes.

The ECU-ERM thus enables the necessary monetary flexibility (exchange-rate and interest-rate-differentiation on a national member state level) within the Euro Pact. ....A new architecture for EMU and the Euro, especially designed, suitable and essential for the diverse and economically divergent Euro zone. ....It will turn the European Economical and Monetary Union (EMU) into an flexible union. ....And therefore it repairs the primary flaw of the present rigid (one-size-fits-none) Euro Pact.

The ECU-ERM is based on the ‘functions of money’ theory, and more specific on the separation of the monetary medium-of-exchange (means-of-payment) function of money from the monetary unit-of-account (currency-unit) function of money.

On the one hand the Euro can survive as the ‘single currency’ (the sole monetary means-of-payment) in every Euro-country and thus throughout the whole Euro zone. On the other hand new national monetary units-of-account are introduced (alongside the monetary unit-of-account of the Euro) for the determination and adjustment of the level of national prices and wages of one Euro-country vis-a-vis that level in other Euro-countries.

With these new national monetary units-of-account an ‘exchange-rate-mechanism’ will arise on the basis of ‘fixed but adjustable’ exchange rates. The new national monetary units-of-account enable national oriented interest-rate policies as well.

So the ECU-ERM of TMS combines ‘the best of both worlds’.

First the ‘world’ of:

- **The Euro being the single European currency (means of payment, including legal tender) as the symbol of the European ideal,**
- **The clear advantages of the Euro currency (means of payment, including legal tender) in daily practice,**
- **The Euro as an powerful international trade- and reserve currency,** and
- **Last but not least, the monetary ‘stability’ of the Euro as the ‘single currency’ for all Euro countries.**

And second the ‘world’ of:
The clear advantages of the ‘flexibility’ of national monetary policies within the Euro Zone, via the urgently needed structure for ‘monetary devaluations’ and ‘interest-rate-differentiation’ on a national (member state) level.

2. **TMS: Debt reduction**

TMS suggests that unsustainable State debts should be reduced to bearable proportions for those Euro-countries in need to it.

3. **TMS: The European Bank for Bank Capital Support (EBBCS)**

TMS also introduces a ‘smart’ (ECB-financed) bank union for the recapitalization of ‘troubled’ European system-banks in the last (European) stage. This to prevent bankruptcy of system-banks, thus to prevent destabilization of the European financial system.

The ‘ECB-financed’ EBBCS is a smarter, fairer and ‘taxpayers’-money-saving’, thus better, alternative for the ‘ESM-financed’ model which the European political leaders in 2012 decide to implement.

For the required recapitalization, a 3-step approach: First aim to attract private capital. If that is unavailable then consider (partial) nationalisation. And if that provides insufficient perspective a ‘Capital Safety-Net’ to rescue troubled system banks. For this purpose the ‘European Bank for Bank Capital Support (EBBCS)’ should be established. It is effectively a capital support fund, which is to be financed by the ECB (ECB = ‘The Lender of Last Resort’ with unlimited means) and which secures the stability of the Euro zone financial system. The EBBCS provides capital to troubled banks, in exchange for shares. These shares will serve as collateral to the ECB. Because these finances are only used for capital support, there will not be an inflationary effect. As soon as these banks have recovered and can obtain sufficient capital normally, the temporary capital support will flow back to the EBBCS. And the EBBCS will repay the ECB loans.

**The Matheo Solution (2010) in full**

As a comprehensive solution TMS features the following 10 points program:

1. **Implementation of the ECB-managed ECU-ERM (Currency Innovation).** National currencies are being re-introduced as monetary units-of-account (National-Currency-Units = NCU’s) parallel to the monetary (unit-of-account (currency-unit) of the EURO (= ECU). The Euro remains the sole monetary means-of-payment (including legal tender) in all Euro countries. Monetary NCU-devaluations (fixed but adjustable exchange-rates) in the problem countries on the basis of the ‘economic fundamentals’ (such as PPP’s). All existing and new international (border crossing) debits/credits will continue to be nominated in ECU/Euro. In full compliance with the ‘Lex Monetae’, all existing and new national debits/credits will be nominated in the respective NCU. Interest rate differentiation on a national level.

2. **The national economies of troubled countries should be reformed under the supervision of the IMF (possibly in conjunction with the World Bank).** Investment programs should be financed by (international) private parties and for extra stimulus by the European Investment Bank (EIB).

3. **Under the supervision of the IMF, the unsustainable national State debts of the problem countries should be reduced to sustainable levels by means of ‘clean hair-cuts’ (‘IMF Insolvency Pact’ with...**
‘Controlled Defaults’). Emergency loans to problem countries will only be made by the IMF (with the financial support of non-euro zone countries).

4. **Establishment of an ‘ECB Safety-Net’ for European (system) banks that will experience liquidity and capital problems.** Liquidity support only to private banks which need liquidity and offer solid collateral. For the required recapitalization, a 3-step approach: First aim to attract private capital. If that is unavailable then consider (partial) nationalisation. And if that provides insufficient perspective a ‘Capital Safety-Net’ to rescue troubled system banks. For this purpose the ‘European Bank for Bank Capital Support (EBBCS)’ should be established. It is effectively a capital support fund, which is to be financed by the ECB (ECB = ‘The Lender of Last Resort’ with unlimited means) and which secures the stability of the Euro zone financial system. The EBBCS provides capital to troubled banks, in exchange for shares. These shares will serve as collateral to the ECB. Because these finances are only used for capital support, there will not be an inflationary effect. As soon as these banks have recovered and can obtain sufficient capital normally, the temporary capital support will flow back to the EBBCS. And the EBBCS will repay the ECB loans.

5. **The ECB continues to control the monetary policy of the Euro zone and determines and regulates the money supply according to the existing only Treaty norm concerning ‘Sustainable Price Stability’. Unsustainable private debts in the problem countries also have to be reduced to sustainable levels.**

6. **Strengthening of the SGP - ’debt-brake’ and creation of crisis buffers for difficult years.**

7. **The introduction of ‘voluntary exit’ (‘Opt-out’), without necessarily having to leave the European Union (EU) and therefore without rejection of (the rest of) the EU-Treaty, for Euro-countries that can not or will not comply to the Euro Pact rules concerning State debts, State budgets, Sustainable price stability (combating inflation) and economic performance.**

8. **The ‘No-bail-out’ clauses can and have to be maintained/re-installed and - if necessary - strengthened. Euro-bonds are not necessary.**

9. **Restructuring of the banking sector, in the sense that banks should serve the interests of citizens, enterprises, and governments. Risky ‘Investment-banking’ must be separated from the regular (public) banking functions. Exorbitant earnings, including the ridiculous ‘bonus culture’ causing the damaging focus on short-term profitability should be terminated. The European bank supervision will be assigned to the EBA (and thus be taken away from the ECB). The EBA will execute this task in consultation and in coordination with the respective existing national supervision authorities.**

10. **The immediate end to the European financial support for countries, and – via countries – for banks in trouble. An immediate end to the ‘ECB purchases’ of State bonds.**

Additionally and referring to the views of Hans-Werner Sinn, the Euro zone also needs a properly designed and functioning Euro Money System (Target 2), with an regular annual settlement of the developed debit/credit positions between the participating members.

**André ten Dam** stated in December 2012 in Dutch parliament, that a bank resolution regime for bankrupt banks should also be established via which holders of bank deposits will obtain the highest preferential creditor status.

**Adopting ‘The Matheo Solution (TMS)’**

In line with the ‘TMS formula’ several international experts followed to suggest the separation of the monetary ‘means-of-payment’ function from the monetary ‘unit-of-account’ function of money, in order to heal EMU – for instance Thomas Mayer (Deutsche Bank), Dirk Meyer.
(Helmut Schmidt University Hamburg), Michael Butler (former UK permanent representative to the EC), Willem Buiter p. 34 (London School of Economics and CitiGroup), Ludwig Schuster & (the late) Margrit Kennedy (Money Network Alliance - MonNetA), Biagio Bossone (The Group of Lecce), Ulrich van Suntum (University Münster) and Gerald Holtham (Cardiff University & Business School).

‘The Matheo Solution (TMS)’ – Made in Holland for Europe!

The ECU-ERM model versus the ‘Parallel Currencies’ model

The introduction, according to the ECU-ERM, of national monetary units-of-accounts/currency-units (NCU’s) alongside the already existing monetary ‘Euro unit-of-account/currency-unit (ECU)’ perhaps looks like, but is NOT the same as introduction of ‘parallel currencies’ alongside the Euro.

There are clear and important advantages of the ‘parallel currency-units’ model of the ECU-ERM compared to the ‘parallel currencies’ model. The world of the ECU-ERM is different, better ....and more beautiful.

Andre ten Dam in conversation with Dr. Thomas Mayer and Prof. Ulrich Brasche at the ‘BVMW Euro-crisis Conference’ in Berlin (July 24th, 2012)

In the enumeration underneath these differences (advantages) will be made clear in comparison with the well-known ‘Geuro’ proposal (May, 2012, click here) of Dr. Thomas Mayer (Center for Financial Studies der Goethe Universität Frankfurt and Deutsche Bank), whose proposal involves the introduction of a new national currency alongside the Euro for Greece (and other ‘weaker’ Euro countries).
- With the implementation of the ECU-ERM there will be no ‘second rate’ Euro (zone) member states. So there will be no division in the Euro zone of any kind.
- Let’s Keep It Simple (KIS). For the implementation of the ECU-ERM, there is no need for new physical national coins and banknotes (currencies). After a simple adaptation of the relevant software systems of the monetary authorities and financial markets, the ECU-ERM could be introduced on a very short notice.
- For the implementation of the ECU-ERM, an EU-Treaty change is not needed. In full compliance with article 128 TFEU, the ECB-issued Euro remains the only legal tender in all Euro countries.
- ‘Gresham’ (bad money drives out good money) is not applicable to the ECU-ERM, the Euro remains the ‘Single Currency’. So there will be no ‘currency competition’ of any kind.
- The ECU-ERM is managed by the independent ECB, on the basis of objective economic fundamentals. Thus there will be no unfair (overshooting) devaluations. And the necessary ECU-ERM devaluations will therefore also be immune for (national) political pressures.
- The ECU-ERM excludes ‘currency speculation’ (in the ECU-ERM the euro remains the ‘Single Currency’). And when the ECB executes its new tasks properly and promptly, there will as well be no ‘NCU speculation’.
- Because not a national authority but the ECB controls the money supply, ‘sustainable price stability’ is guaranteed in every Euro country.
- ‘Last but not least’, the ECU-ERM will be integrated within the Euro Pact. So there will be no competitive/hostile monetary system alongside the Euro Pact. Thus the ECU-ERM should be acceptable for the Euro zone (monetary) authorities and pro-Euro politicians.

Interestingly, after he became familiar with the ‘TMS-concept’ by Ten Dam, in the Summer of 2012, Mayer adopted this concept (which Mayer calls ‘virtual currencies’) ... together with several other ideas of TMS......in his views about the future of EMU and the Euro.

See for instance Mayer’s lecture (click here) at the ‘London School of Economics and Political Sciences (LSE)’ in November 2012, where he stated:

“....We need to define the new architecture for EMU...EMU needs to be based on politically neutral money and national fiscal sovereignty coupled with national liability.... When the destination is clear it is easier to map out the route to get there....parallel currency can be virtual only, the Euro can remain cash currency....”

Obviously and according to a full and correct understanding of the theory of the functions of money, Mayer should have more precisely stated that “.....the Euro can remain the only currency (means of payment) for all cash and electronic payment....”.

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