The Matheo Solution (TMS) – For Matheo and all other Europeans

The Dutch contribution to the International Summit 'A plan B in Europe'

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Matheo stands firm to reconstruct and reform the flaw and broken Euro Pact

11 November 2015 (Update 20 January 2016), by André ten Dam (independent Euro-researcher) – www.TheMatheoSolution.eu

Abstract

This paper analyses the main elements of the Euro-crisis, reviews some thoughts about ways to tackle the crisis, and then explains 'The Matheo Solution (TMS)'. TMS, presented in 2010, is a comprehensive and common sense proposal to solve the Euro-crisis. The core-concept of TMS involves an innovative adaptation of our monetary system. Implementation of TMS means that the flaws of the present Euro Pact will instantly be fixed. TMS re-introduces monetary flexibility, allowing adjustable exchange-rates and interest-rate-differentiation among member-states while the Euro remains the only currency throughout the Euro-zone. TMS can be implemented at short notice and does not require a EU-Treaty change. TMS also proposes an alternative and smart (tax-payers'-money-saving) system to recapitalize insolvent Euro-zone system banks, a safety-net in the last European stage. By repairing the 'one-size-fits-none' flaw of the present rigid Euro Pact, TMS turns the European Economic and Monetary Union (EMU) into a flexible (lean & mean) and strong union, and the Euro into a strong and lasting global currency. The annex of this paper explains the differences between the TMS-model and the traditional parallel-currency-model.

The main aspects of the Euro-crisis

It was naïve and a mistake to introduce EMU and the Euro in the rigid monetary *'one-size-fits-all'* structure. Because of the divergent economic cycles, strength of economic development and character of the national Euro-zone economies, the monetary structure turned out to be *'one-size-fits-none'*.

In the mutual monetary relations the exchange-rate of the Euro has developed into (much) too expensive for Greece, Italy, Portugal and Spain, and (much) too cheap for Germany, the Netherlands, Ireland and Austria (*see graph below*).

Fair Value of EUR by Country

	EUR/USD Equivalent	Country Under/Over Valuation from EUR/USD Fair Value	Country Under/Over Valuation from Spot
EUR/USD	**1.32**		
Germany	1.59	-17%	-34%
Ireland	1.43	-8%	-26%
Austria	1.34	-1%	-21%
France	1.27	4%	-17%
Finland	1.27	5%	-16%
Spain	1.25	6%	-15%
Belgium	1.24	7%	-15%
Netherlands	1.24	7%	-15%
Portugal	1.23	8%	-14%
Italy	1.16	14%	-9%
Greece	1.09	21%	-3%

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** .*

The impossibility of exchange-rate-adjustments on a national level within the Euro-zone has resulted in enormous imbalances between the Euro-countries as well as within each individual country. It is certainly worth mentioning that for this reason Finland's government has recently acknowledged that the introduction of the Euro has been a mistake.

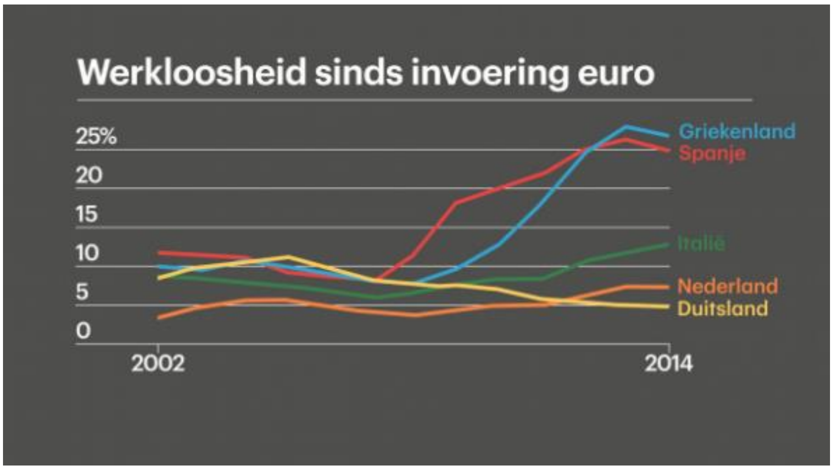
Conclusion 1.: Given the differences and the fact that exchange-rate-adjustments are impossible, Germany, Ireland, The Netherlands and perhaps Austria on the one hand, and Greece and Italy on the other do not belong in this European monetary union!

Another monetary disadvantage of the 'one-size-fits-all/none' currency is the impossibility to conduct one for each individual euro country appropriate national oriented interest-rate-policy, in order to cool down overheating or to stimulate slowing national economies.

The absence of a national oriented interest-rate-policies is the reason why the (real estate) bubbles first in the Netherlands and later in Spain and Ireland arose in the first years after the introduction of the Euro – these bubbles burst with enormous economic, social and financial damages. Because of the present ultra-low (even negative) ECB-interest-rates (and ECB-QE-policies), new bubbles arise, now at the stock-markets. Sooner or later these new bubbles will burst as well ….with similar devastating consequences.

Conclusion 2.: The 'one-size-fits all/none interest-rate' of the single currency does not prevent or cure specific harmful economic developments, but actually intensifies them!

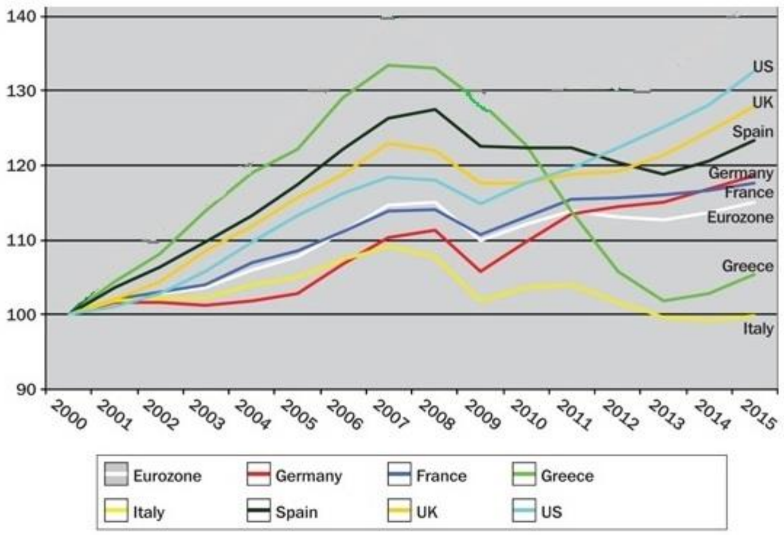
The economic imbalances have led the Southern Euro-countries into economic depression, business bankruptcies, long-term excessive unemployment (*see graph below*), social misery, poverty and collapsed State-finances. For countries like Germany and the Netherlands they caused a reduced purchasing power and a suppressed domestic economy, thus a decline of prosperity.



Unemployment development in Greece, Spain, Italy, The Netherlands and Germany since the introduction in 2002 of the euro as the single currency

NB! *Notice also the difference in unemployment development between The Netherlands and Germany (two stronger Euro-countries) and as well between Italy and Spain (two weaker Euro-countries).*

The absence of national oriented monetary policies within the internal divergent Eurozone resulted in general in a worse economic performance, compared with that performance in other countries (*see graph below*).

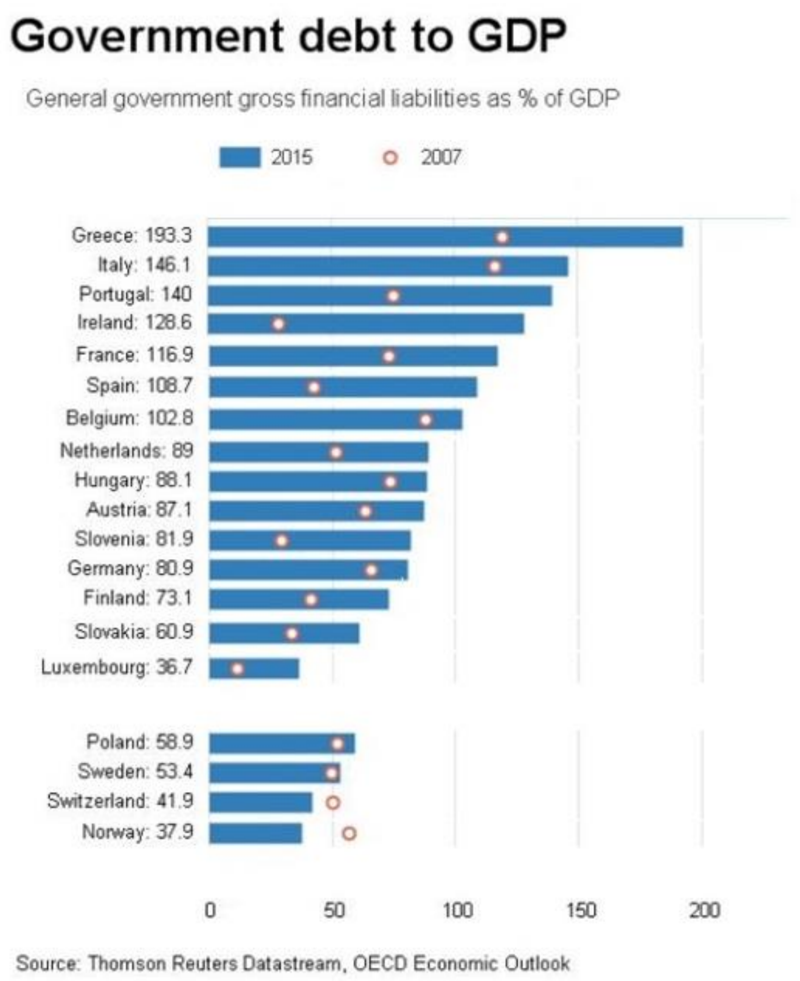


GDP 2000 - 2015 (2000 = 100)

Sources: (i) IMF, "World Economic Outlook, database", October 2014 for back data; (ii) *European Commission*, "Winter economic forecast: outlook improved but risks remain", 05 February 2015, for 2014 (modified for known out-turns) and forecast 2015.

<u>Conclusion 3.</u>: The 'one-size-fits all/none' Euro Pact has proven to slow down economic growth and to stimulate economic contraction in all euro countries!

As a consequence of the declining economic performance in the Euro-zone, the State-debts (*see graph below*) and private debts of all euro countries have excessively grown (in several Euro-countries to unsustainable levels), resulting in solvency problems of citizens, businesses, countries and banks.



Conclusion 4.: The 'one-size-fits all/none' Euro Pact has proven to increase debts for citizens, businesses, countries and banks in all euro countries, and is therefore a threat for the stability of the European financial system!

Given the aforementioned conclusions, three main flaws of the present Euro Pact can be distinguished and must be addressed:

1. *The 'one-size-fits-all/none' Euro Pact (exchange- and interest rate) 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 State-debts of several Euro countries are unbearable. The cure = State-debts should be reduced to sustainable proportions;*
3. *The 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 (taxpayers'-money-saving) construction for bank recapitalization.*

'Euro-exit(s)' or a full return to the former European Monetary System (EMS)?

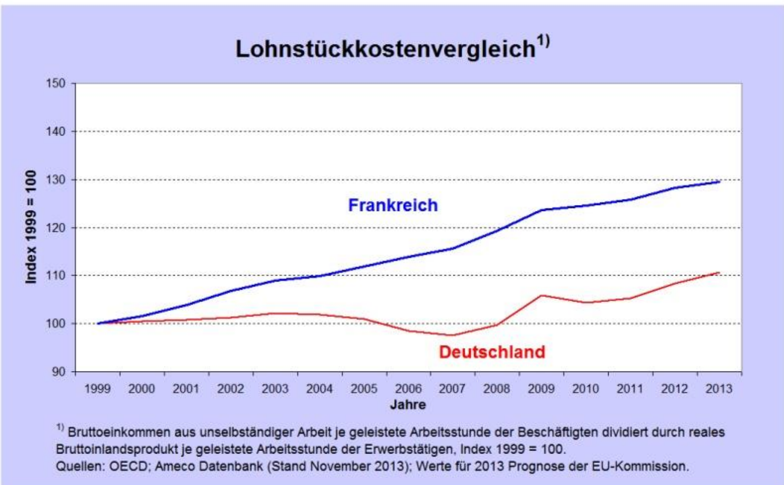
Referring to the Greek tragedy, ***Ambrose Evans-Pritchard*** in June 2015 described what an appropriate policy should have looked like to overcome the problems in the Southern Euro-countries:

"It is a public policy scandal of the first order, ….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. …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. "

In October 2015 ***Yanis Varoufakis*** was the guest of ***Hans-Werner Sinn*** in Munich. In 'their euro-discussion' they both concluded that Greece has lost its competitiveness compared to the other Euro-countries, and therefore something has to be done. Since 2010 Sinn proclaims that Greece should better temporarily leave the Euro-zone (take a 'Euro-holiday') in order to economically recover by means of devaluing its new national currency to an international balanced level and reforming its economy and institutions. And after Greece would have managed to do so, Greece could re-join the Euro Pact. According to Varoufakis however, not Greece but Germany should exit the Euro, because Germany as well has derailed on the railway track of EMU. Moreover in the case of a 'Grexit', Greece would face difficulties to stabilize its new Greek drachme. And Germany and its new D-mark probably would not be confronted with these problems in case of a 'Dexit'.

Both Sinn and Varoufakis make valid points, however their proposals have a too limited scope. The developed economic divergence is neither only between Greece and the rest of the Euro-countries nor only between Germany and the rest of the Euro-countries, but is (as stated in all the aforementioned) all around between the Euro-countries – according to ***Heiner Flassbeck*** (therefore) as well in the German-Franco political core (see graph below), who stated:

"We still have a twenty percent gap of unit-labor-costs between Germany and France. This simply cannot go on like this. France must be able to survive economically. In the long run this is impossible for France. Perhaps this may last another five years, but it is impossible to rely on a lethal wage reduction policy. "



Now that the French economy keeps on stagnating and the unemployment rate has hit record levels, the French President ***François Hollande*** this week declared his country in an economic state of emergency. Perhaps the French political and monetary authorities should finally focus on the destructive 'one-size-fits-none' structure of the European monetary union?!

For all these reasons ***Oskar Lafontaine*** suggests that all Euro-countries should return to their national currencies, and the former European Monetary System (EMS) should be re-established:

> *"For my part, I plead for a return to a European Monetary System (EMS) *, taking into account the experiences that we have had with this system and ameliorating its construction in the interests of all the participating countries. The EMS functioned for many years, certainly not without frictions, but better than the single currency. … In contrast to the euro, the EMS favoured, and this is what counts, the cooperation between the peoples of Europe."*

* Please note that in the former EMS, the Euro only existed as a common European *unit-of-account*, the so called basket 'European-Currency-Unit' (ECU).

Lafontaine is certainly right. Despite its frictions, the former EMS-system functioned much better than the disastrous and destructive present Euro Pact, and Euro-exits by Greece and/or Germany are insufficient.

In line with Lafontaine, ***Matthew C. Klein*** in November 2015 concluded that the Euro was pointless:

> *"Many economists in the 1980's and 1990s thought monetary union would encourage cross-border investment and trade by eliminating the risk premiums associated with the supposedly destabilising devaluations of the past. The net effect would be converging living standards, dampened business cycles, slower inflation, and faster productivity growth for everyone – the benign Germanisation of Europe. …This was a laudable goal, but unfortunately it's not how things worked out. …A stimulating conference recently hosted by the Centre for European Reform made it clear to us the Euro had already failed to meet the expectations of its architects before the crisis. Sharing currencies was unnecessary for economic convergence, if not actively harmful. ...That's the real tragedy of the single currency: it was pointless from the start."*

However, by dismantling the present Euro Pact, we would lose all the (potential) advantages of the Euro and abandon the important considerations on which the Euro was initially introduced. For instance the cross-border price-transparency of the Euro and the convenience of one and the same means-of-payment in all Euro-countries. Further, the Euro as a single currency provides monetary stability to every individual Euro-country. Moreover the Euro was supposed to serve as a solid and stable global trade and reserve currency in the international monetary system besides the US-dollar, and the Euro would embed Germany in the post-war European continent. With a return to the former EMS we would lose all these (potential) advantages and considerations.

So what is needed is a European monetary construction in which all the advantages of national currencies can be combined with the (potential) advantages of the present Euro and the considerations prior to its introduction.

The Matheo Solution (TMS)

The Matheo Solution (TMS) * was presented in 2010 by Dutch Euro-researcher ***André ten Dam***.

* Ten Dam named his proposals to address the Euro-crisis after his in 2010 born son Matheo, as a representative of all future European generations.

TMS is a comprehensive and common sense approach to tackle 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 <u>all</u> 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 and prosperity, 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 becoming an reliable, stable, strong and lasting international (reserve) currency.*

'The Matheo Solution (TMS)' offers a way to fulfil the precondition by the European political elite to preserve the Euro (and its advantages) and the Euro-zone within the frame-work of the mutually economic diverse and divergent Euro-countries, and therefore addresses all the aforementioned elements of the Euro crisis.

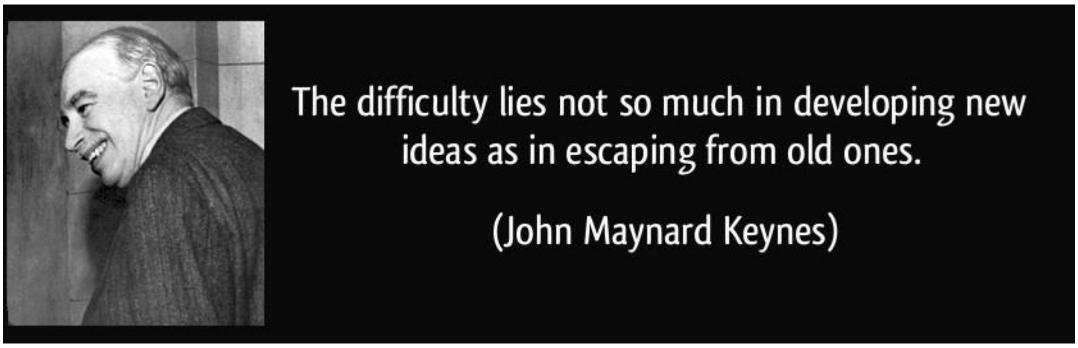
So, with TMS there is no need for a full-blown political union, no need for a (utopian) full economic convergence between the Member-states and no necessity of an (impossible) ever-lasting financial transfer-mechanism to absorb internal asymmetric shocks/tsunamis or to relieve the effects of constant economic depression in the weaker Euro-countries.

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

TMS has introduced an internal monetary 'flexible' (lean & mean) model for a monetary union between economic divergent member-states to succeed and prosper.

The TMS-model is called the 'European Currency Units - Exchange Rate Mechanism (ECU-ERM)', and provides the essential monetary flexibility (exchange-rate and interest-rate-differentiation on a national member-state-level) within the Euro Pact.

It is a new architecture for EMU and the Euro, especially designed and suitable 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 be maintained as the 'single currency' (the sole means-of-payment) in every Euro-country and thus throughout the whole Euro zone. On the other hand new national monetary units-of-account will be introduced (alongside the monetary unit-of-account of the Euro) for the determination *and* simple 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.

Because the Euro was intended to be a strong currency, the unit-of-account of the Euro (the anchor of the exchange-rate-mechanism) will be linked to the national unit-of-account of the economically strongest Euro-countries (at present that would be Germany).

In daily practice the TMS-system will mean that within each Euro-country, in terms of prices and wages we will calculate in the respective national unit-of-account (in the Netherlands the guilder unit-of-account, for Spain the peseta unit-of-account, for France the franc unit-of-account, etc.) while we will continue to pay in each and every country in Euro. Similar to the time the Euro was introduced as a currency (in 2002), we will see in shops price-tags with double prices, both in the respective national unit-of-account and in Euro. Border-crossing trade transactions will continue to be calculated and paid in Euro.

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 ultimate symbol of the European ideal,*
- *The clear advantages of the Euro currency (means of payment, including legal tender) in daily practice,*
- *The Euro as a 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 an exchange-rate-mechanism and interest-rate-differentiation on a national (Member-state) level.*

In 2015 ***Wolfgang Streeck*** pointed Ten Dam to several parallels of TMS and *the Bancor Plan* (1943-1944) by ***John Maynard Keynes*** (1883-1946), the British proposal at the Bretton Woods conference (1944). Keynes proposed an international exchange-rate-mechanism for the participating national currencies with the Bancor (a supra-national basket unit-of-account) as the anchor.

John Maynard Keynes - The Matheo Solution (TMS) - André ten Dam

Decades later the Bancor stood model for both the European-Currency-Unit (ECU) of the former EMS and the Special Drawing Rights (SDR) of the IMF. However the experiences of the ECU and the SDR have taught us that such a supra-national unit-of-account cannot make it to be a success, simply because a unit-of-account is not ‘dominant’: it lacks the trade (means-of-payment) and the reserve (store-of-value) function of a currency.

Realizing this, one could say that the TMS core-concept is the additional final step (which Keynes might have developed himself, if he would have had the time to live) to turn the Bancor Plan into a success. This final step is as well the ‘missing-link’ that can finally make the Euro Pact work.

2. TMS: Debt reduction

TMS proposes 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 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 (taxpayers’-money-saving), fairer and, thus better, alternative for the ‘ESM-financed’ model which the European political leaders decided to implement in 2012.

For the required recapitalization, TMS proposes 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’ is applied 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 and according to ‘The Euro-Solution-Matrix’ adequate 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 troubled countries on the basis of the ‘economic fundamentals’ (such as PPP’s). All existing and new international (cross-border) 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 troubled 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). Unsustainable private debts also have to be reduced to sustainable levels.*

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’ is applied 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’.*

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

7. *The introduction of a voluntary 'Euro-exit' (Opt-out) and perhaps a forced 'Euro-exit', 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, Reforms, 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 (and will not be permitted).*

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-bond-purchasing-programs' in order to save troubled Euro-countries from default.*

Additionally and referring 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 the *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.

Other proposals somewhat similar to the TMS-model

In line with the 'TMS formula' several other 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. Examples are 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 !

Annex - The TMS-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 TMS-model compared with the traditional parallel-currency-model. The world of TMS is different, better ….and more beautiful.

André ten Dam in conversation with Thomas Mayer and 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' (2012) by ***Thomas Mayer***, whose proposal involves the introduction of a new national currency alongside the Euro for Greece (and other troubled 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's Law' (bad money drives out good money) is not applicable to the ECU-ERM, because 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 therefore provides 'monetary stability' to each individual country. 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-model, in the Summer of 2012, Mayer adopted this model (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 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…"*

According to a full and correct understanding of the theory of the functions of money, Ten Dam would have said that *"…..the Euro can remain the only currency (means of payment) for all cash and electronic payments…."*.

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