www.TheMatheoSolution.eu

Scientific publications involving other relevant proposals

- Kawalec, Stefan & Ernest Pytlarczykt (9-2013), ***"Controlled dismantlement of the Euro zone: A proposal for a New European Monetary System and a new role for the European Central Bank"***, Working Paper National Bank of Poland (PL)
  http://nbp.pl/publikacje/materialy_i_studia/155_en.pdf

  Introduction:

  In this paper Kawalac (President of Capital Strategy Sp. And former vice-minister of finance in Poland) & Pytlarczykt (Chief Economist of BRE Bank S.A.) conclude:

  "The single European currency constitutes a serious threat to the European Union and the Single European Market, and we propose a controlled dismantlement of the Euro zone. In this paper, they undertake a deeper analysis of the measures which would minimize the risks throughout the process of the Euro zone dismantlement and contribute to rebuilding confidence in the future of Europe.
  - The dismantlement should be the result of a consensual decision to replace the euro with an alternative system of currency coordination.
  - The dismantlement should start with the exit of the most competitive countries. In the meantime, the euro should remain the common currency of less competitive countries.
  - The European Central Bank (ECB) should be preserved as the central bank for all 17 Euro zone member countries, even after some of those countries have replaced the euro with new currencies. In this capacity, the ECB should be in charge of designing, preparing, and implementing the segmentation of the Euro zone as well as managing the new currency coordination system – European Monetary System 2.
  - The forthcoming EU – USA free trade agreement would build new momentum for economic growth and contribute to restoring confidence in the future of Europe.
  As of today, neither the member states of the Euro zone nor European institutions such as the European Commission or the ECB have been able to come up with a game-changing proposal such as the Euro zone dismantlement. However, this may change as a result of adverse economic and political developments. One of the potential triggers could be the situation in France.

  Comment:

  The dismantling of the present Euro Pact in whatever way is a proper but rigid way to combat the Euro crisis. Because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the dismantling proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the dismantling proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

  Interestingly, just like Ten Dam, Kawalec & Pytlarczykt see a new role for the ECB to manage the new exchange-rate-mechanism within Europe (among other similarities).

- Henkel, Hans-Olaf (5-4-2013), ***"Europe's Procrustean Nightmare"***, Project Syndicate Special - A World of Ideas
  http://www.project-syndicate.org/commentary/splitting-the-eurozone-into-a-two-tier-monetary-union-by-hans-olaf-henkel

  Introduction:

  In this publication Prof. Hans-Olaf Henkel (Honorary Professor of Economics at the University of Mannheim and former president of the Federation of German Industries - BDI) analyzes the flaws in the Euro Pact and the way Europe's leaders has been to tackling it. He states that Europe's leaders must stop treating the euro zone as a homogeneous entity, imposing one-size-fits-all policies on vastly different countries. He advises that the core-countries (Austria, Finland, Germany and The Netherlands) should leave the Euro Pact and adopt a new joint currency.

  "…The European Union's policy of saving the euro at all costs is enough to guarantee the euro's survival. But is preserving the "one-size-fits-all" euro really worth sacrificing the euro zone's competitiveness and, ultimately, European solidarity? It was the single market's establishment in 1992 – not the euro's introduction seven years later – that brought free trade, increased competitiveness, and new wealth to Europe. In fact, the monetary union has become a political and economic nightmare, plagued by recession, record-high unemployment, social unrest, and rising distrust among member states. But, even as politicians and economists run out of arguments in favor of the euro, few dare to challenge its fundamental structure, let alone propose alternatives. To escape the crisis, EU leaders must recognize the shortcomings of the euro zone's one-dimensional framework, and develop a system better suited to managing a multi-faceted monetary union. This situation is untenable. Europe's leaders must pursue a controlled segmentation of the euro zone, in which the most competitive countries – Austria, Finland, Germany, and the Netherlands – adopt a new currency, the "northern euro." This new monetary union would be managed according to the original Maastricht Treaty, with a truly independent central bank responsible for regulating the northern euro's exchange rate against the euro, which less competitive countries would retain. The rump euro's weakened exchange rate would lead to renewed economic growth, job creation, and a stronger tax base in southern European countries. Initially, to facilitate debt reduction, bondholders would face another haircut. Countries departing for the northern euro should make a one-time contribution to these debt-reduction efforts. A flexible membership system would enable countries to join the northern euro when their economic and fiscal conditions became strong enough. Europe's leaders must stop treating the euro zone as a homogeneous entity, imposing one-size-fits-all policies on vastly different countries. The euro's framework should be adjusted to suit current fiscal and economic realities – not the other way around…"

  Comment:

  This 'North/South Euro' proposal is the most simple, effective and definitely well known but rigid approach to combat the Euro crisis. Rigid because it divides Europe in two and it lacks the monetary 'flexibility' on a national member-state-level which Ten Dam's TMS (or a return to national currencies) does offer. And, because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the 'North/South Euro' proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the 'North/South Euro' proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Bundesverband Mittelständische Wirtschaft - BVMW (12-2012), ***"Die parallelwährung: Optionen, Chancen, Risiken."***, BVMW (Germany)
  http://www.bvmw.de/uploads/media/die_parallelwaehrung.pdf

  Introduction and comment:

  In July 2012 the German 'Bundesverband Mittelständische Wirtschaft - BVMW' organized and hosted a Euro-crisis conference in Berlin (Germany). During this conference Dr. Michael Vogelsang (Chief Economist of BVMW) initiated and coordinated lectures by invited experts and organized a debate and discussions. The final conclusion of this conference was that the general concept of *'parallel currencies'* alongside the euro is the best way out of the Euro-crisis. BVMW decided to compile this 'conference bundle' with submissions by a select number of the invited experts, among others Prof. Dirk Meyer (Helmut Schmidt University – Hamburg), Prof. Roland Vaubel (University of Mannheim), Dr. Thomas Mayer (Centre for Financial Studies der Goethe Universität Frankfurt and Deutsche Bank) and Prof. Markus C. Kerber (University of Berlin and Europolis). Though *the ECU-ERM proposition* by André ten Dam (independent Euro-researcher) is not exactly a 'parallel currency' model, BVMW considers the ECU-ERM model 'related' to the general 'parallel currency' model. Ten Dam was one of the speakers at this conference and submitted the article *'The Euro-crisis & The Matheo Solution (TMS)'* for this conference bundle'.

- Kerber, Markus C. (27-9-2012), ***"Time for a historical compromise – Why Europe needs the GuldenMark and no longer the Euro as single currency"*** , EuroPolis (Germany)

  http://www.europolis-online.org/wp-content/uploads/2012/10/Time-for-a-historical-compromise-shortened-version.pdf

  Introduction:

  In this publication the elegant Prof. Markus C. Kerber (Öffentliche Finanzwirtschaft und Wirtschaftspolitik Technical University Berlin and founder of Europolis) presents his 'GuldenMark' proposal, which effectively involves the introduction of a common parallel currency for the stronger 'current-account-surplus' Euro countries alongside the Euro. The 'GuldenMark' monetary pact then could be joined by other (non-Euro) EU 'current-account-surplus' countries.

  "In the light of the never ending Greek crisis and at the dawn of a big bang in Spain, Italy and perhaps France, we all no doubt share the feeling that we have come to a dead end in the discussion on the Euro. When it comes to the question of an alternative to the Euro, however, silence is deafening. Meanwhile, no-one is prepared to say how the Euro project might be finished, modified or transformed. Even Lord Wolfson's award for the best plan to manage the break-up of the Eurozone is based on the idea that the Euro will be abandoned, and as a consequence it prejudices in part all other attempts to find a solution. We should not content ourselves with questions of how to break up the Euro zone as there is much more at stake than the cliff-hanger that the Euro project has become. The crisis threatens the entire future of European Integration and thus concerns the UK. …..I would like to present a proposal to you in the form of my paper, "More monetary competition". In it I state the case for retaining the Euro as one European common currency, with alongside a parallel currency granting those countries with a current account surplus i.e. Germany, the Netherlands, Finland, Austria, Luxembourg and in the future Ireland, the special option of preserving their interests, similar to the opt-outs exercised by the United Kingdom, Sweden and Denmark. These countries should have the opportunity of introducing a second currency, the Guldenmark, as second legal tender alongside the Euro. It is in the interest of these countries, i.e. the Netherlands, Germany, Finland, Luxembourg and Austria, and for the protection of their citizens, to introduce a second currency; this is fair to the same extent that the Euro has been allowed, by the increasingly French- and Italian-dominated European Central Bank (ECB), to become a weak currency, with the subsequent potential for inflation. The parallel currency would be managed by a central bank which would also communitise currency reserves. …….Political promoters of the single currency - especially France – will no doubt reject this idea as unthinkable because the Euro is "irreversible". However, if we look at history, the qualification as "irreversible" has always been the implicit admittance that the end is at hand."

  For Europolis, see: http://www.europolis-online.org

  Comment:

  The 'GuldenMark' proposal effectively is a much more sophisticated, elegant and 'European Unity-friendly' variant of the North/South-Euro proposal for instance by Prof. Hans-Olaf Henkel. The 'GuldenMark' proposal is (one of) the most effective and well known and (therefore) serious and real contender(s) to combat the Euro-crisis and for the future of the Euro(zone). However the 'GuldenMark' proposal lacks the monetary 'flexibility' on a national member-state-level which Ten Dam's TMS does offer. And, because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the 'GuldenMark' proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the 'GuldenMark' proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Sinn, Hans-Werner & Friedrich Sell (31-7-2012), ***"Our opt-in opt-out solution for the euro"*** , Financial Times (UK)
  http://www.ft.com/intl/cms/s/0/b2c75538-da35-11e1-b03b-00144feab49a.html#axzz2K1qq2rHB
  and
  http://www.cesifo-group.de/ifoHome/policy/Staff-Comments-in-the-Media/Press-articles-by-staff/Archive/Eigene-Artikel-2012/medienecho_ifostimme-ftimes-01-08-2013.html

  Introduction:

  In this publication the prominent Prof. Hans-Werner Sinn (University of Munich and President IFO Institute)and Prof. Friedrich Sell (Bundeswehr University Munich) propose to make the Euro Pact an *'open' pact*, in which member states can temporarily leave (*Euro Holiday*), and - after devaluation of the temporarily adopted national currency and implementing (economic) reforms - later rejoin the Euro. Then the trauma of a real depreciation inside the Euro zone will be avoided and the country will be spared of a reduction of prices and wages that almost unavoidably entails economic contraction and mass unemployment.

  "….The core idea is to offer exiting countries the status of associated member, allowing them to adopt their own currency temporarily with the option to return to the euro at a later stage. An associated member would spare itself the trauma of a real depreciation inside the euro zone, which can only be achieved through a reduction of prices and wages that almost unavoidably entails economic contraction and mass unemployment. Moreover, an associated member could receive financial help from the other euro zone countries. It could adjust its exchange rate quickly to restore competitiveness and, once it had fulfilled all reform commitments, could fully rejoin the euro zone…….This proposal to open the currency union has a decisive advantage over either maintaining the status quo or allowing disorderly exits from the euro zone. It would give the countries affected a realistic, and therefore credible, hope of returning to the euro. Linking the new national currencies to the euro would support the operational efficiency of the single market. And countries would not be expelled from the club; their full membership would simply lie dormant for a couple of years. That would be a significant psychological factor making governments, and their electorates, more willing to persevere with painful economic reforms.…."

  See also:
  Feldstein, Martin (16-2-2010), ***"Let's Greece take a Euro Zone Holiday"***, Financial Times (UK)
  http://www.ft.com/intl/cms/s/0/72214942-1b30-11df-953f-00144feab49a.html#axzz2Pt3E96oK

Comment:

According to 'The Euro Solution Matrix' this proposal is indeed interesting and sensible, and one of the better approaches to tackle the Euro-crisis. In his publication *'Redesigning the Euro Pact – The Matheo Solution (TMS)'*, André ten Dam however explains and sums up the following 9 (!) clear advantages of TMS compared to this 'Opt-in opt-out' proposal:

- 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. 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. 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'. And when the ECB executes its new tasks properly and promptly, there will as well be no 'NCU speculation'.
- With the ECU-ERM there will be no capital flights.
- 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.

However 'The Matheo Solution' of Ten Dam does not include a proposal for the as well needed reform of *the 'Euro Money System (Target 2)'*. Therefore Ten Dam has stated that regarding the reform of 'Target 2': *"We should all listen to Prof. Hans-Werner Sinn!"* Ten Dam herewith refers to the publication 'Target Loans, Current Account Balances and Capital Flows: The ECB's Rescue Facility'. by Prof. Hans-Werner Sinn and Prof. Timo Wollmershäuser.
http://www.cesifo-group.de/DocDL/cesifo1_wp3500.pdf

Because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of this proposal by Prof. Sinn a EU Treaty change is required, which will take years, if it can be achieved at all. Therefore this proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Holtham, Gerald (2-7-2012), ***"The Euro or devaluation - how to have both"***, Open Democracy (UK)
  http://www.opendemocracy.net/gerald-holtham/euro-or-devaluation-how-to-have-both

Introduction:

In this publication Prof. Gerald Holtham (Cardiff University and Business School and former Head Economist OESO, Department Macro Economy) proposes a similar model to *André ten Dam's earlier 'ECU-ERM'* (2010).

"….Europe is committed to a single currency but the Euro is not working. Europe therefore needs a single currency that does work…….The solution is to distinguish two functions of money: legal tender and unit of account. Europe at present can support having a single way to settle bills but it cannot currently sustain having a single unit of account. …..Each country can keep the Euro as its sole legal tender but should introduce a national unit of account (Nua). It should legislate that all contracts between residents, all domestic price lists and all wage slips should be expressed in both Euros and Nuas. It would be as well to make the Nua a simple quotient of the Euro, say one tenth (1 Euro = 10 Nua). ….Communications with non-national, non-residents would not be affected, nor would bank deposits. …..The government should take the power to fix the relationship between the Euro and the Nua by decree and to specify that in all dual price arrangements, the Nua price is preserved when the exchange rate changes. It can thereby announce a devaluation without having a separate circulating currency. Of course, that can be strictly enforced only for those deals where the government is a participant. In other cases the government would rely on moral suasion, an appeal to people to play the game in the collective, national interest. …….If people more or less played the game, producers would find their wage costs had fallen and margins on foreign sales, where prices were fixed in Euros, were better than margins on domestic sales, fixed, for the moment at least, in Nuas. …..Domestic goods would be cheaper than imports. The desired competitivity consequences of devaluation would be achieved……It would represent an improvement on the current situation. …..The nua would apply to prices for current goods and services. There would be no attempt to alter the value of existing bank deposits. ……At the same time the claimed advantages of a single currency would be preserved. Prices would be quoted in the same numeraire in all countries, supporting the single market; there would be no need to change currencies to travel abroad, bank deposits, cash and coin would have the same significance everywhere, reducing many transactions costs. ….With a system like that, even the UK could join. ……Of course, as already conceded, announcement of such a system would not resolve the immediate crisis. That requires some debt forgiveness and for more European banks to be declared insolvent. A unified system of bank deposit insurance would preserve the integrity of the payments system while bank shareholders and bondholders would lose their money. That would be painful but preferable to States pretending that they could make those losses good - at risk to the integrity of their own debts………"

Comment:

Identical to the 'ECU-ERM' by André ten Dam, Prof. Gerald Holtham based his proposal on the distinction of two functions of money: the function of 'legal tender' (means of payment) and the function of 'currency-unit' (also known as 'unit of account' and 'numéraire'). Identical to the ECU-ERM Holtham introduces new national currency-units alongside the 'euro-currency-unit' and alongside the Euro as the single currency (legal tender). Ten Dam calls this newly introduced national currency-units "NCU's (National-Currency-Units)", while Holtham calls these: Nua's (National units of account). Identical to the ECU-ERM and to prevent capital flights, all the existing bank deposits remain nominated in Euro. Identical to the ECU-ERM, the advantages of a single currency would be preserved. Prices would be quoted in the same numeraire in all countries, supporting the single market; there would be no need to change currencies to travel abroad, bank deposits, cash and coin would have the same significance everywhere, reducing many transactions costs. …And identical to Ten Dam, Holtham states that with such a system even the UK could join. …… Identical to 'The Matheo Solution' by Ten Dam, Holtham states that to combat the symptoms of the crisis 'debt forgiveness' is inevitable.

However the differences also the advantages of 'The Matheo Solution' versus Holtham's model and proposals are:

- The ECU-ERM is 'ECB-managed' in contrast to Holtham 'national managed' model. Thus the Ten Dam's ECU-ERM is more acceptable for the Euro zone (monetary) authorities and pro-Euro politicians.
- Ten Dam's 'ECB-managed' model therefore also is much more independent from national influences.

- With the implementation of the 'ECU-ERM' all new debits and credits (prices and wages) will be nominated 'by law' in the respective NCU's. Thus there are no exemptions. While in Holtham's model the nomination of prices and wages in Nua's depends on 'voluntary' acceptance.
- Holtham states that all insolvent European Banks should go bankrupt. While Ten Dam proposes a 'Bank Union' for the recapitalization of 'troubled' European system-banks in the last (European) stage, this in order to prevent bankruptcy of system-banks, thus to prevent destabilization of the financial system.
- Holtham advises a European unified system of 'bank deposit insurance'. While Ten Dam does not, because that would be unfair and unaffordable.
- Ten Dam's TMS is much more comprehensive and involves several other proposals to reform and improve the Euro Pact and to solve the Euro-crisis.

- Mayer, Thomas (23-5-2012), ***"Der Geuro - Eine Parallelwährung für Griechenland?"***, DB Research - Deutsche Bank (Germany)
  http://www.dbresearch.de/PROD/DBR_INTERNET_DE-PROD/PROD0000000000288868/Der+Geuro%3A+Eine+Parallelw%C3%A4hrung+f%C3%BCr+Griechenland%3F.pdf

  Introduction:

  In this research paper Dr. Thomas Mayer (Centre for Financial Studies of the Goethe University Frankfurt and Deutsche Bank) presents the nowadays best known model for 'Parallel Currencies', which - according to this paper - should be implemented in Greece (and other 'weaker' Euro countries) alongside the Euro. In this paper Mayer also proposes a 'ESM-financed Bank Union' concept for the recapitalization of 'troubled' European Banks. This to prevent bankruptcy of banks, thus to prevent destabilization of the financial system. Mayer's Bank Union model was adopted by the European political leaders, who later in 2012 decided to implement this model.

  Comment:

  According to 'The Euro Solution Matrix' Mayer's 'parallel currency' proposal is indeed interesting and sensible, and it 'ranks' as the second best approach to tackle the Euro-crisis. Mayer's model is similar to the '1976 advise' of the so called 'OPTICA GROUP' (*Expert group for the Commission of the European Communities*) that the Euro should better have been introduced as an 'parallel currency' alongside the then still existing national currencies (see underneath in this list). In his publication *'Redesigning the Euro Pact – The Matheo Solution (TMS)'*, André ten Dam however explains and sums up the following 9 (!) clear advantages of his ECU-ERM model when compared to Mayer's 'parallel currencies' model:

  - 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. 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. 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'. 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.
  - TMS is much more comprehensive and involves several other proposals to reform and improve the Euro Pact and to solve the Euro-crisis.
  - '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.

  Because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of this Geuro proposal by Dr. Mayer a EU Treaty change is required, which will take years, if it can be achieved at all. Therefore this proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

  Interestingly, after (in the Summer of 2012) he became familiar with the 'ECU-ERM' concept (based on parallel currency-units) of Ten Dam, Mayer adopted this concept (which Mayer calls 'virtual currencies') … together with several other idea's of TMS……in his views about the future of EMU and the Euro. See for instance Mayer's lecture ***"Europe's Unfinished Currency: the political economics of the Euro"*** 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…"
  http://www2.lse.ac.uk/publicEvents/pdf/2012_MT/20121101Mayerppt.pdf

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

  See also ***"Forget Euro Breakup - Think Euro Mutation"*** , Wall Street Journal d.d. 19-11-2012:
  http://online.wsj.com/article/SB10001424127887324556304578116830518460210.html

  Just like Mayer Ten Dam earlier proposed a 'Bank Union' for the recapitalization of 'troubled' European banks: **'The European Bank for Bank Capital Support (EBBCS)'**. Differences compared to Mayer's bank union are:

  - The EBBCS is limited to 'troubled' European *system banks* and therefore serves to prevent destabilization of the financial system.
  - The EBBCS is not 'ESM-financed' but *'ECB-financed'* and therefore *'taxpayers' money saving'*.

- IFO (9-12-2011), ***"Zur Diskussion gestellt - Euro crisis: Is a (temporary) introduction of a parallel currency a solution for the troubled states?"***, IFO Schnelldienst 23-2011, 64. JG., 48.-49. KW, S. 12-25 (München – Germany) (In German)
  http://www.cesifo-group.de/DocDL/SD-23-2011.pdf

  Introduction:

  On the initiative of IFO-president Prof. Hans-Werner Sinn in this issue of IFO Schnelldienst, IFO brings the concept of '*parallel currencies'* as a way to tackle the Euro-crisis into the (international) economic debate. The main argument for a dual currency is the opportunity for currency depreciation under flexible exchange rates. A temporary or permanent introduction of a parallel currency – in addition to a European currency (euro) – in which for example salaries, pensions, state benefits and real estate can be assessed and that would be subject to an exchange rate regulatory mechanism could help restore the competitiveness of weaker euro countries. IFO features 4 submissions by leading international economic scientists on this field of expertise: Prof. Dirk Meyer (Helmut Schmidt University – Hamburg), Dr. Michael Vogelsang (Chief Economist Bundesverband Mittelständische Wirtschaft – BVMW), Dr. Anton Beer (initiative www.rettet-die-eu.de) and André ten Dam (independent scientist concentrating on the Euro, EMU and the EU-Treaty). Though *the ECU-ERM proposition* by *André ten Dam* is not exactly a 'parallel currency' model, Sinn and IFO consider the ECU-ERM model 'related' to the general 'parallel currency' model.

- Buiter, Willem & Ebrahim Rahbari (9-9-2011), ***"The Future of the Euro Area - fiscal union, break-up or blundering towards a 'you break it you own it Europe' (3 scenarios)"***, (Citigroup Global Markets) (UK-USA)
  http://www.willembuiter.com/3scenarios.pdf

Introduction:

In this research paper we meet the views of Prof. Willem Buiter (Chief Economist of City Group and London School of Economics and Political Sciences - LSE), and Dr. Ebrahim Rahbari (Citi Group and London School of Economics and Political Sciences - LSE). Buiter is *the* current international expert in the field of 'currency-units' (the numéraire); unbundling the 'numéraire' and 'legal tender (means of payment)' function of money (see 'Other relevant scientific publications' on this website). Therefore it is not a surprise that also Buiter comes up with a proposal to tackle the Euro-crisis via newly introduced national 'paralllel currency-units' alongside the euro which then can devalue vís-a-vís the Euro to restore competitiveness in the 'weaker' Euro countries. Buiter was stimulated to come up with this proposal by a similar publication by Ludwig Schuster & Prof. Margrit Kennedy of the German Monetary think-tank 'Money Network Alliance – MonNetA', based on the earlier research papers by Buiter regarding the unbundling of the 'numéraire' and 'legal tender (means of payment)' function of money.

"…….A euro area member state (Greece again, for illustrative purposes) that wishes to devalue or depreciate its currency while remaining a member of the Euro area could achieve both objectives if it were to introduce its own currency (the New Drachma) as the numéraire, unit of account or invoicing currency for all new contracts under Greek law, including new bank deposits, new financial instruments and new wage and price contracts, while maintaining the euro (that is, euro notes and coins) as the sole legal tender. …….All pre-existing euro-denominated contracts and financial instruments under Greek law would be grandfathered, but all new contracts and financial instruments under Greek law would have to be denominated in New Drachma. Payments could be made with grandfathered euro-denominated deposits or with new deposits denominated in New Drachma or in euro notes – which would remain legal tender. …..There would be no New Drachma-denominated notes and coins, so as not to violate the Treaty-assigned monopoly role of euro notes as legal tender in EA member states. …..Monetary policy in Greece could be conducted either through the New Drachma refirate (the short risk-free nominal New Drachma interest rate) or by managing the exchange rate of the New Drachma vis-a-vis the euro. …..Clearly, with Greece remaining a member of the euro area, there could be no restrictions on capital flows between Greece and the rest of the euro area. …….With reasonably technically efficient financial markets, the standard 'no-arbitrage' and other equilibrium conditions will link euro interest rates (set in Frankfurt at the very short end), New Drachma interest rates (set in Athens if the Greek monetary authorities pursue an interest rate management policy with a market-determined interest rate), the spot exchange rate, forward exchange rate and expected future spot exchange rate between the euro and the New Drachma. …….A proposal along these lines has been made by Schuster and Kennedy (2011). The logic and formal structure of their proposal is identical to the one used by Buiter (2005, 2007, 2009, 2010a) in a number of studies about ways to unbundle the numéraire and medium of exchange/means of payment functions of money. In this approach either the monetary authorities manage the exchange rate between the numéraire (here the New Drachma) and the ultimate means of payment/legal tender (here the euro), or this exchange rate can be market-determined. …….The short risk-free nominal interest rate on New Drachma bonds (or the New Drachma refirate) can then be used to target stability for the New Drachma price level or some other notion of macroeconomic stability. …….The focus of Buiter's papers is quite different from that of Schuster and Kennedy – it concerns ways of eliminating the zero lower bound on the short nominal rate of interest, something that adds to the proposal of Schuster and Kennedy, but is not central to it. …….The Greek central bank (the Bank of Greece) would, as part of the Eurosystem, have euro denominated liabilities (mainly euro notes and euro-denominated bank reserves (current account deposits with the central bank held by eligible counterparties) and euro-denominated assets. The Central Bank of Greece would also have, for its own account, that is, not for the account of the Euro system, New Drachma denominated liabilities (New Drachma-denominated current account deposits of commercial banks (reserves) held with the central bank) and New Drachma-denominated assets. The New Drachma-denominated part of the Bank of Greece's balance sheet would look rather like the current emergency liquidity assistance facility or ELA (except for the current ELA being denominated in euro). ……….One potential weakness in the Schuster-Kennedy and Buiter approaches is the assumption (implicit in Schuster-Kennedy and explicit in Buiter), that the authorities in Greece can determine what the numeraire used in wage and price contracts is. If despite the introduction of the New Drachma for bank accounts and other financial instruments, workers and firms continue to bargain over and set wages and prices of goods and services in terms of euro rather than New Drachma, the parallel currency is irrelevant to the performance of the Greek economy. …….Historically, the numeraire, unit of account or invoicing currency is the outcome of decentralised collective choice processes. …..The authorities may determine what legal tender is, but firms, households and workers jointly evolve the numeraire or numeraires used in price and wage setting. The authorities can certainly encourage the use of the New Drachma rather than the euro as numeraire. (Remember, euro notes remain the sole legal tender and a retail means of payment and store of value). They could require tax returns to be submitted in New Drachma and encourage the payment of taxes using New Drachma accounts. They could demand that all government contracts be invoiced in New Drachma. They could even legislate that new contracts under Greek law can only be legally enforced if they are invoiced in New Drachma. They could even legislate that new contracts under Greek law can only be legally enforced if they are invoiced in New Drachma. ……Historically, with rather few esoteric exceptions, the unit of account has also been the unit of the dominant means of payment and of the legal tender. The Schuster-Kennedy and Buiter proposals unbundle the numeraire and the means of payment. …. It could work….. Finally, even if the complementary or parallel currency approach is both compatible with the Treaty and workable, in the sense that new Greek wage and price contracts are specified in terms of New Drachma, this would only give the Greek authorities a handle on the nominal exchange rate. Competitiveness is about real exchange rates, that is, nominal exchange rates adjusted for or corrected for differences in domestic and foreign relative price levels or relative unit labour costs. Even if, empirically, real and nominal exchange rates often move together for long periods of time, one ignores the difference between the two at one's peril. Using the nominal exchange rate as an instrument to pursue a lasting competitive advantage is bound to end in tears…… It is our view that, without simultaneous deep structural changes in the legal (sometimes constitutional) and regulatory determinants of the balance of bargaining power in labour and product markets, without the removal of barriers to entry in the private service sectors and without the privatisation of a vast array of inefficient (majority) state-owned enterprises, a sharp depreciation/devaluation of the New Drachma would go through the nominal wage and other nominal domestic cost structure like a dose of salts. Following a sharp bout of inflation, the same uncompetitive real equilibrium would be restored….."

Comment:

The proposals of 'Buiter' and 'Schuster & Kennedy' are limited to the introduction only in the 'weaker' Euro countries of parallel 'currency-units' alongside the existing 'Euro-Currency-Unit (ECU)' and alongside the Euro being the sole legal tender. While André ten Dam's 'ECU-ERM' is a whole new 'exchange-rate-mechanism' based on the introduction of parallel 'currency-units' in all Euro countries alongside the existing 'Euro-Currency-Unit (ECU)' and alongside the Euro being the sole legal tender. Therefore the 'airfoil' of Ten Dam's proposal is better. Furthermore the advantages of Ten Dam's proposal are:

- 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.

- The ECU-ERM is managed by the independent ECB (and not by national authorities), 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) influences.
- With the implementation of the 'ECU-ERM' all new debits and credits (prices and wages) will be nominated 'by law' in the respective NCU's. Thus there are no exemptions. While in Buiter's model the nomination of prices and wages in Nua's depends on 'voluntary' acceptance.
- '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.

Furthermore, Buiter's fear for excessive wage (and thus) price increases after an monetary devaluation (that will undo the effects of such a devaluation) (probably) is NOT justified. Because recent examples of monetary devaluations do NOT show such exceeding increase at all. See Graafland (2012), Van Heyningen (2012) and Borensztein & De Gregorio (1999). Of course, after a devaluation the development of wages has to be managed well. And after all, according to the Stability and Growth Pact (SGP) of the EU-Treaty, every Euro-country should fulfil the criteria for (national) inflation in order to remain a Euro zone member. And if they should do not, on the basis of the EU-Treaty economic principle of 'sustainable price stability', there should be NO place for such a country in EMU and the Euro zone. And because of the clear advantages of being a member of the (according to the ECU-ERM) reformed Euro Pact any sensible country will fulfil this pre-condition.

Obviously the (monetary) European and national authorities should properly explain to the people in the devaluing countries that rebuilding and strengthening their national economies can ONLY be achieved by attracting (inter)national investments, creating new businesses and jobs, …NOT by means of excessive increasing wages. A better prosperity can ONLY be accomplished in a simple manner by means of economic reforms, innovation and hard work, …together with the 'kick-start' of 'monetary' devaluation. Prosperity (purchasing power) of the people is obvious far better served with jobs than with unemployment. And, besides bearable austerity, national state budgets are best served by income- and profit tax revenues from people who have jobs and businesses that make profits.

The new 'National-Currency-Units (NCU's)' should be introduced by means of simple European and national legislation. This means all new debits/credits (thus all prices and wages) will be nominated in the respective NCU… BY LAW (so a bargain to set wages in the 'Euro-Currency-Unit (ECU)' is excluded by law). And obviously all employers – without any problem or reluctance – will nominate the wages of their employees in NCU.
And if a business initially refuses to calculate its selling prices in NCU, it will simply lose customers. So by the usual 'rules of competition' every business will in due time nominate its prices in NCU as well.

All payments will have be done in Euro, thus also all bank accounts for payment purposes are nominated in the 'Euro-Currency-Unit (ECU)' (remember, the Euro remains the sole legal tender = means of payment, thus not only physical but electronic as well). And saving accounts (with interest reimbursements) can optionally be nominated either in NCU or in ECU (obviously with different interest percentages in the weaker Euro-countries).

All new debits/credits, and thus all national taxes as well, will be calculated in NCU …but logically will be invoiced and paid in Euro [remember the unbundling of the numéraire (currency-unit) and legal tender (means of payment)].

Thus in the concept of the ECU-ERM the nominal NCU exchange-rates will likely follow the real NCU exchange rates. So a fair and lasting competitive equilibrium between the Euro-countries is guaranteed.

Buiter correctly states that there is little historical experience for the concept of the numéraire, thus also not for the ECU-ERM. This means that implementation of the ECU-ERM would be an experiment. But remember that the present Euro Pact is an experiment as well …and that the implementation of the ECU-ERM will repair the main flaws in present the Euro Pact. And the ECU-ERM would enable the Euro (zone) not only to survive and the Euro to finally become a strong, stable, reliable and lasting international currency. But perhaps even more than that, the ECU-ERM will enable also other EU-countries [that rejected a Euro (zone) membership so far] to join the Euro Pact. So the ultimate dream since WWII of 'European Unity' can be served…and the current threat of European disintegration [not only a Euro (zone) break-up but an exclusion of the UK from the EU as well] can be averted. Remember that the absence in the present Euro Pact of *'a flexible monetary mechanism which can repair developing macro-economic imbalances between the Euro-countries and other national harmful economic issues'* was basically the most important reason for the UK to reject 'Euro participation' in the first place. See via the internet link underneath the 1997-report 'UK Membership to the single currency – An Assessment of the five Economic Tests' by HM Treasury.
http://collection.europarchive.org/tna/20060731065549/http://www.hm-treasury.gov.uk/media/A8A24/single.pdf

And the question still remains: What are the alternatives now available? In Buiter's publication d.d. 15-10-2012 in the Financial Times "Euro faces 'exit of the strong' / Only big debt restructuring can save the Euro", he concluded that:

"….Austerity fatigue in the periphery and growing bailout fatigue in the core mean that the ECB/euro system is the only Santa Claus capable of filling the solvency gaps of sovereigns and banks in the euro area. However, any attempt by the ECB/euro system to play this role on a sufficient scale to make a material difference would cause an exit of the strong, who reject the ECB as an open-ended Santa….."
http://www.ft.com/intl/cms/s/0/edd92eee-12de-11e2-aa9c-00144feabdc0.html#axzz29MiK0U86

- Schuster, Ludwig & Margrit Kennedy (6-9-2011), ***"With a complementary currency Greece can devalue - and remain in the Euro Area"***,
  http://www.ethicalmarkets.com/wp-content/uploads/2011/09/The-Euro-Flaw1.pdf

  Introduction & comment:

  See above at 'Willem Buiter & Ebrahim Rahbari (2011)'.

- Butler, Michael (10-1-2011), ***"Parallel currencies could boost euro"***, The Financial Times (UK)
  http://www.ft.com/cms/s/fdafbb0e-1cee-11e0-8c86-00144feab49a,dwp_uuid=73adc504-2ffa-11da-ba9f-00000e2511c8,print=yes.html

  Introduction:

  In this publication Sir Michael Butler (Senior Expert of the Institute of Contemporary European Studies, the1979-85 UK representative to the EC and in the 1990's chairman of the City European Committee). Like 'Schuster & Kennedy' and 'Buiter' in 2011 Sir Michael came up with the idea to introduce in the 'weaker' Euro countries parallel 'currency-units' alongside the existing 'Euro-Currency-Unit (ECU)' and alongside the Euro being the sole legal tender. Here we have to mention that, in the run up to the Maastricht Treaty, Butler chaired *the City European Committee,* which advised Margret Thatcher on the idea of the 'HARD ECU' which the UK presented as an better and sensible alternative for the Euro. This 'HARD ECU' plan involved the introduction of a single European currency as an 'parallel currency' alongside the then existing national currencies. According to this plan the then existing 'basket European Currency Unit (ECU)' should turn into the new European currency and thus turn 'hard'.

This plan was obviously inspired by the advise of the 1975's 'OPTICA GROUP' to the 'Commission of the European Communities' to introduce the single European currency as an 'parallel currency' alongside the then existing national currencies (See underneath).

"……The idea is simple: uncompetitive countries, such as Portugal, would retain the euro for certain appropriate transactions but would at the same time recreate their national currencies, which would take part in a managed float against the euro….. This would maintain the euro as a force for integration in Europe and the second most important world currency….. But it would allow weaker European countries to regain some measure of competitiveness by establishing units of account in the old national currencies……….The proposal would not involve the physical recreation of notes and coins….the euro would continue to circulate as legal tender in all members of the euro area….. At the same time, a managed depreciation of national currencies in uncompetitive states would follow the initial fixing of parities against the euro……Some may also see parallels between this solution and the so-called "HARD ECU" plan, put forward by the British government during the run-up to the Maastricht Treaty……Under this plan European countries would have formed this parallel currency as part of an evolutionary process towards Emu………..The European Central Bank (ECB), in consultation with euro area central banks, would manage the euro in such a way that none of the new national currencies would be allowed to appreciate against it……. If and when the national currencies reached parity with the euro for an agreed period of time, the countries concerned would be in a position to rejoin the euro as fully fledged members……. Existing euro debts to foreign creditors would have to be honoured in euros and this would provide a strong disincentive against loose economic policies………. the costs would likely be smaller than the costs of proceeding with the present set-up – especially given a series of ad hoc solutions put together by politicians in 2010 did not succeed in damping the fundamental tensions at the centre of the system……. The plan would not be pain-free and some of the countries issuing national currencies units could still have to restructure some of their debt……. However, it would reduce the bail-out amounts required from the stronger European economies; both creditors and debtors would thus have a powerful incentive to make it work…… ….Most importantly, the plan would preserve the euro, correct current market dislocations, and create a re-adjustment process for the re-integration of weaker economies: all essential ingredients for restoring trust and confidence in Europe….."

Comment:

See above at 'Willem Buiter & Ebrahim Rahbari (2011)'. However Butler sees (like André ten Dam) that the ECB should be in charge at the 'management' of the respective 'parallel currency units' countries. According to Butler existing debts (credits) would remain to be nominated in euro, limited to those credits to 'foreign' credits. Such a structure would leave the door open for 'capital flights' and legal difficulties. TMS does not encounter such problems.

- Optica (1976), ***"Optica Report '75: Towards Economic Equilibrium and Monetary Unification in Europe"***, Expert group for the Commission of the European Communities, http://ec.europa.eu/economy_finance/emu_history/documentation/chapter8/19760116en61opticareport1975.pdf

Introduction:

In 1975 the 'Commission of the European Communities' installed an 'expert group' to research and explore the possibilities of a European monetary union and a European common currency: the so called 'OPTICA GROUP'. In their report these European experts advised that, if the European politicians should decide to establish a European monetary union with a common European currency, they should build in a 'safeguard' for the economical divergent member states. National orientated monetary policies should remain in tact, to avert 'accidents' such as national economical crises and national mass unemployment. Therefore a common European currency should be introduced as an 'parallel currency' alongside the then existing national currencies. And a European central bank (which would issue the European parallel currency by means of the traditional monetary policy instruments) should be independent similar to the independence of the German Bundesbank.

"….Monetary union, if it is to be defined as complete currency unification, does not necessarily improve the efficiency of an economic union…..Monetary unification should contribute to economic union; therefore the characteristics of each specific stage of unification can only be determined by an evaluation of the costs and benefits of their contributions…..the crucial question is to what extent monetary policy is capable of influencing the real economy. The answers to that question imply a view of the effectiveness of exchange rate changes…
…..economists would tend to propose more flexible exchange rates within the union in order to compensate for rigidities, at least as long as they persist within and among the regions and countries belonging to the union, but only as long as the real benefits of using the exchange rate instrument are superior to those flowing from a single currency. Further, the authorities often believe that monetary policy is a powerful instrument in influencing employment levels, and the existence of this belief would imply that divergent monetary policies cannot be avoided and would, therefore, require changes in exchange rates…..
…..when the terms of trade must change for some real reason that has disturbed the initial equilibrium, a change in the general price level and consequently in the exchange rate is necessary to achieve the required adjustment….This view of exchange rates and their real effectiveness was the main argument that early Keynesians put forward in favour of flexible exchange rates or devaluations as means of improving employment….
….In the present situation, where each country professes its deep attachment to the European idea and at the same time still wishes to pursue national objectives, it would like to be in a position to exercise its national sovereignty whenever "exceptional" national circumstances require an adjustment to be made to the general level of its prices compared with the average level in the other member countries; the proposal that national currencies be retained is, therefore, more realistic. ….Here, the OPTICA GROUP has preferred political realism to what may, from a strictly economic viewpoint, appear better solutions. It views European monetary union as an association to which each country belongs because it offers greater political and economic advantages but which should also have during a transitory period safeguard clauses that can be invoked whenever there is an overriding national interest although, in economic terms, an overriding national interest may prove illusory; such safeguard clauses are feasible only if national currencies are retained with an important role, hence the idea of a European parallel currency which would make this possible…..
….The European parallel currency would circulate in each member country as legal tender in the same way as the national currency and individuals would decide how to divide their assets between the two currencies….
….the OPTICA GROUP takes the view that it would on the whole be preferable to create a new currency to play the role of the parallel currency and to leave it to the market to determine its position vis-à-vis the national currencies, on the one hand, and the Euro-currencies, on the other….
…..During an ensuing period, the member countries could decide to set up a European central bank which would issue the European parallel currency by means of the traditional monetary policy instruments (open market operations, for example). It would be necessary if this European central bank enjoyed a degree of independence at least similar to that of the Bundesbank. A rule relating to monetary stability would also have to be applied whilst ensuring, for example, that the rate of growth of the European money base did not exceed the rate of increase in the productive potential of the whole Community…..
….The "monetary standing" of the European parallel currency would have to be the same as that of the currency of the country with the lowest inflation rate (which, more often than not, would probably be the DM); if initially national inflation rates differed excessively, the European parallel currency would be introduced only during the transition period in the most stable countries, for example those participating in the Community's exchange arrangements ("snake")…..
….The parallel currency proposed by the OPTICA GROUP constitutes a borderline case exemplifying the composite "basket currency" approach in so far as each currency would be eligible to take part, with a weighting of "1". In other words, at any given moment, the basket consists of only one European currency, namely the "best"….
…the OPTICA GROUP also proposes that the introduction of the European parallel currency be accompanied by a reformulation of monetary policy in each member country. Rules on the rate of expansion of monetary aggregates should also be laid down in the various countries so as to make anti-inflation policies…

…The ensuing phase in the construction of the European monetary system could be one in which relative price stability was achieved, inflation rates were brought into line and two currencies, the national currency and the European parallel currency continued to circulate in each country. It is then. that the governments could decide, if they so wished, to achieve full European monetary unification, with the adoption of a single currency.…"

Comment:

Because according to the EU-Treaty the Euro now is the *sole* legal tender in all Euro countries, for the implementation of this proposal a EU Treaty change is required, which will take years, if it can be achieved at all. Therefore this proposal needs the use *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

Because André ten Dam's TMS-formula was not yet available in the run up to the Maastricht Treaty, the European politicians should have better listened to this OPTICA GROUP !!!