



# International Institute of Certified Public Accountants

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José Manuel Durão Barroso  
President of the European Commission  
Rue de la Loi 200  
1049 Bruxelles  
Belgium

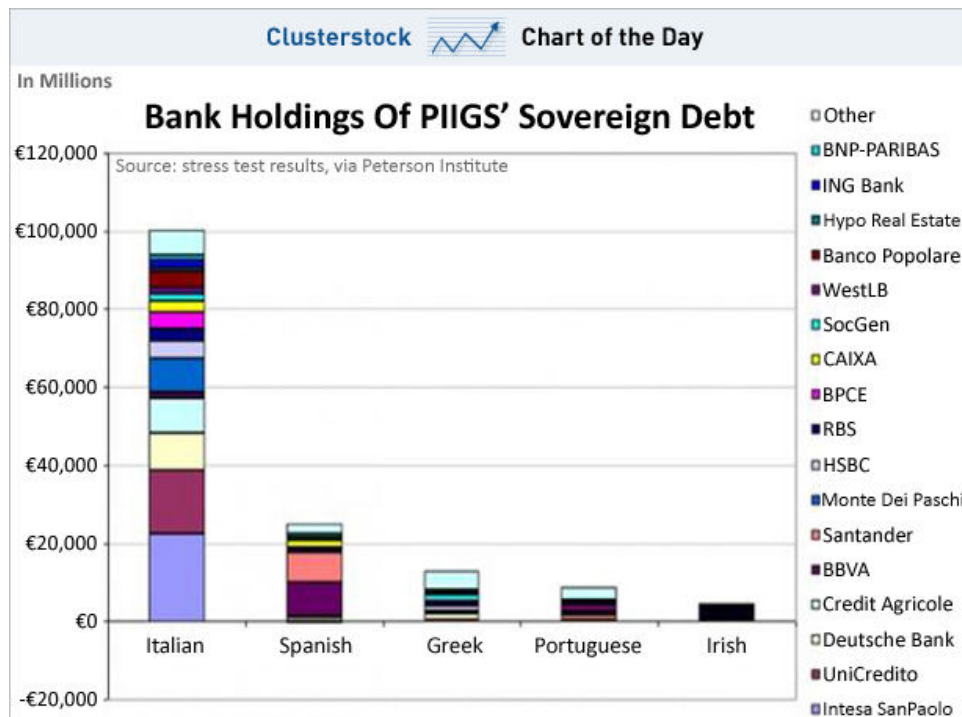
Dear Mr. Barroso:

## **Developments in the sovereign bond markets**

Just in case that this letter makes it to your own desk, please allow me to say:

Your Letter to your Colleagues of 3<sup>rd</sup> August 2011 could be augmented with insights:

- The national governments of Greece, Ireland, Portugal, Spain and Italy by adopting the common currency, the Euro, have ceded their constitutional money power to the European Community, in particular, the European Central Bank (ECB).
- If the national governments had used their money power and spent money into circulation instead of borrowing bank-created quasi money in the so called financial markets including from commercial banks, they would be debt free.
- The error can be corrected tomorrow by the ECB; and the ECB is already buying sovereign debt, but only as an appeasement of jittery markets.
- The commercial banks' holdings of Portugal-Italy-Ireland-Greece-Spain (PIIGS) sovereign debt apparently stand at about €170 billion, which is about 2% (two percent) of the eurozone's total €7.8 trillion of the eurozone sovereign debt outstanding. (Eurostat "General government gross debt – 2010").



<http://forum.prisonplanet.com/index.php?topic=208993.0>

- I trust you would agree with me that Monsieur Trichet at the ECB ought to redeem all of the banks' €170 billion PIIGS sovereign debt by outright purchase and hold it forever, which would reverse the PIIGS's abstention of their sovereign money power, and not increase the money supply by one cent, if I may explain:
  - The commercial banks' redemption with ECB cash would simply be an "asset switch" in the commercial banks' financial statements, who, following the redemption, would be holding ECB balances instead of sovereign debt. The eurozone's money stock, variously defined and measured (narrow or broad) will remain unaffected. Mechanisms are in place including minimum reserve requirements to ensure that commercial banks will not turn the cash at the ECB into inflationary money supply by making loans that create demand deposits; but even if they did, the amount in relation to the money supply of several trillions will not make the difference harmful in these times of economic recovery.

With banks taken 'off the hook' from their PIIGS' debt exposure, the remaining sovereign debt holders can be redeemed with what I would call "Debt Redemption Certificates" that are transferable into preferred or other bank capital, redeemable by the banks into cash at the ECB, a transaction which will also be neutral to inflation ("sterile") because the money supply remains unaffected.

Opposition to such a plan could easily be answered by prospects of sovereign debt defaults.

The redemption of PIIGS sovereign debt will not put the sovereign debt issue to rest, because France and Germany have positions that are not redeemable from tax revenues and are therefore unsustainable. If we look across the Atlantic to the United States, the situation is also unsustainable as the U.S. government admits in its "Citizen's Guide to the 2010 Financial Report of the United States Government."<sup>1</sup>

Germany has gone through monetary reform in 1948 under the Colm-Dodge-Goldsmith Plan. The lessons learned are described in my publication, "The ABC of Sovereign Debt Redemption: A Layman's Guide To Completely Avoid Government Austerity Programmes" by Michael Schemmann (Jul 21, 2011) available at

I am taking the liberty of copying the head of the central banks of the Eurozone, as well as Prof. Mervyn King at the Bank of England.

With all best wishes,

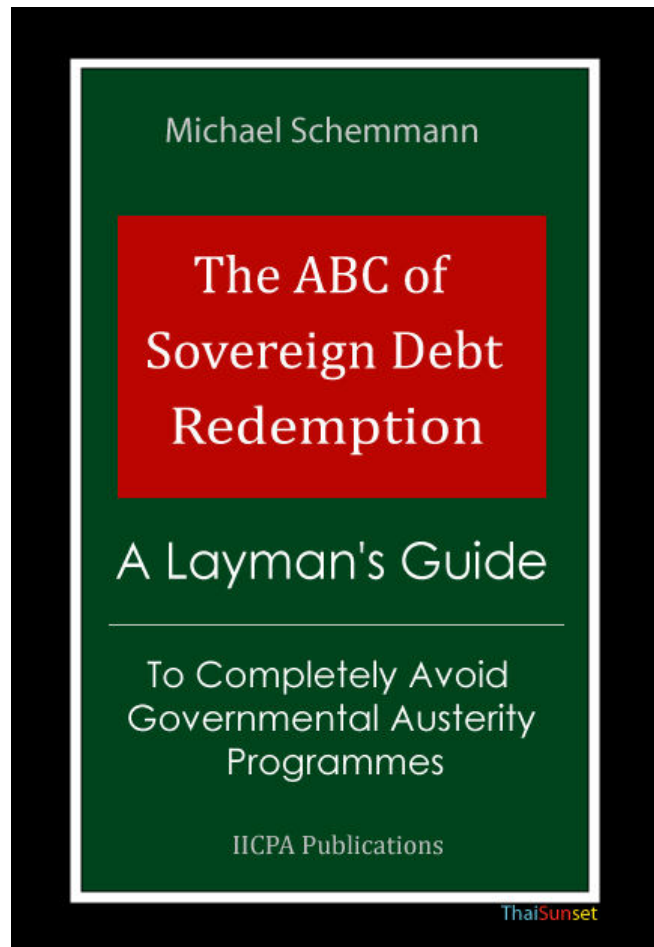


Michael Schemmann, PhD, CPA, CMA  
Director of the IICPA

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<sup>1</sup> "While this Report's projections of expenditures and receipts under current policies are highly uncertain, there is little question that current policies cannot be sustained indefinitely."

Letter to Mr. Manuel Borrassa  
Dated 5 August 2011



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