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17 July 2015

TO
Mario Draghi, President
ECB European Central Bank
60640 Frankfurt am Main
Germany

AND TO
Presidents of the
Eurosystem's Central Banks

CC:
Governor
Bank of England
London

Chairman
Federal Reserve System
Washington, DC

AND TO
Jeroen Dijsselbloem
President of the Eurogroup
Rue de la Loi/Wetstraat 175
B-1048 Bruxelles/Brussel
Belgique/België

AND TO
Ministers of Finance of the
Member States of the Euro Area

AND TO
Chrisine Lagarde
President of the IMF
700 19th Street, N.W.
Washington, D.C. 20431
United States

Dear Sirs, dear Madams:

€9.5 Trillion ECB – Euro Area Sovereign Debt Swap

The Facts: The ECB is an agency of the Euro Area's member states. On a consolidated balance sheet of the member states and the ECB, it does not matter who issues this €9.5 trillion sovereign debt — it exists and appears only once.

The holders of the entire Euro Area's €9.5 trillion sovereign debt[1] [2](as of 2014) are

Non-residents of a member country	52.0%
Other residents of a member country	7.8%
Financial institutions	11.9%
Monetary financial institutions (banks)	26.5%
	100.0%

The Proposal: Let the ECB become the holder of the Euro Area's sovereign debt by issuing its own. The proposed debt swap would be sterile, i.e. non-inflationary because the Euro Area's money supply is not affected; and the individual member states' money supplies are not affected.

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[1] ECB, "The Size and Composition of Government Debt in the Euro Area," Occasional Paper Series, 132 / Oct 2011.

[2] About 60% of the European bond market is government bond debt, 29% is corporate, and 11% is asset-backed; in the US, the proportion of bonds issued by the corporate sector is much larger. (AFME Finance for Europe, 2015.)

The proposed debt swap would not constitute state financing, because no money is changing hands; only debt instruments are exchanged. By the way, the sovereign debt has already been monetized by the MFIs to the tune of €3.2 trillion (26.6% of €9.5 trillion, as of 2014).

The ECB's debt instruments, issued at staggered maturities, would attract low interest rates of the debt traded at market, and provide both stable value and total liquidity to the holders.

Upon maturity, the ECB could redeem the debts or roll them over in the markets as instruments of monetary policy.

Following the proposed debt swap, the general governments of the member states cease and desist to issue any new debt (which must include off-balance sheet financing). Any emergency financing would be under the ECB and/or the Euro Area's bodies' and no other.

Austerity as a tool to reverse economic bubbles and bail-out the affected banks is utterly misconceived and has only deepened the Greek and other crises with no end in sight.

The draconian austerity programs for Ireland, Cyprus, Greece, Spain and Portugal are failing the people, creating a lost generation of unemployed young people. The ECB-Sovereign Debt Swap would aim at ending the austerity programs.

A recapitalization of Greek banks will not be needed, as their holdings of illiquid Greek sovereign debt instruments are replaced by those of the ECB.

The largest sovereign debtor in the Euro Area is Germany (€2.2 trillion, see below), followed by Italy (€2.1 trillion) and France (€2.0 trillion). These debts are NOT redeemable with tax revenues; are simply beyond the point of no return, and can only be repudiated or outgrown by inflation, none of which are sound.

Germany is seen as the paymaster of the Euro Area, has a tragic history of two complete financial crashes during the past century with severe starvation, but so have other nations. Germany was rebuilt, in part, by the Marshall Plan. No such plan is now available for Cyprus, Greece, Ireland, Portugal and Spain. And if it ever happens again, Germany will be left to its own devices.

The present German government, and others of Northern Europe, might not agree to a benefit for Greece that its own people and taxpayers will not also receive from the proposed ECB-Sovereign Debt Swap.

The following table shows, however, that the Greek per capita debt is completely within the range of Germany's, namely €28,818 versus €26.790, so that NO benefit would accrue to the people of Greece from the ECB-Sovereign Debt Swap that would not also accrue to the people of Germany, and all of the 335 million residents of the Euro Area.

By comparison with the United States' per capita national debt of €51,706, the Euro Area's average general government debt of €24,293 per capita appears to be benign, but in fact is not, because it is otherwise unredeemable.

EU General Government Gross Debt 2003, 2014							
							Percent
	Billions	Billions	Billions	Increase	Population	Per Capita	of Average
	2003	2014	2014	Percent	million	Debt 2014	per Capita
			Euro Area				Debt
Belgium	€286	€428	€428	150%	11	€38,909	160.16%
Bulgaria	€8	€12		150%	7	€1,714	7.06%
Czech Republic	€24	€65		271%	11	€5,909	24.32%
Denmark	€89	€117		131%	6	€19,500	80.27%
Germany	€1,401	€2,170	€2,170	155%	81	€26,790	110.28%
Estonia	€1	€2	€2	200%	2	€1,000	4.12%
Ireland	€44	€203	€203	461%	5	€40,600	167.12%
Greece	€162	€317	€317	196%	11	€28,818	118.63%
Spain	€383	€1,034	€1,034	270%	46	€22,478	92.53%
France	€1,051	€2,038	€2,038	194%	64	€31,844	131.08%
Croatia	€11	€37		336%	4	€9,250	38.08%
Italy	€1,397	€2,135	€2,135	153%	61	€35,000	144.07%
Cyprus	€8	€19	€19	238%	1	€19,000	78.21%
Latvia	€1	€10	€10	1000%	2	€5,000	20.58%
Lithuania	€3	€15	€15	500%	3	€5,000	20.58%
Luxembourg	€2	€11	€11	550%	1	€11,000	45.28%
Hungary	€42	€78		186%	10	€7,800	32.11%
Malta	€3	€5	€5	167%	1	€5,000	20.58%
Netherlands	€250	€451	€451	180%	17	€26,529	109.20%
Austria	€152	€278	€278	183%	9	€30,889	127.15%
Poland	€84	€203		242%	38	€5,342	21.99%
Portugal	€86	€225	€225	262%	10	€22,500	92.62%
Romania	€10	€59		590%	20	€2,950	12.14%
Slovenia	€7	€30	€30	429%	2	€15,000	61.75%
Slovakia	€13	€40	€40	308%	5	€8,000	32.93%
Finland	€65	€121	€121	186%	5	€24,200	99.62%
Sweden	€144	€183		127%	10	€18,300	75.33%
United Kingdom	€630	€2,055		326%	65	€31,615	130.14%
	€6,357	**€ 12,341**	**€9,532**		508	**€24,293**	100.00%
By comparison							
United States	€5,842	€16,029		274%	310	€51,706	213%

The benefits of the proposed ECB-Sovereign Debt Swap —

- **No effect on the money supply, therefore inflation-neutral (sterile).**
- **does not impede the member states' present fiscal sovereignty,**

- **does not involve extra cost to the taxpayers of any Euro member state, but**
- **reduces annual sovereign debt interest expense (creditors' yield),**
- **saves the common currency—the Euro,**
- **neutralizes contagion from individual member states' economic disruptions, by**
- **placing the management of the €9.5 trillion (2014) sovereign debt in the hands of the ECB, which has the power and expertise to manage and control it, as**
- **a resource for monetary policy, and**
- **a step in the direction of a central treasury department — which enables the United States to manage its $18 trillion national debt, but the Euro Area for its €9.5 trillion has not.**

Other central banks including the Bank of England and the Federal Reserve of the United States are holding enormous amounts of their countries' national debts — UK 28%,[3] US Fed and intra-governmental accounts 43%.[4]

To date, the ECB has been a midget, compared to the US Federal Reserve and the Bank of England, its Eurosystem's holdings of "general government debt in euro" being a meager €26 billion, or 0.3% of the Euro Area's sovereign debt.[5] In January 2015, the ECB announced that €60 billion shall be added per month by way of purchase in the secondary market until September 2016, a process that is fundamentally different from the proposed sterile ECB–Euro Area Sovereign Debt Swap.

Let us not be fooled, though: The United States' national debt is NOT redeemable by any means, and still the US' financial health is seen as stable and the US dollar approaching parity with the Euro.

Let the Euro fall below the US dollar, if it will, only to restore the member states' finances and put an end to the misconceived austerity programs forced by the victors upon the vanquished. As a result of the swap, a saved currency, the Euro should strengthen over the dollar.

I have published a booklet in November 2011, "The Euro Is Still the Strongest Currency Around — Analyses and Solutions for the Money and Sovereign Debt Crises of the 2010s," and the analysis is still valid today.

The Euro, in essence, is still the strongest currency around.

With all best wishes,

Michael Schemmann, PhD, CPA, CMA
Director

secretary [at] iicpa.com

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[3] Economicshelp.org 08 June 2012.
[4] US Treasury Direct 16 July 2015, Federal Reserve Bank of St. Louis 28 May 2015.
[5] ECB Monetary Policy Statistics, 1.1 Consolidated financial statement of the Eurosystem.