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The Euro Is Still the Strongest Currency Around — Analyses and Solutions for the Money and Sovereign Debt Crises of the 2010s

by Michael Schemmann, IICPA Publications

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21 December 2011

Dear Ministers of Finance of the Euro Area:

The Euro Is Still the Strongest Currency Around — Analyses and Solutions for the Money and Sovereign Debt Crises of the 2010s

I have read the outcry by Christian Noyer, Governor of the Banque de France, published by the BBC 15th December 2011:

“French banker says UK should be downgraded first. The chairman of the French central bank, Christian Noyer, has said ratings agencies should downgrade the UK before France because its economy is weaker.”

I have sympathy with the Governor’s lamentation because the rating agencies have been poor servants of the public interest, corrupting themselves to the private interests of sub-prime lenders and their promoters for fee-income; but the central bankers of the Eurozone, the UK and the USA have not done better and are widely seen as collaborators of private commercial banking interests, too, bailing them out and doing little for the nations.

Following my research, however, I conclude that the rating agencies are right to downgrade the sovereign debt’s default risk, but for the wrong reasons.

Likewise, the central bankers and ministers of finance are right in looking for a fix, but you are looking in the wrong areas, namely governmental deficit reduction including austerity programs, instead of correcting the system.

Once corrected, the Euro is by far the strongest of the four major currencies of the world’s largest economies investigated, compared with the American dollar, the Japanese Yen, and the smaller Chinese Yuan.

Following my research and conclusions, I present a solution along the lines of Irving Fisher’s (1935) “100% Money”, and Thomas Jefferson’s writings before him, who criticized the Congress’s and Parliament’s omission of keeping its Constitutional money power idle and unused by borrowing private bank-created quasi money that is not legal tender — is nothing but points using the various terms of money (dollars, euros and yen) created in the same way as airlines’ frequent flyer miles...

The private commercial banks’ financial statements are misrepresentations, reporting self-dealings of the banks by creating loans receivable on the basis of demand deposits booked internally, and are in violation of generally accepted accounting principles and the strict application of the definition of what is an asset. The practice of the private banks’ money-creation and lending to the state is a perversion of accounting and ought to be corrected by replacing the private banks’ quasi-money with central bank money, issued in redemption of the countries’ national debts. Deposit-taking banks should then be separated from lending-institutions, as long proposed by Irving Fisher and

recently by the UK's *Independent Commission of Banking*
<http://bankingcommission.independent.gov.uk>.

A bank is effectively a glorified accounting office with mahogany desks, thick carpets in an awe-inspiring architecture of a Greek or Roman temple. The world's financial system consisting of some 10,000 banks or temples, is essentially an accounting problem, and economists who run our Ministries of Finance and our Central Banks are inadequately trained to draw the T-accounts and make the adjusting entries necessary to correct the false and malfunctioning system; they even misconceive the nature of equity capital for the protection of depositors, but instead keep bailing out the banks, effectively enabling and abetting the culprits running it as 10,000 private mints. (See Schemmann, M. (2011). "The European Banking Authority's 'Stress-Teasing'".)

The wealth of the moneyed aristocracy is acquired during economic recessions and depressions caused by over-indebtedness and firehouse sales of business assets, the so called "shake-out" games, that are instigated and continued by the private commercial banks through the retarding of credit, but also because of the payment-system breakdown for their point-system or quasi-money when only central bank money is accepted. (Irving Fisher. (1932). "Booms and Depressions. Some First Principles.")

Your obligation as ministers of finance along with your central bankers, acting in the public interest, the public trust, is to disallow private banks' accounting perversions, enriching their cronies by prolonging the depression and "shake-out", let alone go and "bail them out" without fixing our financial system.

I believe Jean-Claude Trichet, the just-departed President of the European Central Bank, was right to buy the national debt — hopefully from banks alone, and therefore money-supply and inflation-sterile — which the ECB should have done in the first place (at inception of the Euro) instead of having the national treasuries go and borrow the private banks' quasi money or "points" that are not money at all let alone legal tender, which is why they keep running to borrow from you central bank money and you... you acquiesce without imposing change, except misconceived higher risk capital.

My study is available online at www.thaisunset.com Publications and also at Amazon.com as a paperback and also as a Kindle eBook. I would suggest that you have a look at it.

In this letter, I wish to simply present you the foreword and wish to apologize if my writing comes across as intemperate, but I do send you all of my best wishes in your endeavour.

Sincerely,



Michael Schemmann, PhD, CPA, CMA
Professional Banker, Former KPMG Chair of Accounting
Director of the IICPA

The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it.

—John Kenneth Galbraith (1975), *Money: Whence it came, where it went*.

Foreword

John Kenneth Galbraith was one of the few popular economists who understood, and had the courage to disclose, the money illusion. Other notable ones were Irving Fisher (1935) in his “100% Money” book, John Maynard Keynes (1913) in one of his earlier writings, “Indian Currency and Finance,” in which Keynes describes how the private country banks circumvented PM Robert Peel’s *Bank Charter Act of 1844* by the perfection of their cheque-book-money system; and before Fisher and Keynes the self-taught economist and preeminent statesman, Thomas Jefferson (1743-1826), who had warned against money-issuing banks as being more dangerous than standing armies, and that nothing but federal funds must be money instead of the private commercial banks’ worthless trash.

The over-abundance of creation of that trash is at the root of the Global Financial Crisis, but can be annulled and replaced by central bank money tomorrow, if only our central bankers had the courage to go against the private banks’ hegemony — which would actually help the banks, as Fisher points out in his *100% Money* book — instead of bending over backwards against the public interest by bailing them out.

Private commercial banks have no power except that which is given to them by Congress and by the Parliaments who have the constitutional money power, but that power lies idle and unused; instead governments keep borrowing the private banks’ book money, imposing needless and stupid austerity programs to curtail public spending in order to one day pay off that debt... over 20 years for the Eurozone, and double that for the United States... pay it off by a time the politicians who intend to do so are long dead. Incredible!

Now come Fitch, Standard & Poor’s, and Moody’s, to tell the private financial markets that the sovereigns are not quite so able to repay their debt, downgrading the sovereigns debt default ratings, and the rating agencies are right but for the wrong reasons: Yes, the national debts cannot be repaid with taxes raised in the form of private bank money, but can be repaid tomorrow inflation-free with the sovereign’s own money, namely that high-powered money of their central banks. An Irving Fisher-type monetary reform is needed, correcting the faulty system, but alas! our politicians are looking at curing deficits instead of fixing the system by taking back their constitutional money power.

The American *Colm-Dodge-Goldsmith Plan* of 1946 repaired Germany’s post WWII national debt and banking breakdown to create Europe’s strongest currency, the Deutsche Mark, that became the backbone of the Euro.

The Euro is money or “simply that which the State declares from time to time to be a good legal discharge of money contracts” — as Keynes (1924) writes in his “Tract on Monetary Reform” — an abstract based on a convention.

If the national debts of the countries are an indicator for the soundness of their currencies, as is the custom, but which they are not, then this booklet proves that the Euro is still the strongest major currency around, and that possible defaults by the national government of Greece and such other nations will not diminish the Euro’s value because Greece did not, does not, and will not create the Euro which is perfectly intact except in the pockets of other recipients, no longer in the government of Greece’s that merely borrowed the Euros and spent them like any other entity. How can the bankruptcy of General Motors affect the US Dollar? It doesn’t.

The European Central Bank can take over Greece’s debt from the private commercial banks, as a switch in asset holders that does not create additional inflationary money supply, while Germany opposes such a move, but only for the wrong reasons, namely the false fear of increasing the money supply causing price inflation. They should think again.

Another widespread misconception abounds, to increase banks’ capital, but this is not the answer to strengthen the financial system for the very simple reason that banks do not need capital which is on the wrong side of the balance sheet to redeem depositors’ money; liquid assets are required, liquid assets in the form of central bank money — the only legal tender for the payment of all debts, public and private.

November 10, 2011