A short Introduction to The Matheo Solution (TMS)

February 7th, 2012 – by André ten Dam

'The Matheo Solution (TMS)' is a comprehensive plan to solve the Euro (zone) crisis by Dutch Euro-researcher André ten Dam. It involves several innovative concepts, including the ECU-ERM and the EBBCS.

Within the EU-Treaty economic and legal framework of *'No bail out'* and *'Sustainable price stability'*, The Matheo Solution concentrates on realizing 3 objectives:

1. Sustainable sound real economic growth, in all Euro countries

For this purpose Ten Dam created the ECU-ERM (the core-concept of TMS) which is an adapted and *unique* flexible monetary system especially designed for the Euro (zone) *in the specific economic circumstances* of *'the Europe of different economic speeds'*.

The ECU-ERM involves:
a.) the introduction of a flexible price/wage devaluation mechanism (via the implementation of National currency-units along side the already existing Euro currency-unit) in which the currency-units of weaker Euro-countries can devalue against that of the strongest Euro-country (which equals the Euro currency-unit), and
b.) the introduction of a system of interest-rate differentiation at a national level,
both within a unified but *reformed* Euro Pact in which the Euro remains the sole legal tender in every Euro country.

The ECU-ERM will instantly repair the developed main macro-economic competitive imbalances (price and wage levels) between the stronger and weaker Euro countries which have undermined the Euro and destabilized the Euro zone and the world economy.

EU-Summit January 30th, 2012 focuses on economic growth:
"Good idea. …Why didn't they think of this before…"

This TMS-concept combines *'the best of both worlds'* (on one hand the world of the single European currency with monetary stability and on the other hand the world of national currencies with economic adjustment possibilities on national level) and therefore eliminates the disadvantages of those two individual worlds.

In fact the TMS-core concept is a more sophisticated version of the former European Monetary System (EMS) but with one single collective legal tender in all participating European countries.

Obviously 'Gresham' (*Bad money drives out good money*) is not applicable to the TMS core-concept. Because the TMS-concept does not involve parallel national *currencies* along side the Euro but only parallel national *currency-units* (which are national calculation units for prices and wages) along side the already existing 'Euro currency-unit'.

2. Solid and sustainable state finances in all Euro countries

TMS further involves the reduction of the national State debts of the problem-countries to an sustainable level by means of an 'Insolvency Pact' for insolvent countries (with *'controlled defaults'* and *'clean haircuts'* of State bonds) and - in which countries necessary - the implementation of economic reforms, both under the auspices of only the IMF.

Only the IMF will arrange temporary emergency loans to the problem-countries.

TMS also involves proposals to adapt the Stability and Growth Pact (SGP).

'Reinhart & Rogoff' will help us to answer the question: *'What is the maximum level of a State debt of a country for sustainable sound (real) economic growth?'*

3. A solid and stable financial system in the Euro zone

TMS also proposes an innovative 'ECB Safety-Net' for European banks that experience liquidity problems and a solid ECB recapitalisation concept for troubled European banks.

The former has recently already been implemented in some (overkill) form by the ECB.
For the latter, a 3-step approach is proposed: First aim to attract private capital. If that is unavailable then consider (partial) nationalisation. If that provides insufficient perspective, the TMS proposes an innovative new European system to rescue troubled bank. For this purpose a *'European Bank for Bank Capital Support (EBBCS)'* should be created. It is effectively a capital support fund, which is to be financed by the ECB (ECB = The Lender of Last Resort with unlimited means). 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 a 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 in our view likely effective ways in which the comprehensive TMS would work are described in detail in the enclosed 2011 research papers by Ten Dam:

- ***'Effects of implementing The Matheo Solution'*** (Update, December 19th, 2011)
  http://www.incassomeesters.nl/effects-of-implementing-the-matheo-solution-update2011.pdf

- ***'The Matheo Solution: European monetary flexibility, power and unity'*** (December 19th, 2011, English version of the CES-ifo publication ***'The Matheo Solution (TMS) kann den Euro retten'***, December 2011)
  http://www.inmaxxa.nl/resources/site1/General/TheMatheoSolutionEnglish_19_12_2011.pdf

- ***'The Matheo Solution: A 'common sense' Approach to the Euro-crisis'*** (March 11th, 2011)
  http://www.inmaxxa.nl/file_library/The%20Matheo%20Solution%2023%20maart%202011%20English%20version.pdf

Obviously the costs (especially the spending of tax-payers' money) of implementing TMS will be limited, when compared with the costs of continuing with the present ineffective Euro policies or with other scenarios.

TMS cancels the need for Eurobonds. A permanent ESM and the EFSF will not be needed. The ECB purchases of State bonds of the weaker Euro countries can be terminated immediately. All Euro countries will benefit from TMS, and the threats of a permanent 'Transfer Union' or 'a Break-Up scenario' will be averted.

An interesting aspect of the ECU-ERM is that it would enable even the UK to join the Euro (zone). In the past, the absence of a *flexible monetary mechanism* to cope with the present macro-economic problems was the most important reason for the UK to reject participation in the present Euro Pact.

In short, TMS will provide to all Euro countries sufficient flexibility to react to developing competitive imbalances (adjustment), so that major national recessions can be avoided and all Euro countries may prosper. At the same time it will strengthen the Euro as a reliable, stable international currency.

Instead of being a burden, the euro will become an asset again as a result of the implementation of TMS.

TMS can also be applied in any other single-currency areas where there are states or regions that require the ability to regain their competitive position.

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