Attachment 1(b)

EU Economic Recovery Plan

Basel II Intermediation Cost Inefficiency Estimate

(with Wealth Transfer Effect)

I. Intermediation Cost using Basel II Reserve Requirement System			
European System Central Banks (ESCB) Monetary Issuance S	**€ Amount**	**Efficiency of Monetary Increase**	
1. ESCB acquires government issued debt	€ 1,000,000	8.0%	**People/Gov't Benefit**
2. Basel II Reserve Requirement (est.)[1]	8.0%		
3. Money Supply Increase via ESCB Commercial Bank Loans	€ 12,500,000	100.0%	
4. ESCB Banks net Increased Loans (Intermediation Cost)	€ 11,500,000	92.0%	**Intermediation Cost**

<u>Intermediation Cost Inefficiency Utilizing European System Central Banks (ESCB) Monetary System</u>

With the Basel II approximate 8% fractional reserve lending requirement (European Central Bank's 2% fractional reserve lending requirement), 92% of the money supply increase is in the form of new ESCB member bank loans with approximately 8% of the increase to the government from new debt issuance indicating that the cost of using the ESCB Basel II monetary expansion system as an intermediary to increase the money supply is 92%. The money supply increase dilutes the existing money stock and transfers wealth from the other sectors of the economy to the banking sector by the amount of the money supply increase. Money creation and first use, known as seigniorage, by the ESCB with Basel II reserve requirement is equivalent to 92% direct wealth transfer.

II. Direct Monetary Expansion System to People using National Entity			
Direct Monetary Issuance System (Possible Commerce Ministry	**€ Amount**	**Beneficiaries of Monetary Increase**	
1. People issued bills directly from Government (Commerce Minis	€ 1,000,000	100.0%	**People/Gov't Benefit**
2. People/Government Portion of issued bills	100.0%		
3. Money Supply Increase to People via Direct Government Issue	€ 1,000,000	100.0%	
4. ESCB Banks net Increased Loans (Intermediation Cost)	€ 0	0.0%	**Intermediation Cost**

<u>Intermediation Efficiency Increase with Direct Issuance of Currency</u>

With direct issuance of money supply increases to the European people and/or people holding demand deposit accounts, anticipated to most naturally be voted on by national governments based on a National GDP standard and administered by their Ministries of Commerce, 100% of the increase in the money supply goes direct to the national people with no intermediation loss. Direct issuance of money supply increases eliminating the intermediation cost of the ESCB would be at least 92% more efficient than the current Basel II system and eliminate the wealth transfer to the banking sector issue. If necessary states within the Economic and Monetary Union (EMU) could tax the new money seigniorage at issuance to the people, as a regular part of their income tax collection process or exempt since it goes into economic system subject to regular taxation.

SOURCE:

1-Basel II: Revised international capital framework minimum reserve requirements at
http://www.bis.org/publ/bcbsca.htm — 8.0%