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Sovereign money: a complex popular initiative

The Swiss National Bank isn't the only institution that issues money. Commercial banks are also involved in its creation. A popular initiative that will be put to the vote on 10 June aims to prohibit that.

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What is money? Coins and banknotes, obviously. However, it also comes in other forms, such as book money, which is primarily created when banks grant loans. There are also bank accounts. The money held in these accounts is not real money, but merely something that entitles the customer to demand cash from the bank when required. Time is also money, as we have known since Benjamin Franklin published "Advice to a Young Tradesman" in 1748. Money is almost as difficult to define as time. And there are good reasons to consider the nature of money at the present time. On 10 June, the Swiss electorate will vote on the Sovereign Money Initiative, whose official title is: "For crisis-safe money: money creation by the National Bank only!" This says quite a lot, but what exactly is sovereign money?

For example, a commercial bank lends somebody 10,000 Swiss francs and credits the amount to the customer's current account. The bank has effectively simply created money from nowhere, so to speak. However, this is book money. Today, book money consists primarily in digital form and is much more abundant than cash. Coins and banknotes account for only about 10 % of the legal tender in circulation, while 90 % is electronic money "that the banks create themselves at the touch of a button", as the authors of the initiative write on their homepage. Now the initiative wants only the National Bank to be allowed to create digital money so that it also has the monopoly on book money.

This situation already exists for cash. After all, commercial banks can't mint coins or print banknotes. If the initiative were approved, they could continue their transactions and issue loans. But they would be forced to cover them fully through equity capital, savings deposits or loans from the National Bank.

A crisis-proof financial system?

According to the initiative's authors, the introduction of sovereign money would make the entire financial system more crisis-resistant and fairer: "Sovereign money held in payment accounts is as secure as cash because it is real money from the National Bank. Bank collapses would have no effect on it. The rules would once again be the same for everyone, banks and companies as well as large and small banks," explains the homepage of the group behind the initiative. Above all, the money belongs "to the account holders and is not lost if a bank gets into trouble".

The initiative's authors promise even greater things, namely a windfall: a welcome consequence of the sovereign money initiative is that the National Bank would be able to provide the Federal Government and the cantons with an additional 5–10 billion Swiss francs a year, simply from the proceeds of the creation of money. Aside for coin production, such revenue-generating opportunities have not been used up to now – not even by commercial banks – for systemic reasons. The group behind the initiative believes the sovereign money reform could harness this previously untapped potential. They also say that it would eliminate the risk of financial crises as the current money-creation system forces debt to be incurred through the issuing of loans. No new money is created today without new debt. A heavily indebted society is vulnerable in the event of financial crises.

The initiative wasn't started by any political party or well-known organisation, but by the Monetary Modernisation association, whose executive board is made up of largely unknown figures. What is remarkable is that the popular initiative is backed by many economists – even prominent ones – at various universities, including the University of St. Gallen, a prestigious training ground for economists.

Opposition across the political spectrum

However, the initiative has met with fierce opposition from politicians. All the parliamentary groups have rejected the popular initiative in Parliament, even though the Social Democratic Party (SP) and the Greens agree with certain aspects of it. A left-wing and Green minority tabled a counterproposal, but without success. As SP National Councillor Beat Jans explained, the counterproposal picked up on the issue of financial stability and called on the Federal Constitution to be amended to insist that "our major banks must have sufficient equity capital to get themselves out of difficulty if they mess up while playing the market". However, even the SP rejected the initiative, using the argument put forward by almost all speakers: the risks are too great because it has never been tried. SP National Councillor and economics expert Susanne Leutenegger Oberholzer remarked: "There is not an economy an-

Campaigners from the committee of the Sovereign Money Initiative with a puppet of Helvetia and a mask of SNB Chairman Thomas Jordan in Berne in April 2017.
Photo:Keystone

ywhere on this planet that has introduced a sovereign money system based on the principles of this initiative. There is therefore no empirical experience."

Green Liberal National Councillor Kathrin Bertschy attacked one of the key arguments of the initiative head-on during the debate: said an individual bank can't simply "create money from nothing". The creation of credit "is subject to restrictions, regulatory provisions, liquidity requirements and minimum-reserve regulations. There are limits. The National Bank can exert influence." In the eyes of SVP National Councillor and banker Thomas Matter, the sovereign money initiative seeks to "fix something that isn't broken". He said you might as well "flood the basement to test whether your newly purchased water pump works as well as the old one". Matter believes the initiative's authors "want to demolish fully intact, globally recognized Swiss financial institutions to create something radically new from the ruins, based on their formula". This would, he adds, create uncertainty and be poisonous for the economy.

Closing the gap between the constitution and reality

FDP National Councillor Daniela Schneeberger underlined that the stability of the banking system the initiative is seeking to improve has already been strengthened by the too-big-to-fail regulations of 2011. Her party colleague Beat Walti warned against the initiative because it would "effectively nationalise the creation of money". Peter Ulrich completely disagrees with this seemingly convincing argument. Ulrich is a former professor of economic ethics at the University of St. Gallen and economic advisor to the Sovereign Money Initiative. Writing in the *NZZ*, he said that the initiative would "essentially bridge the gap between monetary sovereignty intended by the constitution and the completely different, significantly higher-risk reality of the monetary system that exists today". After all, a referendum held in 1891 approved the Federal Government's monopoly over the creation of money "for coins and bank notes, which were the predominant form of tender at the time, and this was reaffirmed by a referendum in 1951". By contrast, he argued, the bank book money predominant today and the virtual money on our debit and credit cards lacks the status of being legal tender. National Councillor Kathrin Bertschy suggests "addressing such issues with a degree of humility" because they concern fundamental elements of the monetary system, are associated with great uncertainty and conjecture and the field is not an exact science.

And it could be added that it is an intellectually demanding proposal which for once does not appeal to prejudice or resentment but to the ability to think.

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Controversial gambling law

On 10 June 2018, the new gambling law will also be voted on. The Federal Council and Parliament want to merge the existing Gambling Act and Lottery Act into this new law. The current provisions of each will largely be taken over, but some new ones will also be introduced. For example, casino gaming is now to be offered online, while access to foreign online gambling services is to be blocked from Switzerland. The block is being justified on the grounds that Swiss providers have to comply with regulations that foreign gambling sites may not be bound by, such as measures to tackle gambling addiction. The youth parties of the FDP, SVP and Green Liberals called a referendum against the law precisely because of this block, as did the Young Greens through their own committee. They are more worried about a more fundamental question, namely "whether we want to restrict access to the Internet to protect domestic providers", as claimed on the homepage of the Young Liberals. They say the law is reminiscent of "the situation in North Korea or China". (JM)