SNB rallies against "Vollgeld initiative"

The Swiss will vote on the "Vollgeld initiative" next month but according to polls, public opinion is still wavering and the central bank President continues to insist on the futility and dangerous nature of the initiative

Source: Pexels

On 10 June, Swiss citizens will be asked to give their opinion on an initiative which may reform the monetary system.

Those who promote it want to withdraw bank's ability to create money by giving the Swiss National Bank (SNB) the sole responsibility to create both bank notes and electronic money. The complexity of the topic makes it hard for supporters and opponents to explain the arguments to the general public. In this context, the SNB which, like the Federal Council and Parliament, is strongly against the initiative, is putting efforts to share clear arguments about the possible impact of a "yes" vote.

For the central bank, it is a "no"...

In a speech on 3 May, the SNB President Thomas Jordan said "the initiative raises unrealistic expectations" and its adoption "would have serious consequences for Switzerland". According to President Jordan, a sovereign money system would make lending more difficult and complicated. This would indeed be the case as banks would no longer be permitted to use customers' sight deposits to finance loans and instead would have to rely on investors solely, borrowing would become more costly. In turn, it would harm investment, consumption and ultimately GDP.

We believe abstention will be the major winner of the referendum and our baseline scenario is the monetary system won't change any time soon

In addition to negative consequences for the real economy, Jordan believes it would impact the effectiveness of monetary policies negatively. The sovereign money initiative requires going back to a system where central bank controls the money supply directly and not rates as is the case nowadays. But, as highlighted by Jordan, interest rate targeting is more efficient than monetary targeting and guarantees a flexible supply of liquidity to the economy, particularly during times of crisis.

Promoters of the initiative believe Switzerland will be able to benefit from seigniorage on scriptural money creation, which is an unused resource in today's system. These additional resources could then be used to reduce the burden on citizens through 'debt-free' payments by the SNB to the Confederation, the cantons or the people. But according to Thomas Jordan, these resources would only replace today's SNB revenues brought by yield profit on foreign currency purchases, investments, or on banks loans granted. "Under established practice today, the SNB distributes the interest on its capital, while under a sovereign money system it would be selling off the capital," says Jordan. He thus thinks that 'debt-free' payments would not make the country any richer."

The initiative's authors also believe it would avoid bank runs, which is highly debatable and "too big to fail" problems as well as prevent the creation of financial bubbles. But Thomas Jordan thinks sovereign money would not help to eliminate the risk of instability. He explained that "even without recourse to sight deposits, banks can grant loans which are too risky, hold too few provisions for times of crisis and become insolvent if a bubble bursts". Moreover, a sovereign money system would not eliminate the risk of having banks too reliant on short-term financing from the money market.

Jordan also insists on the fact that a sovereign money system would impose unnecessary burden of responsibility on the SNB which would have to assume tasks that exceed its mandate. Indeed, the initiative imposes the SNB to make 'debt-free' payments, as well as to guarantee the supply of credit to the Swiss economy. According to Jordan, "the latter is problematic because it could lead to a conflict of interest between price stability and credit supply". Moreover, the SNB would be directly involved in the debate on distribution issues, which could politicise the SNB.

For public opinion, it is more a "don't know yet" mood

Will the initiative get enough public support to be enforced?

Nothing is certain right now, but this week we received some indications about the result of the popular vote. According to a survey conducted by the Research Institute gfs.bern on behalf of the public broadcaster SSR[1], only 35% of those polled said they would slip a yes in the ballot box on June 10, against 49% who would vote no. The remaining 16% is still undecided.

In theory, this is far from a done deal yet as the electorate still seems fairly undecided. The proportion of those who are already sure of their choice is only 53%. But in practice, it seems difficult for the supporters of the initiative to catch up. Indeed, support for popular initiatives usually tends to diminish as the voting date approaches.

According to another poll published earlier this week, 45% of respondents would vote no, and 42% are in favour of the initiative. The results of this survey are however to be taken with more caution because it was conducted online on the websites of various newspapers of the Tamedia group.

[1] A representative sample of 1,200 citizens between 16 April and 26 April. The margin of error is +/- 2.9%.

Our baseline scenario

We believe abstention will be the major winner of the referendum, but a majority will still reject the proposal. Our baseline scenario is the monetary system won't change any time soon.

However, the risk is still worth flagging. Indeed, a "yes" for the reform would require a complete overhaul of the current monetary system. It would cause insecurity and could harm the financial center and, thus, Switzerland as a whole. It is almost impossible to anticipate the consequences on the Swiss economy for now, but in a first instance, it would probably lead to a further weakening of the CHF.

The Swiss vote on the monetary system

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