

Swiss Vollgeld: Voting behaviour matters for this financial experiment

This weekend, the Swiss are due to vote on whether to fundamentally reform their national monetary system. If the 'yes' vote prevails, we could see an unprecedented shake-up in the way money is created, with uncertain short- and long-term outcomes



Source: iStock

Supporters of the Vollgeld initiative promise the change will eliminate market fluctuations while those opposed to the idea label it a [dangerous experiment](#). [Recent polls](#) have shown that support for the measure is low, but the outcome could still surprise and the implications of a 'yes' vote are too significant to ignore. So what exactly is it?

A Vollgeld primer

In a nutshell, Vollgeld would change how commercial banks operate. Currently, like the majority of developed nations, Swiss commercial banks issue credit without initially sourcing it from a central body, accessing the credit only after the service has been promised and confirmed for the customer. By doing this, commercial banks are essentially creating money because they issue it before having it approved by the central bank.

The change that the Vollgeld referendum proposes would remove the authority to do this from commercial banks and restrict money making capability only to the central bank. To offer credit to customers, banks [would first need to source it from the Swiss National Bank \(SNB\)](#).

Unprecedented experiment

It may seem like a minor change at first glance, but economists say a 'yes' vote would yield an immediate period of great uncertainty and in the longer term, limited and expensive credit supplies for the economy. Under Vollgeld, the central bank would have responsibility for all lending liabilities, taking on a more politicised role.

Vollgeld is a change that has not been attempted before, so how it might play out remains uncertain. While Vollgeld is not expected to pass, [voting can easily swing in unexpected directions](#), as we have seen in the recent past. So does the Swiss referendum have the potential to be another Brexit?

It comes down to the voting and individual behaviour on the day.

Bias and overconfidence

The low probability of Vollgeld may mean we are confident of the outcome, but as Brexit and President Trump's appointment showed, we can't always be so certain.

Much of the commentary and predictions around voting events are based on computer-generated predictions. However as Leslie John, an associate professor at Harvard Business School, explains, algorithms are created by humans so inevitably will have inbuilt biases. Computer-generated analysis is only as accurate as the data it works with, therefore predictions can't always be accurate, despite a strong belief in their predictive ability.

And while we might be listening to inaccurate predictions, unanticipated outcomes can also come from [overconfidence in our expectations](#). It's common to be too sure of our predictions as seen in many aspects of life, [not just voting](#).

When someone is overconfident, whether it be a candidate, lobbyist, journalist or other, they can appear to be more authoritative or competent than they actually are, [possibly earning extra status and support](#). This can lead us to ignore the source or legitimacy of what is being presented. We have a tendency to think narrowly when assessing information to make a decision.

However, having people tell us which way to vote isn't always going to sway us. [Psychological reactance](#) refers to our tendency to do just the opposite to what someone is suggesting, if we feel that they are challenging our freedom to make up our own mind. While we tend to like advice and guidance when making decisions, we also like to feel as if we have made them ourselves so are hesitant to listen to those being over-persuasive.

Better the devil you know

It isn't easy to launch ourselves into the new and unknown. The value that we place on what we have now, the environment that we know works and which is comfortable, usually ranks higher than the risk of the unfamiliar. Instinctively, we want to minimise potential losses rather than maximise any gains. The less the Swiss feel they can make an informed decision, the less likely they may be to vote for change.

The status quo is comfortable. So much so that in the case of Brexit, it led to outright [predictions of impossibility](#). But we also can't forget that everyone's status quo is slightly different. It may be that different experiences create a range of norms, meaning that people move [towards different preferences](#), stimulating votes for change as well as votes for the current status quo.

When voting, it's also easy to focus on the immediate benefits of our decision rather than any [long-term improvements or challenges](#). Some may argue it's excusable to vote for change now and worry about any negative impacts later. Especially when the outcomes won't be experienced until far into the future, or are very uncertain, meaning really anything could happen.

When it comes down to the day though, voting is a game. In the case of a referendum, the teams are for and against, the players- all of society, and the outcomes dependant on the motivations of those on the voting front line. We play based on our expectations of others' votes and hence can be motivated to either win for our cause or to take a cause away from the other team.

And when considering the many others involved, voting can become quite emotional, especially if the impact of the outcome is far-reaching or significant. When emotions run high so, too, do our reactions to information. In recent voting events, we have seen that emotive, simple and short-term focused campaigns can capture a large following. 'Make America Great Again', is [a well-used example](#), which directly targets our emotional, or system 1 thinking. Our more rational or logical side, known as system 2, might question what this actually means or enquire how this might actually occur. But in the moment, system 1 can often take over, focus on what is easy to understand as the messaging often has a strong link to our [feelings of wellbeing](#).

Considering the outcome

Once we have an outcome, it can be [easy to convince ourselves we saw it coming](#), even if it is surprising. We all suffer from hindsight bias and so whatever happens with Vollgeld, I expect some will say [they saw it coming from the start](#). We also have the tendency to only seek out information that supports our current view, which can influence our attitudes towards the outcome. Known as confirmation bias, we generally aren't looking to be proven wrong. This leads us to actively seek confirmation that [our views are relevant](#).

With many factors at play, it may feel near impossible to predict how every single person will place their vote. Let the games begin.