

Vollgeld: Our response to Martin Wolf

This week, Financial Times commentator Martin Wolf [argued](#) that the Swiss should vote in favour of Vollgeld- a plan to fundamentally change the way money is created. We believe this is a risky experiment



Open to ideas

We have discussed some pros and cons of Vollgeld [elsewhere](#) and Wolf raises some very valid questions. In discussing some of them, we should first emphasise that we are not against alternative setups of the monetary system per se. There are many developments, tech-related and otherwise, which prompt financials and banks, in particular, to fundamentally rethink their business models and balance sheets. Why not add monetary reform to the mix? In fact, when designing the system from scratch with today's technology and knowledge, one would probably exclude physical cash (way too easy to counterfeit and abuse) and include a form of central bank digital cash. After all, the idea that the public should have access to money at its source, and not only via an intermediary like a bank, is fundamentally appealing.

But money creation is not the source of the problem

Yet Vollgeld goes a few steps beyond introducing central bank digital cash. It strips banks of their money creation ability. This is often justified by pointing to repeated banking crises. Yet most, if

not all of those crises, started with *credit*. That means they affected the *asset* side of banks' balance sheets. Crises tend to be called 'credit crises' and not 'money (creation) crises' for a reason. Money, on the other hand, is a bank *liability* and is at best a by-product, not the source, of the problem. It should also be noted that credit necessarily involves two parties: a lender and a borrower. Credit cycles are not only supply-driven but also reflect mood swings among borrowers.

Shadow banking would get a boost under Vollgeld

Wolf is well aware of all of this, of course, but notes that in a crisis (whatever its source), a bank will be rescued to protect its liabilities, in particular, deposit holders. By disconnecting deposits from bank assets, banks no longer need to be rescued. This sounds like a logical solution. However, depositor protection is just one reason for the elaborate system of bank oversight that has been erected. Credit crises show that a sudden stop in credit supply is detrimental to an economy. As depositors, we may be glad our money is safe, but if we then lose our jobs because of a deep recession, we are hardly better off.

Moreover, the most recent and severe crisis began with lending by *non-bank* entities in the US. 'Parallel banking' or 'shadow banking' is a channel starting with originate-to-distribute lenders and ending with money market funds. This channel performs functions that are normally done by banks: transforming non-liquid, long-duration and risky assets into highly liquid, short-term and (perceived) low-risk liabilities. We all know where US shadow banking ended in 2008. The point here is, Vollgeld, or any other monetary reform aimed at money and money creation, does not address the issue of the parallel banking channel mimicking banks. In fact, this parallel banking channel receives a boost under Vollgeld as traditional bank lending is curtailed and made less competitive by the inability to create money.

Strict regulation still needed

Wolf rightly states that investors will bear the risk. But is that sustainable? In a Vollgeld system, lenders will compete for funds by offering attractive terms. Yield swings may contribute to booms and busts, just as they do in bank-based lending. In addition, parallel banks will try to shape their liabilities into something that resembles money and traditional deposits as closely as possible, in terms of liquidity and perceived risk – as US money market funds started to do back in the 1970s. Investors will be lulled into believing these “near monies” are like money, also in terms of safety. A belief that will hold until the next crisis – when investors will call for bailouts (which were duly established e.g. [in 2008](#)).

So in order to avoid the proliferation of such 'near monies' and the inflation of the next credit bubble outside the regulated banking system, lenders, both bank and non-bank, will need to be tightly regulated from the start, which annuls one of the touted advantages of Vollgeld-like systems, namely less regulation.

But if we need to maintain strict regulation anyway, regardless of where money is held, why make the switch to an untested alternative setup with uncertain benefits? A system too, where the central bank has the difficult task to make crucial judgements about the pace of growth in both money and credit?

Lack of detail

As Wolf acknowledges, regulation and supervision have changed a lot over the past ten years,

giving supervisors a host of new tools to prevent crises and if needed, wind down banks while imposing losses on holders of equity and debt. At the same time, Vollgeld and sister proposals at this time are lacking in detail. Do the Swiss really want to subject their large financial sector to such an unprecedented experiment? Better to first work it out in more detail, and start experiments on a more limited scale.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michieltukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com