Monetary reform in Switzerland

On June 10th, the Swiss go to the polls to vote on a constitutional amendment. This is the result of the 'Vollgeld Initiative', a citizens' initiative to bring money creation in government hands.

The Swiss 'Vollgeld Initiative' has been around for some years now. At about the same time when we received more than 100,000 statements of support for our citizens' initiative in The Netherlands, the Swiss received just as much support for their Vollgeld Initiative. Our citizens' initiative led to a public hearing in 2015 and a parliamentary debate in 2016. This debate will continue once the Scientific Council for Government Policy publishes its report requested by the House following our citizens initiative.

In Switzerland, the process is somewhat different. The Swiss citizens do not only call for debate about the monetary system. They also made a proposal to change the constitution. The Swiss may vote on this proposal in June. In the run up to the vote, there is a lot of attention for monetary reform in the Swiss press.

Ons Geld and the 'Vollgeld Initiative'

Ons Geld and the Vollgeld Initiative are similar but not identical. We both argue that money creation should primarily serve the public interest and not the interest of financial institutions. To that end, money creation must become a public task, rather than a private business. However, we differ in the implementation. This is partly understandable because the 'Vollgeld Initiative' was drafted some years ago, and since then has not changed. People are now discussing the insights formulated a few years ago, before the public debate began.

The proposed constitutional amendment comes down to this. All Swiss banks must set up a trust where customers' payment accounts are held. The banks can no longer use the money on these payment accounts. They must store it at the Swiss central bank. These funds are then no longer exposed to the risk of a bank run. Customers can always withdraw their money from their payment accounts. Even if their bank goes bankrupt.

Deposit bank

This resembles a proposal that we have presented to the Lower House in 2015-2016 as low-hanging fruit called 'deposit bank'. At the time, *deposit bank* was substantiated by an initiative of the Full Reserve Foundation, which lets a bank do what people expect a bank to do: keep your money as safe as possible, instead of using it for its own sake. *Deposit bank* would do this by maintaining 100% of the funds on its account at the Netherlands Central bank. The Lower House voted unanimously in favor of such a *deposit bank*. The Finance Minister and the central bank stopped the boat though, putting aside the unanimous wish of the Dutch House of Representatives. The democratically expressed will of the people was overruled by vested financial interest which, alarmed by this sudden political attention for the monetary system, started working on a counter proposal in the form of digital central bank currency. With the appearance of the report of the Scientific Council for Government Policy later this year, the political debate on this is expected to commence.

Deposit bank differs from the Swiss Vollgeld Initiative. Use of *deposit bank* is on a voluntary basis, whereas the Swiss want to make it mandatory for all banks and all economic agents. This difference seems important. Where we got a unanimous 'yes' from the House of Representatives, the Swiss have so far received a unanimous ‘no' from their MPs. That will not help to convince the Swiss population to vote in favor of the proposed constitutional amendment.

Resistance

Meanwhile, the Swiss financial establishment is scared to death for a popular ‘yes’ vote. With ostensibly objective scientific work, they try to undermine the initiative. They also spread fear by predicting the downfall of the famous Swiss banking sector, if a majority would dare to support the proposal.

This does not do justice to the Vollgeld Initiative. It is admirable what these initiators have achieved: Public debate on the monetary system and a long-standing campaign to reach the entire Swiss population. It is important that democracies become aware of the structure of the monetary system, and its development. Due to digitization, the monetary system is on the eve of fundamental change. The democracies of the world can now mature, by taking the money system under their care. That is what this political debate is about. Will we become a mature democracy, that submits the monetary power to democratic control under transparent institutional standards? Or do we remain a fake democracy, which runs on the leash of a financial establishment?

A modest proposal

The 'Vollgeld Initiative' is not perfect. It is actually too modest. It allows two systems to coexist: the existing commercial bank money system for savings accounts, and a public central bank money system for payment accounts. Large movements between savings- and payment accounts can then cause instability. At times when banks are struggling, depositors may flee to the central bank, which puts the banks in jeopardy.

The name 'Vollgeld' does not actually cover the load. 'Vollgeld' suggests a money system based on monetary objects that are subject to property rights. Compare it to a physical coin, but then stored in a digital safe. The account holder is the owner of the money in his account. The Vollgeld Initiative does not support that. Money remains a claim on the bank. The money in your payment account is - indirectly, because intermediated by a trust- a claim on the central bank. The money in your savings account is a claim on your own bank. These claims to money are recorded as bank liabilities. Banks must hold assets to cover these liabilities. These assets, which consist mainly of loans, create or break the money stock. The Vollgeld Initiative does not accomplish a transition to Vollgeld. It holds on to the debt money system and does nothing about the unnecessary debt burdens that come with it. The proposal does allude to the introduction of debt-free money, though. But what that is and what the consequences are of debt free money was insufficiently thought through when the proposal was drawn up. This gives the proposal an imperfect appearance. Whether the proposed constitutional amendment actually results in the introduction of Vollgeld depends on its further implementation in legislation and regulations. A yes vote for the proposal does not necessarily lead to the introduction of Vollgeld. It may just as well lead to what the opponents fear: a weakening of the Swiss central bank's position, and with it the Swiss Franc. The consistent and unanimous rejection of the proposal by MPs and officials is therefore understandable.

Message from Spain

Meanwhile, a new contribution to the money debate is coming from Spain. The former president of the Spanish central bank, Miguel Fernández Ordóñez pleads for a debt-free money system. To that end, he says that banks should be deprived of their privileges. They must be treated as ordinary companies. This requires, among other things, that the central bank stops its current activities. No more lending to banks and no special supervision of banks anymore. Borrowing money to a bank may no longer be called saving. Your savings account becomes an investment instead, with a free-floating value. Money that you really want to save can then be held in physical or digital cash, issued by the government.

So now there is a former central banker who says the same as we do. We believe that monetary reform consists of two main elements: 1) introduction of public debt-free money which he calls: 'Dinero Seguro' or 'Secure Money', and 2) abolition of all state support to banks and other financial institutions. We called that "*liberalization of the credit market*", whereby banks lose their privileges and become subjected to market discipline.

Fernández Ordóñez expresses himself with the same words as we do, as he refers to "*a technological advance (…) which could lead to a radical change in the banking system since it would avoid the effects of banking crises and at the same time allow deregulation and liberalization of credit activity, currently strongly intervened by the State."*

Democratic wave

This is what the governor of the Spanish central bank writes, who was in office from 2006 to 2012, and experienced the banking crisis very closely. He argues that banks *"(will) lose their privileges and would be subject to market rules.*"

According to him, the question is not whether we should transition to "Dinero Securo", but how to shape that transition. He thinks this question needs urgent attention, as he does not rule out that democracies will demand abolition of all the privileges banks currently enjoy. A forward-looking government therefore focuses on the transition to a debt-free money system, instead of maintaining a bankrupt debt money system with increasingly draconic, complex and market-distorting measures.

In the Netherlands we saw a first democratic wave in that direction, with a unanimous 'yes' for *deposit bank*. This alerted the banking community. In a recent interview Arnoud Boot, an influential banker's protagonist in The Netherlands, referred to it as if it happened yesterday. Apparently, it has determined his agenda ever since. However, this was only a first wave. The tsunami comes when the people have enough of a government that poses as a democracy, but actually upholds the privileges of a financial elite. That tsunami is not unlikely, because the debt money system has reached its limits. The indebtedness it generates keeps society in a grip and blocks sustainable prosperity growth. The banks only have inflation as an instrument to ease the debt burden. But that is accompanied by injustice and financial unrest. There comes a time when people no longer accept it. Especially when they start to see that the money system can be made much more simple, stable and fair.

Rapid development

In Switzerland they are now devoting themselves to a game of words about a reform proposal. With it public awareness about money creation grows. When we started the campaign more than five years ago, money creation was an unknown and undebated subject. Nowadays everyone knows that commercial banks create and exploit our money. Not everyone realizes how detrimental that is to society and the general quality of life. Also, not everyone knows that our own government allows these banks to do so. However, it is the same government that can put an end to the plutocratic exploitation of our money system. Our government is the central stage for a showdown between plutocracy and democracy.

For years, we claim that the development goes faster than anyone could foresee. And for years we see this confirmed. We rely on the wave. We rely on you. We trust that humanity will ultimately release itself from the suppressive financial giant on clay feet. Our imperfect democracy is still democratic enough to let real democracy emerge from it.

Outcome of the referendum

Whether the Swiss will say 'yes' or 'no' to the proposed constitutional amendment is not that important. The key is raising awareness and debate on the money system. The proposal, which some active citizens formulated years ago, is not the end but a beginning of that. As Fernández Ordóñez argues, the transition to a debt free money system must be thoroughly considered. Both science and the establishment must be involved in that. And they will only move along when this becomes politically inevitable. That is, if public opinion demands it.

It is doubtful if the Swiss are already prepared for a change this June. It would surprise us in any case, since the proposal is immature, as described above. But hopefully the referendum will show that the subject has public attention, and that this attention will keep on growing and maturing after the referendum too.

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