

Swiss to vote on money creation by banks

A member of the sovereign money initiative offers flyers to travelers at the central railway station in Zurich.
Picture: Reuters

BRIAN BLACKSTONE THE WALL STREET JOURNAL 1:38PM June 3, 2018

A decade after the collapse of Lehman Brothers, the world is still debating the causes of the financial crisis — down to the meaning of money itself.

In buttoned-down Switzerland, that debate is taking the form of a nationwide referendum set for June 10. Voters are being asked to consider fundamental questions rooted in the crisis: what is money; who creates it; and how safe is it? And they'll have a chance to blow up one of the foundational features of global finance: the ability of banks to create money with just a few keystrokes.

That's right, if a bank gives you a loan, it can pretty much create the money on the spot. It's something that banks do every day around the world. It means that all money isn't created equally, and the cash that pops out of an ATM machine isn't the same as the numbers on a bank statement.

But if the Swiss referendum passes, all money creation there would have to be done directly by the country's central bank.

Supporters say this is how most of the public assumes that all money is created already so their idea isn't that radical. Yet some opponents compare the idea to the gold standard, something that they contend might sound good in theory but is entirely unworkable in practice.

Behind the initiative is Hansruedi Weber, a former schoolteacher turned financial reformer. He is a founder of the Vollgeld Initiative, known in English as Sovereign Money. The group amassed enough signatures to put the proposal on the ballot. Under the current system, he says, "money is debt". Vollgeld would "separate money from credit", he says, leading to a more stable economy.

When banks create electronic money, it becomes a liability on their balance sheet while the loan is an asset. If the borrower can't repay the loan, the bank's profit takes a hit. If this happens on a large scale, as it did in the US subprime crisis a decade ago, the bank could be wiped out. Even if customers only fear this, then they might start withdrawing their money en masse.

Under Vollgeld, banks could still go bust but the money wouldn't disappear because it would no longer be on the balance sheet of the bank the way electronic money is.

It's an unlikely proposal in a country synonymous with finance.

Opponents of Vollgeld say Switzerland would be going it alone if it up-ended its money-creation system.

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