The Swiss Sovereign Money Initiative*: five questions with answers

*known as the “Vollgeld-Initiative” in German

1) What is sovereign money?

Sovereign money is the money that a central bank brings into circulation. At the moment, this consists only of the coins and bank notes in circulation. This legal tender makes up only 10% of the money in circulation in Switzerland. 90% is electronic money or book-money, which is created by the banks at the click of a button to finance their business (bank loans, mortgages, financial products). Most people believe that the money they have in their bank accounts is *real* money i.e. real Swiss Francs (or pounds Stirling etc). This is wrong! Money in a bank account is only a liability of the bank to the account holder, i.e. a promise the bank makes to provide money, but it is not itself legal tender.

2) What would change with the Swiss Sovereign Money Initiative?

The way the money system works today doesn’t comply with the intention of the Swiss Constitution (Article 99: “The Money and Currency System is a matter of the State”). The sovereign money initiative will correct this. The Swiss National Bank alone will be able to create electronic money. Banks won’t be able to create money for themselves any more, they’ll only be able to lend money that they have from savers or other banks, or even, if necessary, money that the Swiss National Bank has provided them.

3) What are the fundamental advantages of sovereign money?

Sovereign money in a bank account is completely safe because it is central bank money. It does not disappear when a bank goes bankrupt. Finance bubbles will be avoided because the banks won’t be able to create money any more. The state will be freed from being a hostage, because the banks won’t need to be rescued with taxpayers’ money to keep the whole money-transaction system afloat i.e. the “too big to fail” problem disappears. The financial industry will go back to serving the real economy and society. The money and banking systems will no longer be shrouded in complexity, but will be transparent and understandable.

4) What will happen to banks after a sovereign money reform?

After a changeover to sovereign money, the banks will continue to offer all the normal financial services (giving credit, enabling transactions, wealth management etc.). However, there will only be central bank money in our current accounts at the bank. This electronic money has value exactly like today’s coins and bank notes have value. The banks can only work with money they have from savers, other banks or (if necessary) funds the central bank has lent them, or else money that they own themselves. Banks won’t have an unfair advantage over all other market participants any more, as they won’t be able to create money any more.

5) What will be the effect of sovereign money for bank customers?

From the moment that sovereign money is introduced, there’ll only be money guaranteed by the central bank in all transaction bank accounts. The banks must manage these accounts like they manage accounts for stocks and shares. The money will belong to the bank customer, and it won’t be lost if the bank goes bankrupt, but it won’t yield any interest. Anyone who would like to get interest rather than have “bank-crisis-safe” money can, as now, put their money in a savings account or in other investments that give interest.