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Daniel Niemiec*
ORCID: 0009-0001-8196-4412
1002121@student.uek.krakow.pl

The Vollgeld initiative in Switzerland – an attempt to reform the monetary system

Abstract

The Vollgeld initiative in Switzerland was one of the important attempts to change the national monetary system in this century. Its main demand was to give the central bank a monopoly over the issuance of cashless money. The assumptions of the Vollgeld initiative were based on the concept of sovereign money, which emerged in the first half of the 20th century and was a response to the instability of the financial system. The objectives of the article were (1) to present the Vollgeld Initiative and the related concept of sovereign money and (2) to analyse the arguments for and against the adoption of the Vollgeld Initiative. The article puts forward the following thesis: although, in theory, the concept of sovereign money makes it possible to increase control over the lending action of operational banks, in the case of a small open economy, its implementation carries numerous risks for the stability of the economic system. A critical analysis of the literature on the subject was used to verify the thesis. Sources of data and literature sources were Polish and foreign academic articles and compact publications, Initiative Monnaie Pleine publications, Swiss National Bank documents and internet sources.

Keywords: central bank, sovereign money, banking sector, financial system, monetary system

JEL Codes: B29, E42, E51, E52, E58, G21, G28

Inicjatywa Vollgeld w Szwajcarii – próba reformy systemu monetarnego

Streszczenie

Inicjatywa Vollgeld w Szwajcarii była jedną z ważnych prób zmiany krajowego systemu monetarnego w bieżącym stuleciu. Jej główny postulat zakładał przyznanie bankowi centralnemu monopolu na emisję pieniądza bezgotówkowego. Założenia inicjatywy Vollgeld były oparte na koncepcji pieniądza suwerennego, która pojawiła się w pierwszej połowie

* Daniel Niemiec – Cracow University of Economics.

XX wieku i stanowiła odpowiedź na niestabilność systemu finansowego. Celami artykułu były (1) przedstawienie inicjatywy Vollgeld i związanej z nią koncepcji pieniądza suwerennego oraz (2) analiza argumentów za i przeciw przyjęciu inicjatywy Vollgeld. W artykule postawiono następującą tezę: pomimo że w teorii koncepcja pieniądza suwerennego pozwala zwiększyć kontrolę nad akcją kredytową banków operacyjnych, w przypadku małej gospodarki otwartej, jej wdrożenie niesie ze sobą liczne zagrożenia dla stabilności systemu ekonomicznego. Do weryfikacji tezy wykorzystano krytyczną analizę literatury przedmiotu. Źródła danych i źródła literaturowe stanowiły polskie i zagraniczne artykuły naukowe i publikacje zwarte, publikacje Initiative Monnaie Pleine, dokumenty Szwajcarskiego Banku Narodowego oraz źródła internetowe.

Słowa kluczowe: bank centralny, pieniądz suwerenny, sektor bankowy, system finansowy, system monetarny

Kody JEL: B29, E42, E51, E52, E58, G21, G28

Introduction

As noted by Joób (2015, p. 8), van Egmond and de Vries (2016, p. 32) and Biondi (2018, pp. 13, 20), contemporary financial systems are characterised by instability and vulnerability to crises. A major problem is the increasing indebtedness of individuals and businesses, largely a consequence of the lending of operational banks, during which credit money is created. Plans to reform the monetary system have been around for decades, but only a few of them have received widespread socio-political attention. Among the most original and little-known proposals to change the financial architecture is the Swiss Vollgeld initiative. It is an example of an attempt to radically overhaul the monetary system, accompanied by a public education campaign.

The purpose of this article is to present the Vollgeld initiative and the related concept of sovereign money, which dates back to the 1920s. According to this concept, the central bank should have the exclusive right to create cashless money, with the consequent guarantee of a flow of safe and stable money into the economy.

The Vollgeld initiative was not implemented, but it contributed to the growing interest in the concept of sovereign money in Switzerland. To the knowledge of the author of this article, there is a research gap in the Polish literature on the analysis of the Vollgeld initiative and the arguments for and against it that have appeared in foreign-language publications. The following thesis is formulated in this article: although, in theory, the concept of sovereign money allows to increase the control over the credit action of operational banks, in the case of a small open economy, its implementation carries numerous threats to the stability of the economic system. A critical analysis of the literature on the subject was used to verify the thesis.

The article consists of four parts. The first discusses the concept of sovereign money, the second presents the premises of the Vollgeld initiative and describes the voting process for the initiative in Switzerland, and the third and fourth analyse the arguments for and against the adoption of the Vollgeld initiative respectively. A critical analysis of the literature on the subject and expert positions was used to verify the thesis set out. Data sources and literature sources were Polish and foreign academic articles and compact publications, Initiative Monnaie Pleine publications, Swiss National Bank documents and Internet sources.

1. The essence of sovereign money

The origins of the sovereign money project can be traced back to the 1920s, to the writings of F. Soddy, an eminent British chemist and Nobel Prize winner, who was also interested in finance. After the Great Depression, in 1933, two American economists, representatives of the Chicago School – H. Simons and F. Knight – presented a similar idea to US President F.D. Roosevellt. In 1935, another well-known economist I. Fisher (1935) published a monograph entitled *100% Money* concerning a full bank reserve system (100 per cent reserve), close to the sovereign money system. Variants of the 100 per cent reserve system and the sovereign money system were proposed by Nobel laureates M. Friedman, J. Tobin and M. Allais (Dyson, Hodgson, van Lerven 2016, p. 6).

Advocates of sovereign money and full reserve are opposed to the fractional reserve used in modern market economies, which first began to be used on a wider scale in fourteenth-century Bruges. In a fractional reserve system, the operational bank is not obliged to hold a reserve equal to all deposits with it. The level of reserves may be a certain percentage of deposits and in practice is usually in the single digits. In many countries, there is a legal obligation to maintain a certain, usually symbolic, level of mandatory reserves, e.g. in Poland, from 31 March 2022, the level is 3.5% of PLN and foreign currency funds held in bank accounts and funds received from securities issues, and from 1 March 2018, 0% on funds obtained from *repo* and *sell-buy-back* operations and funds raised for at least 2 years (NBP). In such conditions, banks can carry out intensive lending, which poses a threat of price increases and a decrease in the purchasing power of money. The indebtedness of individuals, companies and governments is increasing. The latter are keen to benefit from the sale of bonds to banks, taking on debt from them. Critics of the fractional reserve system point out that it is characterised by permanent inflation, which leads to crises and economic recessions.

The main argument in favour of a full reserve requirement is the fear of bank runs – situations in which bank customers, fearing the loss of funds, withdraw deposits en masse and liquidate securities. Today's private banking system does not have enough reserves to pay out all deposits and, in the event of a run on banks, some entities may be forced to declare bankruptcy. Such a situation would not occur with a 100 per cent reserve: even if all depositors demanded their funds immediately, banks would have enough reserves to cover withdrawals (Birchler, Rochet 2017, p. 2). The introduction of a 100 per cent reserve is also advocated by proponents of the concept of sovereign money.

In a sovereign money reality, money would be created by an organ of the state, notably the central bank, and the authority responsible for formulating monetary policy would decide on the creation of money, with two options for putting it into circulation. The first would be to transfer the new money to the government, which would then put it into circulation through the public finance system. Depending on fiscal policy, the money created by the central bank could feed spending, infrastructure investment or finance tax cuts. By funding public spending and investment and reducing taxes, the state would increase revenue and/or reduce tax expenditure for businesses and households. This would increase disposable income and increase the value of the assets of the aforementioned entities. If the new money were to be used to cover sovereign debt, it would replace the long-term assets of investors, increasing liquidity in financial markets. At the same time, the state's liabilities would decrease by the amount so used (Sigurjónsson, Thoroddsen 2016, pp. 10–11).

In the second option, the central bank would lend new funds to private banks, which would put them into circulation through lending. This option would support the role of the state bank as a lender of last resort, providing a tool to stabilise interest rates in financial markets or facilitate access to finance for firms and households (Sigurjónsson, Thoroddsen 2016, p. 12).

In lending, banks would transfer existing money from savers to borrowers, following the model of most financial institutions in modern free market systems. However, when a bank would lend funds in a sovereign money regime, it would do so without expanding its balance sheet (Sigurjónsson, Thoroddsen 2016, pp. 10–12).

The introduction of sovereign money could have three key consequences in terms of:

- complete protection of the security of the monetary system against systemic risk;
- the total control of the central bank over the money supply in circulation and, consequently, the ability of the monetary authorities to have a multifaceted impact on economic prosperity;
- improving the overall efficiency of the economy through better allocation of savings (Gomez, Lafay 2018, p. 31).

When considering the specifics of the concept of sovereign money from the perspective of financial market dynamics, it can be concluded that probably its most important characteristic is full and effective control over the money stock, including flexible adjustments to its supply when necessary. If implemented by controlling the quantity of money in circulation, the central bank's monetary policy toolkit would also be effective in regulating inflation. Controlling inflation would limit the emergence of hyperinflationary bubbles and major crises – whether they involve real estate, the stock market, government debt, commodities, derivatives, alternative investments or anything else. As deposit creation by private banks would come to a definitive end, they would not be able to invest large sums of additional money in the non-GDP-creating investment banking system and stimulate profitable interests in the financial market. Business and financial cycles would still exist, but their dynamics would be moderate. Under such conditions, individual profligate spenders and speculators creating financial pyramids would probably think twice before making expenditures or engaging in fraudulent activities (Huber 2017, pp. 175–176).

Since the beginning of the second decade of the 21st century, the idea of sovereign money has been present in the wider public debate and media space, mainly through the Vollgeld people's initiative referendum held in Switzerland in 2018. Arguments in favour of the introduction of sovereign money have also been formulated by various economic circles in the UK, the Netherlands, Denmark and Iceland. Speakers on the subject of sovereign money included the former head of the Bank of England M. King, former chairman of the Financial Services Authority A. Turner, former deputy governor of the European Central Bank V. Constâncio and Financial Times chief economic commentator M. Wolf (Dyson et al. 2016, p. 6).

Table 1 compares the features of modern monetary systems and the features of the sovereign money system.

Table 1. Comparison of features of modern monetary systems and features of the sovereign money system

	Modern monetary systems	Sovereign money system
Types of money		
Banknotes and coins are created by and constitute liabilities of:	*central bank*	*central bank*
Cashless money is a liability of:	*operational banks*	*central bank*
Creation of cashless money		
Cashless money is created as a result of:	*lending decisions of operational banks*	*decisions of the monetary authority*
Cashless money is introduced into the economy by:	*granting of credit by the operational bank*	*state budget or loans to operational banks*
Fund lending and financial intermediation		
Sources of loan finance are:	*deposits*	*funds at the disposal of the operational banks*
Loans from other financial institutions are:	*financed from the resources at their disposal*	*financed from the resources at their disposal*

Table 1 (continued)

	Modern monetary systems	Sovereign money system
The effect of a bank granting a loan is on that bank's balance sheet:	*extension of the balance sheet by the amount of the loan*	*conversion of central bank deposits into loans on the asset side*
The debt consolidation service is provided by:	*operational banks and other financial institutions*	*operational banks and other financial institutions*
Payment system		
Payment services are provided by:	*operational banks*	operational banks and other suppliers

Source: own compilation based on (Sigurjónsson, Thoroddsen 2016, p. 15).

2. Vollgeld initiative in Switzerland

In 2011, the non-governmental organisation Monetäre Modernisierung (MoMo) was established in Switzerland with the aim of introducing sovereign money in the country called the Vollgeld initiative (*French: Monnaie Pleine*). The main objective of the Vollgeld initiative was to grant the central bank the exclusive right to issue cashless money. As in 1891, when Swiss banks were forbidden to print paper money, following the implementation of the concept in question, the same banks were to lose the right to create cashless money (Dawnay 2017, p. 12).

By virtue of its legal mandate, the Swiss National Bank would put newly issued money into circulation, either through the federal government or the cantons or by allocating it directly to citizens. The central bank would also be able to provide banks with interest-bearing term loans. According to the authors of the Vollgeld initiative, all newly created money should ultimately enter circulation in the same way that cash money enters circulation, i.e. without the debt that is created when banks create money (Dawnay 2017, pp. 13–14).

In the proposed system of sovereign money, banks would only be able to lend this cashless money that was made available to them by savers, other banks, insurance companies or the Swiss National Bank. Sovereign money would have properties similar to cash in that it would belong to its holder and would not be a claim on the bank. Accounts with sovereign money would be kept off banks' balance sheets and even if a bank went bankrupt, the sovereign money would be paid out to its customers. The situation would be different for savings and investment accounts, which – identical to modern financial systems – would be exposed to risk. Taking this risk into account, the Vollgeld initiative envisaged maintaining statutory deposit protection up to 100 000 Swiss francs (Dawnay 2017, pp. 13–14).

The existing current accounts (which are part of the M1 monetary aggregate) would become fiduciary accounts held outside the balance sheets of the operational banks. At the same time, the total amount of current accounts at each operational bank would become a deposit account of the Swiss National Bank. According to the initiative's creators, the privacy of bank customers would remain intact and the Swiss National Bank would not receive information about how much money individual customers have in their accounts. Existing current accounts would become sovereign money accounts, owned by the owners, and would not become part of the bankruptcy estate in the event of the bankruptcy of the operational bank. The Swiss central bank would ensure both the operation of the settlement transaction system and the supply of credit to the economy, through a network of financial service providers. According to the creators of the Vollgeld initiative, private entities (rather than the central bank) should be in charge of operating payment systems and supplying credit to the economy (Dawnay 2017, p. 13).

Taking away the ability of banks to lend from current account funds would likely significantly reduce their existing income. This would result in banks having to increase fees for the financial services they offer. Banks would largely become cash warehouses and make money by charging fees for storage and cash transfers. In addition, due to lower income, credit conditions regarding repayment security could be tightened (Assenmacher, Brand 2018, pp. 639–640).

The Vollgeld initiative would also prohibit banks from conducting financial operations on short-term savings accounts. According to the initiative, the Swiss National Bank would be able to set minimum holding periods for their holders. If funds from savings accounts were available to banks within seconds, there would be a risk of banks continually increasing the money supply when lending. Setting minimum holding periods for funds held in short-term savings accounts would create a clear separation between money (means of payment) and savings (debt) (Initiative Monnaie Pleine 2016, p. 3).

In the sovereign money system the creation and introduction into circulation of other means of payment would be possible with the approval of the Swiss central bank. These would include, for example, the Swiss WIR[1], trade bills, discount vouchers, LETS (*Local Exchange Trading System*), barter systems, bonus miles (used in the aviation industry), and cryptocurrencies. What these means of payment have in common is that they have been agreed under private law and are used by a limited number of users (Dawnay 2017, p. 12).

In order to show the legal changes that the Vollgeld initiative would introduce, Table 2 compares the provisions of the initiative with those of the Swiss Constitution of 18 April 1999.

1 A parallel currency to the Swiss franc issued by the WIR bank. Used by Swiss companies as a currency and unit of account (Vallet 2015).

Table 2. Comparison of the content of the Vollgeld initiative with the content of the Swiss Constitution of 18 April 1999

Content of the Vollgeld initiative	Content of the Swiss Constitution of 18 April 1999
Article 99 Monetary policy and the regulation of financial services 1. The Confederation guarantees that the economy is supplied with money and financial services. It may deviate from the principle of economic freedom. 2. Only the Confederation may create legal tender in the form of coins, banknotes and book money. 3. The creation and use of other means of payment are permitted provided this is compatible with the statutory mandate of the Swiss National Bank. 4. The law shall regulate the financial market in the overall interests of the country. In particular it shall regulate: a) the fiduciary duties of financial service providers; b) the oversight of the terms and conditions of the financial service; c) the authorisation and supervision of financial products; d) capital requirements; e) the limiting of proprietary trading. 5. Financial service providers shall hold transaction accounts for customers off their balance sheets. If the financial service provider goes bankrupt, these accounts do not fall into the bankruptcy estate.	*Article 99 Monetary policy* 1. The Confederation is responsible for money and currency; the Confederation has the exclusive right to issue coins and banknotes. 2. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it shall be administered with the cooperation and under the supervision of the Confederation. 3. The Swiss National Bank shall create sufficient currency reserves from its revenues; part of these reserves shall be held in gold. 4. A minimum of two thirds of the net profits made by the Swiss National Bank shall be allocated to the Cantons.
Article 99a Swiss National Bank 1. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it manages the money supply and ensures both the functioning of the payment transaction system and the supply of credit to the economy by financial services providers. 2. It may set a minimum holding period for investments. 3. Under its legal mandate, it shall bring newly created money into circulation free from corresponding debt, via the federal government or the cantons, or by allocating it directly to citizens. It may grant banks term loans.	

Table 2 (continued)

Content of the Vollgeld initiative	Content of the Swiss Constitution of 18 April 1999
4. The Swiss National Bank shall create sufficient currency reserves from its revenues; part of these reserves shall be held in gold. 5. A minimum of two thirds of the net profits made by the Swiss National Bank shall be allocated to the Cantons. 6. In the discharge of its duties, the Swiss National Bank is only bound by the law.	
*Art. 197 para. 12** Transitional provisions to Art. 99 (monetary policy and the regulation of financial services) and 99a (Swiss National Bank) 1. The implementing regulations shall stipulate that on the date when the new rules come into force, all book money in transaction accounts shall become legal tender. The corresponding liabilities of financial service providers shall become liabilities to the Swiss National Bank. This ensures that the liabilities will be settled from this book money conversion within a reasonable transition period. Existing credit agreements remain unaffected. 2. In particular, in the transition phase, the Swiss National Bank shall ensure that there is neither a shortage nor a flood of money. During this time they may grant easier access to loans to financial institutions. 3. If the appropriate federal legislation is not adopted within two years of Articles 99 and 99a coming into force, the Federal Council shall issue the necessary implementing regulations by ordinance within a year.	

* The actual number of this transitional provision shall be determined by the Federal Chancellery following the popular vote.

Source: Dawnay 2017, pp. 7–8.

The scientific advisory board of the Vollgeld Initiative included Australian economist S. Keen and German sociologist and economist J. Huber (Initiative Monnaie Pleine 2021). The idea of transforming the monetary system was supported by academic lecturers, celebrities and journalists. Supporters of the idea included H. Zuberbühler, former director of UBS bank, M. Rauh, former CEO of Swisscom SA,

M. Wolf, chief economic commentator of the Financial Times (Wolf 2018), C. Gomez, economist and former director at Société Générale bank, and S. Rossi, professor of macroeconomics at the University of Freiburg (Initiative Monnaie Pleine 2018). After an initial publicity campaign, the process of collecting signatures for the project began in front of the Swiss National Bank (SNB) headquarters in Bern on 3 June 2014. Thanks to the commitment of many activists, it was possible to collect more than 100,000 signatures within the required timeframe. On the first of December 2015, the list of signatures was officially handed over to the authorities (Dawnay 2017, p. 4).

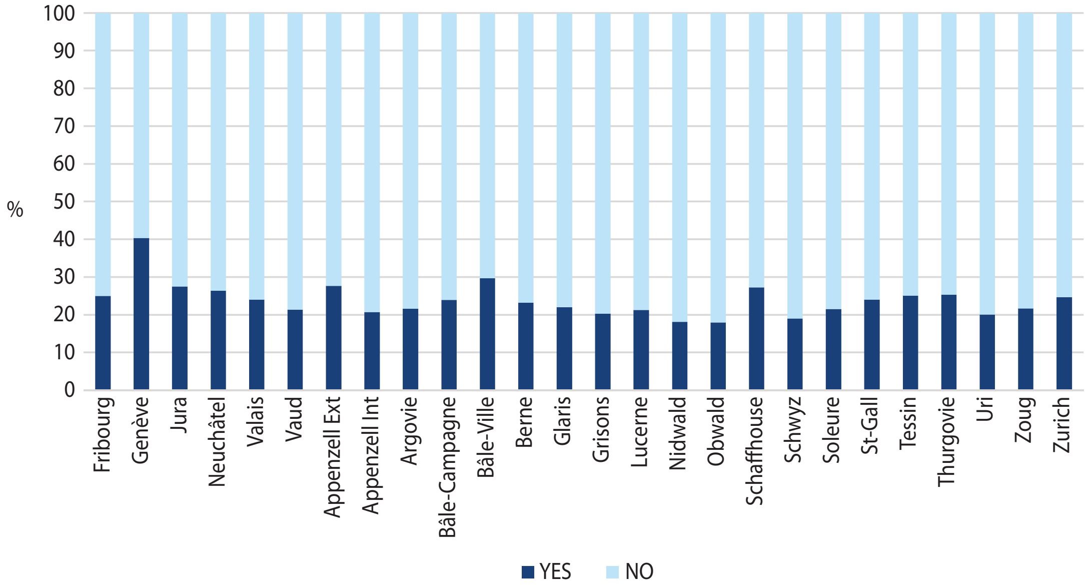
The Federal Council, the body that functions as the Swiss government, recommended that the initiative be dismissed. In its published analysis of the proposed reform, the Federal Council took the view that the adoption of the Vollgeld initiative would make Switzerland a testing ground for experiments to create a system of sovereign money and full reserves. Switzerland would be the only country to pursue a plan that would imply a profound and risky transformation of its internal monetary system and financial sector. The transformation would have caused great uncertainty and potentially high costs for the economy. In the Federal Council's view, there were more appropriate measures to strengthen the security of the financial industry, some of which had already been implemented and more were expected to be applied in the near future (Fedlex 2016, p. 23).

Both houses of parliament (the National Council and the Council of States) also voted against the initiative. The National Council recommended its rejection by 169 votes to nine. Twelve members abstained from voting. In the Council of States, 42 votes were cast against the initiative, no one was in favour and one person abstained. The Federal Council and the parliament did not put forward an alternative proposal (Jordan 2018a, p. 8). Despite the favourable votes of politicians from various groups, the Vollgeld initiative was not supported by any Swiss political party (Sterdyniak 2018). It did not meet with much public or political approval. The Swiss central bank and the large Swiss banks strongly criticised the postulated changes.

The referendum on the Vollgeld initiative took place on 10 June 2018. 75.7% of Swiss citizens voted against the initiative, 24.3% voted in favour. 442 387 votes were 'yes' against 1 379 540 'no' votes (Fedlex 2018). The turnout was 33.8% (Le conseil fédéral 2018). In no canton did the project receive the support of a majority of voters. Apart from Geneva, where the Vollgeld initiative was rejected by only 59.7% of referendum participants, the proportion of negative votes in the referendum exceeded 70% (Fedlex 2018).

Figure 1 shows the results of the referendum on the implementation of the Vollgeld initiative in Switzerland by canton.

Figure 1. Results of the Vollgeld initiative referendum in Switzerland by canton



Source: own elaboration based on (Fedlex 2018).

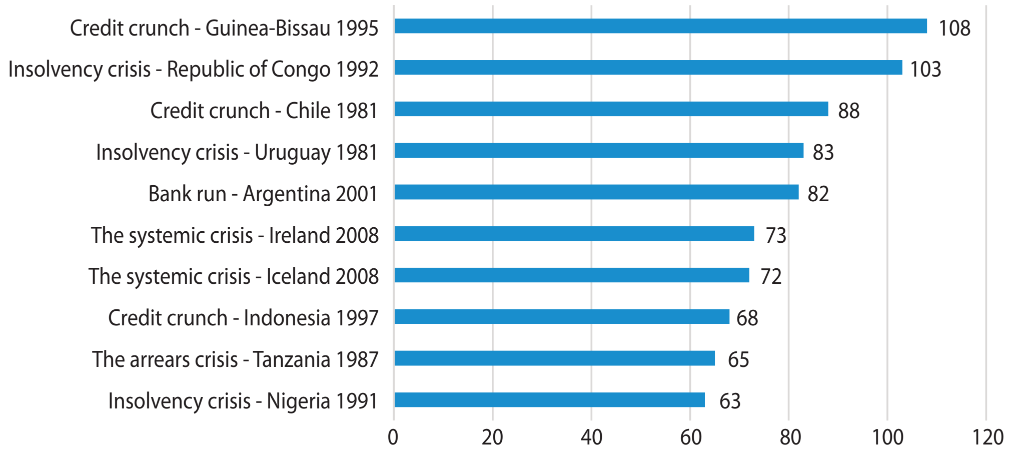
3. Arguments in favour of the Vollgeld initiative

After the global crisis of 2008, it seemed necessary to rethink the way the global financial system works. Fundamental reforms were not carried out, however, and the global financial system was only superficially modified. Between 1970 and 2011, the International Monetary Fund database records the occurrence of 147 individual national banking crises. These affected both poor and wealthy countries. The consequence of these crises was a very large increase in public debt (Wolf 2018). Figure 2 lists the costliest (in terms of public debt growth as a percentage of GDP) banking crises that occurred between 1970 and 2012.

In theory, the Vollgeld initiative could have been an effective response to the instability in the financial system caused by insufficiently controlled lending by the operational banks. A reform of sovereign money would have abolished the fractional reserve system, which was significantly contributing to the growth of private and public debt and the emergence of major financial crises. Moreover, in a system of explicitly safe money, it would be much easier to transfer the consequences of wrong decisions to the risk takers. The Swiss initiative could thus have contributed to improving the safety of the riskiest industry in the world, the banking industry (Wolf 2018).

A sovereign money reform would give the Swiss monetary authorities total control over the amount of money in circulation and thus a decisive ability to influence the financial system. By better allocating savings and managing the money supply, Switzerland could theoretically accelerate its economic development (Gomez, Lafay 2018, p. 31). According to Choloniewski and Siekierski (2021), a move to a sovereign money system would enable the state to increase public spending, reduce public and private debt, cut taxes and reduce unemployment.

Figure 2. The costliest banking crises between 1970 and 2012 (increase in public debt as a percentage of GDP)



Source: own elaboration based on: Baudino, Murphy, Svoronos 2020, pp. 4–8; Bryant, Sigurjonsson 2022, p. 362; Caprio, Klingebiel 2003, pp. 2, 7, 8, 10, 12, 13; Laeven, Valencia 2012, p. 19.

Essentially, the concept of sovereign money behind the Vollgeld initiative would mean a return to a historically well-known and proven monetary system. Operational banks would be deprived of their ability to create money, which would reduce the risk of financial crises (Gatnar 2018). Matyja (2018) emphasises that, taking the moral aspect into account, the Vollgeld initiative should be considered legitimate. Sovereign money would be a direct liability of the central bank and would not be subject to the risk of insolvency of the issuer.

A key advantage of the Vollgeld initiative was the issuance of debt-free money (Joób 2014, p. 7). Banks would revert to their role as financial agents, would not be able to create 'empty money' and would need their customers' savings to lend. This would strengthen the stability of the banking sector, significantly reducing the scope for risky bank activities.

As Temple (2018) notes, the Vollgeld initiative was a useful project for the economy, democracy and the Swiss constitutional system. Its added value on an economic level came from providing the public with secure state cashless money and preventing market bubbles. Democracy was the submission of the Vollgeld initiative to a referendum by way of a people's initiative, and constitutionality concerned the inclusion of the postulated changes in the Swiss constitution.

4. Criticism of the Vollgeld initiative

The Swiss National Bank presented numerous arguments in favour of rejecting the Vollgeld initiative. It expressed strong opposition and shared the negative opinions on the initiative issued by the Federal Council and the parliament (Jordan 2018a, p. 8). According to the SNB, the existing monetary order was functioning well. Switzerland had survived the 2008 global crisis and the relevant new regulations (capital requirements and other prudential measures) had made its monetary regime safer compared to the state before the 2008 crisis. Furthermore, the Swiss financial system was already both customer-oriented and efficient before 2008. The Swiss National Bank had the necessary instruments to manage the level of interest rates and the quantity of circulating money. In doing so, it pursued the overarching objective of monetary policy – ensuring price stability in the economy (Swiss National Bank 2018a, pp. 1–2). In the SNB's view, the functioning financial system allowed it to control the money supply very well. The monetary policy instruments used in the few years following the 2008 global crisis created the right market conditions and saved Switzerland from a credit crunch. The implementation of the Vollgeld initiative would change the focus of monetary policy from interest rates, the central bank's main tool since 2000, to a monetary targeting strategy. The SNB considered such a direction regressive and unnecessary (Swiss National Bank 2018b, pp. 2–3).

The Swiss National Bank pointed out that money creation in lending is not without limits. A single bank cannot use lending to maintain a sustained increase in its deposits, as settlement transactions imply an outflow of deposits. With its interest rate policy, the Swiss National Bank significantly affects the aggregate supply of credit and the creation of deposits. Money creation by operational banks is constrained by the legal regulatory framework, especially capital and liquidity requirements (Swiss National Bank 2018b, p. 3).

According to the Swiss National Bank's position, a sovereign money regime could not eliminate all forms of bank runs. The system would only be able to effectively prevent runs on current accounts, which would consist entirely of sovereign money (Swiss National Bank 2018b, pp. 4–5). The global financial crisis of 2008 and various market collapses show that bank troubles are not usually triggered by traditional runs. After the Vollgeld initiative materialises, banks could still be 'too big to fail' and their failures would threaten the entire financial system and have a significant impact on employment (Bacchetta 2017, p. 11). Under the postulated conditions, runs on time and savings deposits could even become more frequent. Nowadays, in a run, bank customers must convert bank cashless money into cash. Under the Vollgeld system, on the other hand, they could electronically convert bank cashless money into sovereign money without cash withdrawals. Depending on the level of risk aversion, investors would reallocate their savings and time deposits into sight deposits and vice versa. This would increase the volatility of demand for sovereign money and credit (Swiss National Bank 2018b, pp. 4–5).

SNB governor T. Jordan criticised the Vollgeld project and pointed out the negative consequences of its implementation. He estimated that the uncertainty of the financial system in the transitional phase would be enormous and that the adoption of the Vollgeld initiative would entail a fundamental transformation of the monetary and economic system of Switzerland, which had been constituted for many years (Jordan 2018b, p. 8). According to Jordan (2018b, p. 6), sovereign money would have acted like 'throwing gravel between the cogs of the Swiss credit system'.

Banks would not be able to sufficiently meet the demand for credit. Because of this, consumption, investment and ultimately the prosperity of the country would have declined.

The Vollgeld reform would mean that the central bank would revert to a strategy of influencing the money supply – monetary targeting. The SNB pursued this strategy in the period from the break-up of the Bretton Woods system until December 1999, when it adopted a stance focused on inflation forecasts and the control of short-term interest rates. By the end of the last century, there were good reasons to abandon the previous strategy and re-implementing it could lead to a decline in the effectiveness of monetary policy (Bacchetta 2017, p. 26). Table 3 compares the monetary policy strategies implemented by the SNB until 1999 and since 1999, respectively.

Table 3. Assumptions of monetary policy strategies implemented by the SNB until and since 1999, respectively

Monetary targeting strategy (implemented from the 1970s to 1999)	Interest rate strategy (implemented since December 1999)
– Imprecisely defined price stability as an overarching objective	– The main objective in the medium to long term remained price stability, but a clear quantitative definition of it is used. Price stability is when the CPI growth rate is less than 2% per year
– Strict control of the growth of the money stock as a prerequisite for achieving the overarching objective	– Forecasting inflation for the next 3 years
– Central bank's commitment to established monetary policy rules	– Volatility range for the interbank market rate as an operational target

Source: own elaboration based on (Jordan, Peytrignet, Rossi 2010, pp. 10, 13–15).

Adopting the Vollgeld initiative would be a very complex, costly and risky enterprise. Its outcome could not be accurately charted (Baumberger, Walser 2014, pp. 7–8). There was no evidence that sovereign money was more effective in promoting financial stability than traditional money (Birchler, Rochet 2018, p. 4). At the time the initiative was under consideration, other, less controversial reforms of the financial system were possible to strengthen stability in a controlled manner, such as successively raising the equity ratio (Baumberger, Walser 2014, pp. 7–8). A plan including social control of credit criteria, separation of market banks from deposit banks and a ban on purely speculative activities was more desirable and more likely to succeed (Sterdyniak 2018).

Following the implementation of the Vollgeld initiative, there would presumably be a credit deficit in the market and the cost of credit would increase. This would create allocative inefficiencies and adversely affect economic development. It is highly likely that operational banks would charge customers for acting as account custodians of sovereign money. The banks' incentive to provide innovative services could weaken as there would be no competition among them for these accounts. Given money creation detached from debt creation, monetary policy would be quite politicised. The Swiss National Bank would be exposed to pressure from the government and the cantons. This would threaten to increase expected and actual inflation. The SNB would also be exposed to credit risk, as the transition to the new regime would require the central bank to provide banks with temporary loans equal to the sum of deposits (Goretzki, Vernazza 2018, p. 4).

Potential consequences of adopting the Vollgeld initiative would also include lenders avoiding the new rules and increased demand for non-bank loans (Brosens, de Montpellier 2018, pp. 2–3). The implementation of the Vollgeld initiative could result in considerable uncertainty among banks and investors. A change in the monetary regime would likely have a negative impact on the ratings of Swiss banks if increasing funding risks for their activities were observed. In the longer term, the adoption of sovereign money in Switzerland could result in a decline in banks' profitability and undermine the rationality of their fee-based business model (Heinrich, Lozmann, Verhaag 2018, p. 1).

The acceptance of the Vollgeld initiative may have weakened the Swiss economy. The effects of the introduction of sovereign money in Switzerland could have been a disruption of the monetary and fiscal order, reduced financial stability and losses for deposit holders (Bacchetta 2018).

Summary

The concept of sovereign money is similar to the 100 per cent reserve system. In a sovereign money system, the central bank has full control over the money supply and the operational banks are deprived of the ability to create money through lending. After the introduction of the sovereign money system, all sight deposits would be transferred to the central bank. Consequently, the central bank would create sovereign money, manage it and guarantee its security and stability. Banks would act as financial agents.

In the third decade of the 21st century, sovereign money is only a theoretical concept for a monetary system. Through the Swiss Vollgeld initiative, an example of an organised, grassroots social movement for a change in the financial system, this concept was attempted to become a reality. Thanks to the system of direct democracy, the supporters of the Vollgeld reform were able to submit their proposal to the government and lead to a national referendum in 2018. However, *Monnaie Pleine* was doomed to failure almost from the start. The Swiss government, parliament, central bank and operational banks categorically opposed the adoption of the Vollgeld initiative, formulating numerous arguments against it. However, the initiative may provide the impetus for an international debate on the condition of modern monetary systems.

According to the author of this article, sovereign money is a concept that requires further research, especially in the area of monetary system transformation. Granting a central bank a monopoly on the creation of cashless money seems to be a solution conducive to increasing the security of the banking sector, but it also carries the risk of destabilising the financial system and temporarily weakening the economy. The Swiss National Bank and banks such as UBS, ING and UniCredit were against the Vollgeld initiative. It can be assumed that if the banking sector continues not to support the concept of sovereign money in the future, attempts to implement it will not be successful.

The issues discussed in this article are rarely addressed by economists, as shown by the small number of available articles and analyses in this area. Sovereign money has not yet been introduced by any country and it can be predicted that this situation is unlikely to change. As an international financial centre, Switzerland had legitimate concerns that a new monetary regime would seriously damage its prestigious position. The arguments presented lead to the conclusion that, in theory, the concept of sovereign money makes it possible to increase control over the lending activities of operational banks, but in the case of a small open economy, its implementation carries numerous risks for the stability of the economic system. In the opinion of the author of this article, the possible experimental introduction of sovereign money should be preceded by in-depth research and simulations of market reactions.

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