Global bank reform could be kicked off in Switzerland .... and Australia

Summary:
It is slowly dawning on people that a secretive and powerful private banking cartel controlling the world's finance system just might not be in the best interests of the bulk of people living in every country on the planet. The Swiss Vollgeld initiative aims to make the financial system safer by stripping banks of the power to create money. It will in effect turn their liquid deposits into "state" or "sovereign" money. This is a critical step in the reform process. Did you know that Aussies will be given the chance to vote for a very similar proposal in 2019? It just makes no sense to have bankers exploiting powers that rightly belong to the people via their sovereign governments. This article is essential reading. #OzElection19 will give Aussies the chance to top what the Swiss are attempting. See below for how you can help.

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Why the Swiss vote on ‘Vollgeld’ is important to global banking

A radical rethink of how the financial system works was, one might have thought, essential after the

devastating crisis of a decade ago. Instead, the system was patched up.

Now, predictably, the mood is shifting towards removing much of the regulation. That is why I hope, despite the polls, that the Swiss vote in favour of the Vollgeld proposal in the referendum on June 10.

Finance needs change. For that, it needs experiments.

According to a database compiled at the IMF, 147 individual national banking crises occurred between 1970 and 2011. These crises afflicted small and poor countries like Guinea, and big and rich ones, like the US. They were colossally expensive, in terms of lost output, increased public debt and, not least, political credibility. Within just three years from 2007, cumulative output losses, relative to trend, were 31 per cent of gross domestic product in the US. In the UK, the recent crisis imposed a fiscal cost only exceeded by the Napoleonic war and the two world wars. (See charts).

So how does this industry create mayhem on this scale? And why is it allowed to do so? It does so — and is allowed to do so — because, as the Bank of England has explained, banks create money, which is an essential public good, as a byproduct of their lending, which is an important economic good. We want banks to have risky assets and safe liabilities. Yet the liabilities of a highly leveraged, risk-taking institution cannot be safe and will unavoidably seem least safe during a crisis. Yet it is then that people want their money — their reserve of purchasing power in a frightening world — to be at its safest.

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Chart 1

Worse, it is often easiest for banks to justify lending more just when they should lend less, because lending creates credit booms and asset-price bubbles, notably in property.

The willingness of the public to treat bank liabilities as stores of safe purchasing power provides stable funding, until panic sets in. To reduce the likelihood of panic, governments insure bank deposits, liquidity and even solvency. That makes crises rarer, but bigger. The authorities are simultaneously supporting banks and reining in the excesses created by support. This is a system designed to fail.

Today, banks are less leveraged and better supervised than before the crisis. In the UK, retail banking is also ringfenced. Yet, the banks are leveraged at about 20 to 1: if the value of their assets falls by 5 per cent or more, such a bank becomes insolvent. One way to make banks safer then would be to increase their equity capital four or five times, as recommended by Anat Admati and Martin Hellwig in The Bankers' New Clothes.

An alternative way to make the system safer is to strip banks of the power to create money, by

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turning their liquid deposits into "state" or "sovereign" money. That is the idea backed by the Vollgeld initiative. An alternative way of achieving the same outcome would be via 100 per cent backing of deposits by claims on the central bank — an idea proposed by free-market Chicago School economists in the 1930s. The rest of the financial system would then consist mainly of investment banking and mutual funds. The latter shift risk on to the investors automatically. The former might need to be regulated, but mainly on capital.

The shift to a system like this would, as Thomas Jordan of the Swiss National Bank argues, be a mini-earthquake. Moreover, the proposal raises questions about the purposes to which the new sovereign money might be used.

The obvious possibility is to use the money to finance the government. This idea is highly objectionable to some: it would surely create big challenges. Yet those challenges are nothing like as fundamental as was transferring responsibility for a core attribute of the state — the creation of sound money — to a favoured set of profit-seeking private businesses, co-ordinated by a price-setting government institution, the central bank. In no other economic area is public power so mixed with private interests. Familiarity with this arrangement cannot make it less undesirable. Nor can familiarity with its performance.

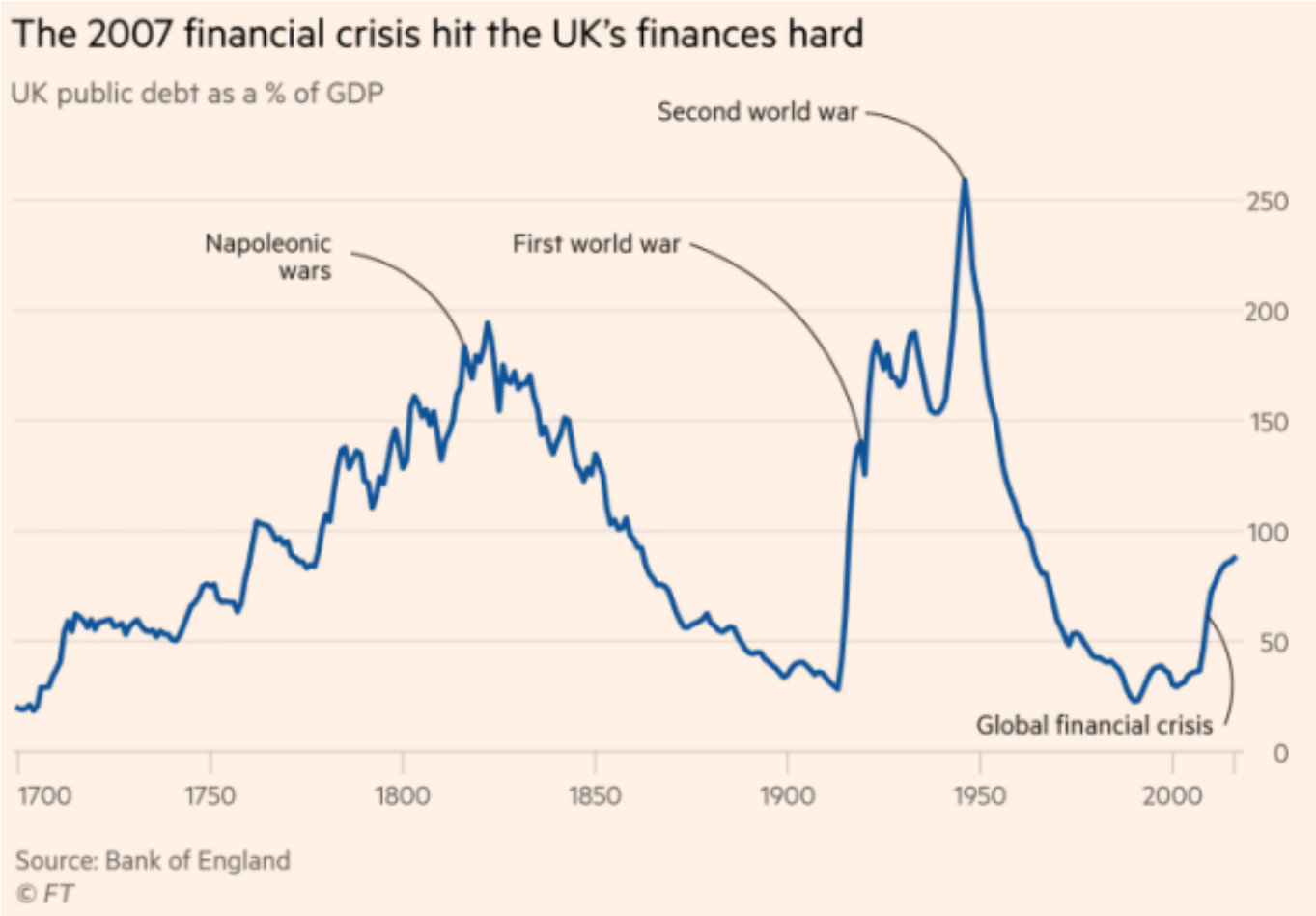


Chart 2

There are many other ideas in this broad area that seem worth pursuing. One would be to allow every citizen to hold an account directly at the central bank. The technological reasons for branch banking are, after all, perishing quickly. Nicholas Gruen, an Australian economist, has argued that no private institution should have better access to the public's central bank than the public itself does. Furthermore, he adds, the central bank could operate monetary policy by lending freely against safe mortgages. The central bank would not need to lend to banks per se at all. It would focus on assets.

The fundamental point here is that the burden of proof should not be on those who favour change. After a long series of huge and destructive crises, it falls rather on those who support the status quo,

even today's modified status quo. The advantage of the Vollgeld proposal is that it is a credible experiment in the direction of separating the safety rightly demanded of money from the risk-bearing expected of private banks. With money unambiguously safe, it would be far easier to let risk-taking institutions bear the full consequences of their failures. To the extent that bankruptcy remained difficult, regulation would still be needed, especially of equity capital. At the limit, as some argue, risk-bearing financial intermediation might need to be ended.

The Vollgeld proposal is not as radical as this. Yet it could provide an illuminating test of a better possible future for what has long been the world's most perilous industry. May the Swiss dare.

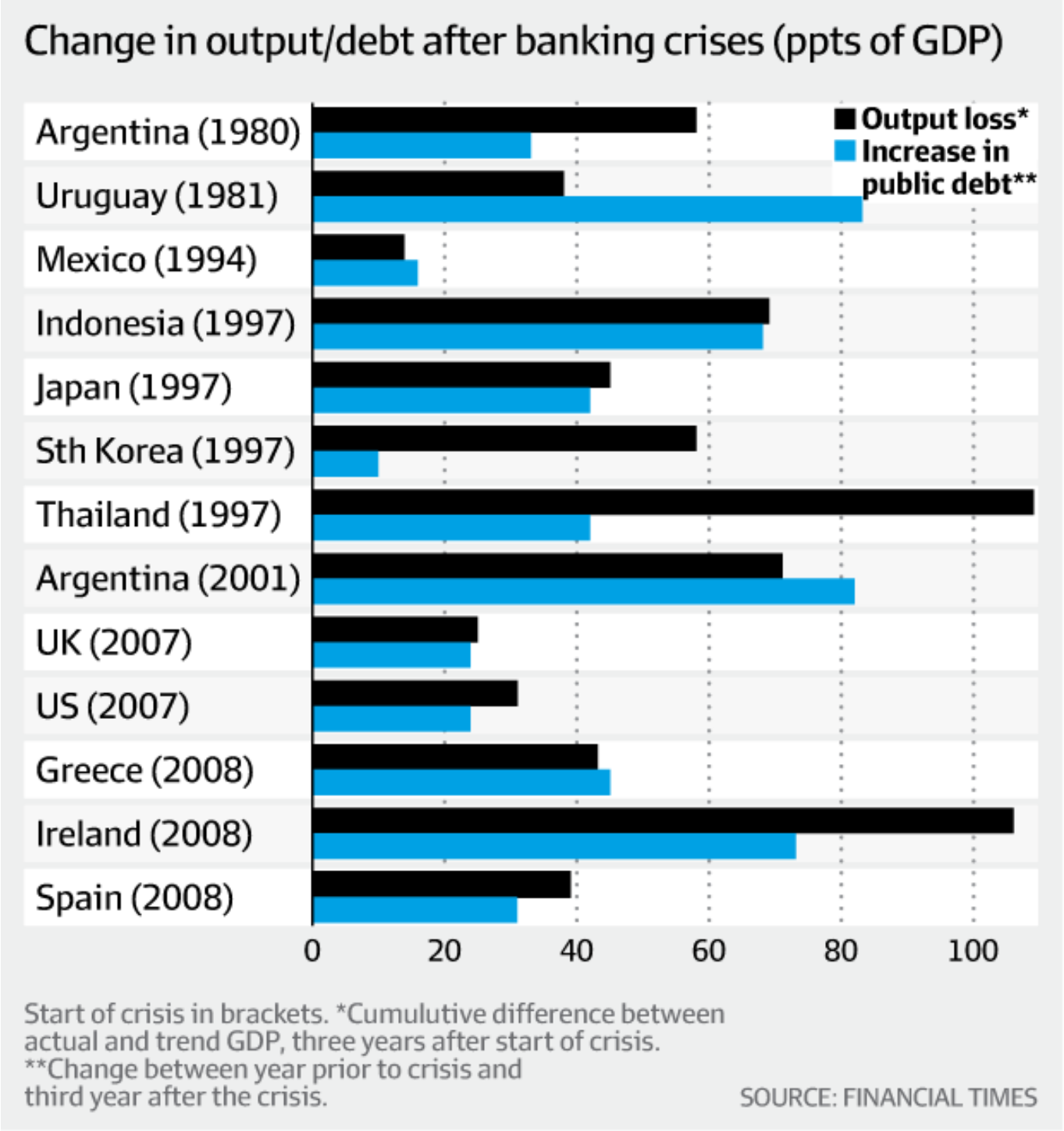


Chart 3

How can you help us prepare for the next election?

1. Donate a few dollars each month to the BRN kitty. If you don't want to register on our website just set up a regular direct deposit into our -
IMB Account
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Why should you help? Well we've been working on this for well over five years. You can review all the submissions I've made to various government inquiries and our material here and on Facebook. If you agree with my ideas and methods please help. The three point plan we will release before the election really is the best shot we have to bring justice to our country. If you want the crooks in finance to pay up and face jail time you've come to the right place. Ditto, if you want politicians forced into serving your interests. The enemies of your honest democracy have plenty of money to support their parties and policies. We need resources to mount a great campaign.

2. Check our Facebook page every day - right >> **HERE** - be generous with Comments and Likes on as many of our posts as possible. Share them to your own page but also to other relevant pages, forums and blogs. Don't wait to see us in your newsfeed. Liking and following the page is not enough. Facebook is choking NGOs, you need to come to us - bookmark our page to make checking in easy.

3. When we ask you to email a politician or inquiry please do so. Even a short comment is helpful. Click >> **HERE** (link is external) to find your local MP's and Senator's details.

4. Let's try it now - email the Banking Royal Commission and tell them that you want to see the ex-CEOs called in for interrogation AND that you want Commissioner Hayne to ask the government for enhanced powers, expanded terms and an extended inquiry. A compensation fund must be on the agenda and it must begin to be filled with clawed back assets from the CEOs (see Letter Of Demand below). We also want people to have equal access to legal justice (see link below). Email today >> FSRCenquiries@royalcommission.gov.au (link sends e-mail)

5. Tell your friends and relatives that there really is a better way to run a finance system and country. They can support us too and it will make a big difference. Once we have the numbers we all win. The pollies and bankers know the people have the real power so they try to keep us ignorant, busy and fearful.

6. Buy a Bank Reform Now T-Shirt - a beaut way to spread the BRN message when you are out and about. Great conversation starter at the supermarket ... or bank. Link below.

7. Make the Big Bank BANG CBA Boycott a success - Tell everyone! No new loans with CBA for at least 12 months. Download and print copies of the CBA Boycott Pamphlet and spread it around (links below). CBA's share price is already going down. It need a hit so that the pollies and bankers know we mean business. **This year is ours folks .... let's grab it.**

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Bank Reform Now was founded be its CEO Dr Peter Brandson in 2013. His family was damaged by NAB and its unconscionable predatory lending practices. BRN is a grassroots campaign aiming to educate and motivate people to take action against a corrupted banking and political system that is stealing the wealth and rights of all Australians. BRN advocates peaceful methods of protest. In a civilised society that is all that is required. We will never initiate the use of force.

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We can win, we must win, we will win ..... if we work hard and smart together.

File Attachments:	Attachment	Size
	CBA Boycott Pamphlet	298.05 KB

Websites For More Information: Switzerland To Vote In Historic Vollgeld Referendum This Weekend
https://www.orbex.com/blog/en/2018/06/switzerland-to-vote-in-historic-vollgeld
Vollgeld: Switzerland's 'Sovereign Money' initiative
http://www.dw.com/en/vollgeld-switzerlands-sovereign-money-initiative/a-44132924

Related Links: Letter Of Demand
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