Is Banking in a Sovereign Money System Feasible?

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Abstract

In a first part, this thesis establishes a profound understanding of a sovereign money system as well as the processes that drive the current fractional reserve system. The benefits and uncertainties of a sovereign money system are laid out and possible transitions from the current system to a sovereign money system are discussed. One possible implementation of this idea is the sovereign money initiative in Switzerland; its initiative text is analyzed. The second part of the thesis attempts to answer the question whether banking in a sovereign money system is feasible. This is achieved by introducing two models in order to estimate the seigniorage profits that banks make and to determine their reliance on money creation from a balance sheet perspective. These models are then applied to four, systemically relevant banks in Switzerland. The results show that most banks currently do not profit from seigniorage, but would be better off in a sovereign money system. The main reason is found in the low or negative interest rate environment. If banks are able to be profitable, in spite of these conditions, they could also be profitable in a sovereign money system.