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## Bailout Mania Hits Even the Swiss

Klaus Stoeckli, a Swiss food-products salesman, out of fear for his assets, recently withdrawn some \$90,000 in investments from Switzerland's largest, but troubled, bank. "The idea that this could happen in Switzerland is unbelievable," Stoeckli told a *Washington Post* reporter based in Zurich.

The thought of a collapse of UBS, which has more than \$1.75 trillion in assets, over four times Switzerland's gross domestic product, strikes fear in the hearts of the nation's countrymen. "Swiss banks have always operated on the basis that they have an implicit guarantee of the state," Manuel Ammann, director of the Swiss Institute of Banking and Finance, told the *Post*. "But these large banks impose substantial risks on the Swiss economy, simply because of their size."



UBS's problems began to arise when it began aggressively investing overseas, including securities tied to subprime mortgages in the United States.

Meanwhile, Switzerland's second-largest bank, Credit Suisse, said it did not need government help, but was turning to a group of investors, to raise 10 billion Swiss francs in new capital. The largest partner in the investment group is a Qatari sovereign wealth fund.

One warning of what came to pass in Switzerland was given in "Goodbye Sovereign Switzerland," an article in *The New American's* print edition for July 19, 1999 by Jane H. Ingraham. In her essay, Ingraham discussed how the Swiss people had unwisely voted that year "to end the unique soundness of their currency as well as their country's financial power and independence," by abandoning the Swiss franc's tie to gold. Misled by influential members of the international financial establishment who were envious of Switzerland's unique financial stability, Swiss voters approved a new constitution that abolished the traditional gold convertibility that had previously made the Swiss franc literally "as good as gold."

Jean-Marc Berthoud of Lausanne, Switzerland, was part of a small minority who tried to warn the Swiss people about the consequences of their ill-conceived vote. He wrote in *The Swiss Gold Standard and the New World Order of the Ages*: "In liberating the fourteen billion francs drawn from the gold reserves of the Swiss National Bank and in deciding to sell the gold reserve upon which the relation of our money to reality is founded, the Federal Council has taken the first step on the road to the liberation of the Swiss franc from its tie to the gold standard."

A natural effect of removing a nation's currency from its gold backing is to allow for large-scale inflation of the currency and the initiation of what is called "fractional reserve banking." As the Federal Reserve summarized the term:



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The fact that banks are required to keep on hand only a fraction of the funds deposited with them is a function of the banking business. Banks borrow funds from their depositors (those with savings) and in turn lend those funds to the banks' borrowers (those in need of funds). Banks make money by charging borrowers more for a loan (a higher percentage interest rate) than is paid to depositors for use of their money. If banks did not lend out their available funds after meeting their reserve requirements, depositors might have to pay banks to provide safekeeping services for their money. For the economy and the banking system as a whole, the practice of keeping only a fraction of deposits on hand has an important cumulative effect. Referred to as the fractional reserve system, it permits the banking system to "create" money.

The bank "creates" money through making a loan. The lent money is spent, and the seller deposits the money in another bank, whereby the money is lent out once again. We have seen the results of having "creatable," inflatable currency in our own economy, including rising prices and economic bubbles, leading to bank failures when the bubbles burst. In Switzerland, whose banking system for many years maintained a well-earned reputation for stability, the emulation of less-stable monetary systems may be paying off in the form of poor dividends.



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