"Limiting the consequences of the finance casino in Switzerland by means of direct democracy"

A transaction tax of 0.2 per cent would amount to 200 billion Swiss francs per year

Interview with Professor Marc Chesney

Professor Marc Chesney. (picture thk)

After the thunderous Lehman Brothers crash in 2008 and the ensuing financial crisis, there were calls for greater government controls and better protection for investors. Yet, under no circumstances did the "too big to fail" banks want state controls. Billions in taxpayer money was poured into big banks, which in most cases almost ruined themselves through dubious practices in the vast finance casino world. New more stringent capital requirements remain cosmetic and investor protection that was enforced now appears rather modest. Professor Marc Chesney demands more protection against the finance casino as it has evolved over the last 30 years. He is Professor of Finance at the University of Zurich and author of the book "Vom grossen Krieg zur permanenten Krise" in German, or "De la Grande Guerre à la crise permanente" in French. He is currently seeking a publisher for the English version. In the following interview he explains his assessment of the current state of the financial markets and the economy.

Current Concerns: What do you see as the causes of the financial crisis in Greece? What is the connection between the financial crisis of 2007 and the situation in Greece today?

Professor Marc Chesney: This is related to the creation of the Euro. Essentially, Greece should not have been allowed to enter the eurozone. But tricks, presented as financial innovation, were used to conceal the financial situation. In particular, the bank *Goldman Sachs* helped Greece to hide a portion of its debt, and suddenly the situation in Greece appeared to be better!

What were the consequences for Greece?

Suddenly the country was able to meet the so-called Maastricht criteria. Nobody in Brussels, Frankfurt, Berlin or Paris asked how this could have been possible in such a short time. Between 2002 and 2005 *Mario Draghi* was Vice Chairman and Managing Director at *Goldman Sachs International*. He is the current President of the *European Central Bank* (ECB) in Brussels. Until today, he has never officially condemned this dubious window dressing.

Once Greece entered the eurozone, the interest rate on Greek bonds fell continuously so that the country could take out cheap loans. This came in very handy for big banks in Germany and France. Both countries wanted to sell arms to Greece, and this was funded generously by their banks through loans. Nevertheless, it was known that the Greek economy and state budget were in bad shape.

What were the banks' calculations here?

They presumed that if Greece did not fully repay the loans after a few years, the European taxpayer would assume losses and possibly bail them out. This was precisely the case when Greek debt became astronomical.

What happened in 2011 when the disaster became apparent to all?

Private debt became public debt. This is a disgrace for Europe. Why did Ms *Merkel* and Mr *Sarkozy* make the decision to support ailing banks with public money? Banks should be responsible for their actions. German or French big banks involved in these huge loans to Greece, should have assumed the risks associated to their decisions, as should be the case for all companies in a well-functioning economy. Thus, when Greece was unable to repay its debt, they, instead of the taxpayer, should have borne the costs. The real purpose of this taxpayer-financed bailout was not to aid Greece, but to rescue these big banks. Why should taxpayers pay for this? This question should have been asked before 2011, as the situation is now very complicated.

What could Greece have done in this situation?

One would have had to proceed as one did in Germany after the Second World War. At that time its debt was huge, approximately 200 per cent of gross domestic product. It was clear that Germany would not be able to meet its obligations. For this reason a debt cut was agreed upon at the *London Debt Conference* in 1953. More than 50 per cent of Germany's debts were cancelled. The same solution should be applied in the case of Greece, whose debts have reached around 200 per cent of GDP. This level of debt is unsustainable. Even the IMF finally recognized this reality – unfortunately only at the beginning of July 2015 – essentially at the same time as the Greek referendum took place. These debts will never be fully reimbursed. The question remains as to who, either the IMF or the EU and the ECB, will bear the costs.

What will happen if the creditors do not agree to debt relief?

Then Greece should follow the same path as Ecuador did. That is, it should perform a debt audit. But, contrary to Ecuador, the Greek debt is, as previously mentioned, now essentially held by public institutions rather than private investors. In addition, the products and activities of the finance casino are much more developed today than 30 years ago. So, for example there are CDS's (*Credit Default Swaps)* which allow one to bet on the bankruptcies of countries or companies. The question remains as to which major banks bought or sold these products in the case of Greece. This is not transparent, and will be fully revealed only once this country stops honoring its debt. At that point it will become obvious who placed huge bets on its default. We will then see whether they were made in Frankfurt, Paris, London or New York. Bold solutions are required to eliminate this lack of transparency and to hinder the effects of the finance casino. Things cannot go on like this as its debt is even higher than it was before the last "rescue package" in summer of 2015.

This would ultimately mean that one cannot negotiate objectively because it is about so much money?

Financial institutions which purchase CDSs bet on the bankruptcy of Greece, and those who sell them bet on the stabilization of the financial situation in Greece and, simultaneously, on the success of European Union policy. Lehman Brothers' bankruptcy in 2008 illustrates the financial toxicity of such bets. The American insurance company AIG sold CDSs on Lehman Brothers and believed that Lehman would never go bankrupt. For AIG management, the sale of these CDSs was a money machine. Conversely, some big banks that had purchased these products did everything to ensure that Lehman Brothers would go bust. After the Lehman Brothers' bankruptcy, AIG, unable to

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honor its CDS commitments on Lehman Brothers, was virtually bankrupt as well, and the US taxpayer, without being asked, bailed out this company. Today bets are placed on other companies as well as countries such as Greece, in particular. But that is all non-transparent. Because of these bets and the finance casino in general, people are suffering, especially in Greece. How is it possible to survive in Europe on only a few hundred euros a month? That is incredibly difficult. The financial sector and more precisely too big to fail financial institutions, have taken power and are pumping more and more money from society and the economy into their own pockets. With the so-called financial package or financial help received thus far by Greece, a partial reimbursement of the debt as well as a recapitalization of Greek big banks was foreseen. The debt volume, however, is far too large, and the recapitalization of the banks is a bottomless pit. All this is a hopeless task. Other solutions are needed here.

The crisis in Greece is a symptom of the overall situation in the financial sector. The media hardly ever write about it. Have we learned anything at all from this financial crisis, so that such a thing will not happen again?
No. For our society this is unfortunately not the case. But too big to fail banks have learned something. They can take excessive risks because society will eventually assume the risks, if needed. They have strong lobbies which promote and defend their interests. The current economy is based on debt. It must create debt in order to try to stimulate growth which in turn is needed to partially reimburse debts. This is a vicious cycle. At the end of the day, growth is sluggish, and debt levels are unsustainable. That is why bold reforms are required. Although much has been spoken, progress has either been very modest, or on the contrary, worsened the situation.

There was a long discussion about regulation. What has been re-regulated?
Financial sector regulation is too complicated. With a financial sector that is far too complex, we need simple regulations with one main objective: the financial sector has to service the economy and society. To do this you do not have to write 600 pages or even more as in the case of the *Basel III* agreement. Fewer pages, as with the *Glass-Steagall-Act,* and clear rules would be enough. The financial institutions which have taken risks should bear them. In fact, banks that are too big to fail are particularly problematic for the stability of the financial sector. We need smaller, less bureaucratic and more robust banks with much higher equity capital so that the taxpayer is no longer obliged to bear the costs associated with too big to fail banks in order to stabilize the system. We need to separate commercial and investment banks, as was the case in the United States until 1999 under the Glass-Steagall-Act. A micro-tax on electronic payments and other simple, understandable measures should be implemented. Furthermore, the way economics and finance are taught in academic institutions, in particular in the so-called top ones, should be changed. As explained in an appeal launched in Geneva, Fribourg and Zurich in 2011, the quasi-monopolistic position of main-stream economic, finance and management thought represents a real problem. Lessons from the financial crisis are not really drawn.

You have mentioned this Financial Transaction Tax. Could you explain it in more detail?
This idea was developed by Zurich financial entrepreneur *Felix Bolliger,* as well as Professor *Edgar Feige* of the University of Wisconsin-Madison, and Professor *Simon Thorpe* of the CNRS in Toulouse. Let me consider the case of Switzerland. In this country, electronic payments amount to approximately 100,000 billion Swiss francs a year, excluding currency transactions. This corresponds to about 160 times the Swiss GDP. With a transaction tax of 0.2 per cent on each electronic payment, 200 billion Swiss francs per year would be raised. That is more than all taxes in Switzerland together, amounting to approximately 170 billion francs, including VAT. This system of transaction tax would be technically much easier than the current one. For every electronic transaction, those made with credit cards in particular, 0.2 per cent would be deducted. Taking currency transactions into account would allow this tax to be even lower. The latter would not be a kind of *Tobin Tax,* that means not limited to securities transactions, such as stocks or bonds. Neither is it intended to be an additional tax, but rather an alternative or replacement to current taxation.

That means that there would be no income tax or VAT?
Yes, an income tax would no longer be needed, but the new tax should be introduced slowly. First, the *Value Added Tax* (VAT) should be eliminated step by step. That would have a positive impact on the tourism industry which suffers from the strong Swiss franc. Second, income tax should also be gradually suppressed. The middle and lower class suffocate from overly high taxes. In a world where unemployment and the number of imposed part-time jobs are far too high, work is beneficial for society and should therefore not be overly taxed, as it is today. We would pay our taxes automatically, i.e. as soon as we perform an electronic payment. Furthermore, cash payments usually require the prior use of a cash dispenser. This would actually mean that each time 100 francs are withdrawn, 20 centimes in taxes would be payed. Ultimately, we could theoretically forget tax declarations.

If I go to a cash dispenser today which does not belong to my bank, I have to pay much higher fees.
Yes, we constantly pay various fees. They should be much lower. A micro tax on each electronic payments would be easy to understand and advantageous for almost all businesses and households. Due to an expensive Swiss franc, unemployment has increased slightly in Switzerland. With such a reduced tax instead of the existing ones, and with far fewer administrative burdens, foreign companies would settle in Switzerland. Thus, new jobs would be created. For big banks and hedge funds, however, the system would be different; they would pay more taxes.

You are probably referring to big banks and hedge funds which practice high frequency trading in particular. Do we absolutely need these activities in our country?
No, we do not need them because the economy does not work in terms of microseconds. Reducing such problematic activities in Switzerland would allow for more financial stability. In principle, this micro tax system is a key component of a worldwide program against the finance casino in general, and high frequency trading in particular. The question remains as to how to implement it. In Switzerland, direct democracy could allow this system to materialize. Should this become a reality, taxpayers abroad, specifically in Germany, France and the USA, will be wondering why they do not enjoy such a system. For a country in the EU to claim 30 to 40 per cent or even more of middle class income as tax revenue, is not only disproportionate and outrageous but also counterproductive.

In Switzerland you could achieve that with an initiative. But what will the other countries do which have no such possibilities?
In a democratic society, citizens should play a key role. It takes citizens who speak out, raise their voices and take their destiny into their own hands. Brussels has too much power in the EU. If citizens want reduced and simplified taxes, they must

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communicate with each other as well as with their regional politicians. The latter should be their representatives. The internet as well could be used for debate and support for such concerns. The initiative simply needs to begin somewhere for real action to be set in motion. If, thanks to direct democracy, the logic of the finance casino is impaired in Switzerland, it will inevitably influence other countries.

You see direct democracy as the basis for a more humane, equitable and therefore more peaceful life together.
Yes, absolutely. I have observed that democracy in many other countries is very much blocked. Conservative, so-called liberal or socialist governments essentially apply the same and unique financial and economic policy, namely those that meet the interests of financial markets. It is de facto a dictatorship of a financial aristocracy, supported implicitly or explicitly by many media. Alternatives are needed

What are you thinking of here?
For example, as previously mentioned, a separation between commercial and investment banks is essential. Furthermore, a certification process, as is the case in most industries, would be very useful in finance. The idea would be, that before approving financial innovations projects, their adequacy and appropriateness with respect to the needs of the real economy would be checked. Regarding financial transactions, they are oversized compared to what the economy really needs. Hence, the idea of the transaction tax: whoever makes transactions of large sums of money will also have to pay taxes for it.

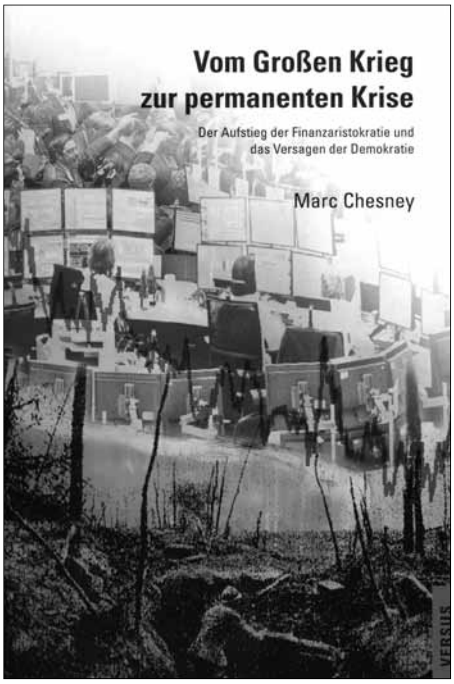
This must necessarily be discussed. Let us talk once again about the financial situation of Greece and Ukraine. Can you not see the two crises as an expression of the entire situation?
Let me begin with a comparison between Ukraine and Greece. The financial situation in Ukraine is disastrous. Compared to its GDP, its debt is huge. And this is even more problematic because the seceded eastern part is in fact an important industrial part of Ukraine. Curiously, the IMF behaves much more complaisantly with Ukraine than with Greece. For the IMF, debt restructuring for Ukraine doesn't really seem to be problematic, but for Greece, it was a taboo until early July 2015. The question is, why? And here, the geopolitical dimension is particularly relevant. Ukraine is a focal point of confrontation between East and West. The EU has focused strongly on this country, albeit without any mandate. In the western region of the country fracking projects are realised in order to prevent dependence on Russian energy sources such as gas. This is not only inefficient, but also dangerous to the environment.

What should be done?
All belligerents should sit around the negotiating table to find a solution. Tensions between the western and eastern parts have existed for a long time. Either they should develop a solution similar to the Swiss one and live together peacefully in a kind of confederation, or they should separate. If the belligerents are unable to find a common solution, they are better off going their separate ways. Unfortunately, a new cold war is currently unfolding. The fall of the Berlin wall was a stroke of luck, but the West did not seize this opportunity.

What should the West have done differently?
The *Warsaw Pact* dissolved itself, but NATO not only remained, but expanded further East. Contributing to the reduction and to the dismantling of nuclear weapons in Europe as well as to the easing of tensions in Europe should have been the West's priority. It was not the case and, in the event of direct confrontations, Europe would be right in the front line. What we need is an open Europe, a Europe which – instead of extending counterproductive economic sanctions – would be in a position to negotiate in order to find solutions. This applies in particular to Switzerland, which plays a very important role as a neutral country in this context. There is a confrontation between Russia and NATO, and one can only hope that the language of weapons will not prevail. This is a dangerous situation.

Is not all this an expression of the disastrous financial situation in the United States – those United States, which are actually bankrupt and struggle for survival with Russia and China?
Not only Ukraine or Greece or other European countries for that matter, but also many other countries such as the United States for example, are entrapped in huge debts. Their total debt, which means private and companies' debt, as well as governmental and financial sector debt amounts to approximately 300 per cent of GDP.

Let us come back again to the financial situation in Europe, to the strong Swiss franc and to the Swiss National Bank policy. How do you see this?
When the Swiss National Bank (SNB) started to back the euro in 2013, this contemplated solution was not the right one. The National Bank is unfortunately not of sufficient size to confront hedge funds and big banks. Allow me to shed light on this issue. Each day currency transactions (in dollar, euro, swiss Franc, etc.) amount to 5,000–6,000 billion dollars. With such a scale, one week's volume is sufficient to satisfy the needs of international trade in goods and services. The remaining amount contributes to the development of the finance casino and generates systemic risks. Let us assume that a hedge fund speculates on an increase in the Swiss franc. With an initial amount of one billion Swiss francs it can take a loan of approximately CHF 20 billion from a major bank, which means it needs only 5 per cent capital. Along the same lines, it can speculate with CHF 10 billion based on only CHF 500 million of capital and have an influence on the euro/Swiss franc exchange rate which has a daily transaction volume amounting to between CHF 50 and 100 billion. The National Bank would have to regularly invest billions of francs for the purchase of euros. This is not sustainable.



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What should be done instead?
Why should the National Bank buy so many euros? This currency, with an uncertain future and regular weakness with respect to gold: within 15 years it has lost approximately 33% in value. The dollar and the British pound have fallen 95% compared to gold in one century. Gold represents a better investment opportunity. Incidentally, it would have been preferable for the National Bank to not sell a large part of its gold reserves, namely about 1,550 tons, as it did at the beginning of the 21st century. Now, how should

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the SNB invest these billions of euros? It is a delicate issue, a fortiori without a sovereign wealth fund. Why should a significant amount of German and French bonds be purchased? The huge increase in the monetary mass thus far is disproportionate compared with the development of the Swiss economy. The SNB's balance sheet has increased far too much. A temporary solution consists in the introduction of a negative interest rate, but only for foreign investors who want to speculate with the Swiss franc.

Should we have got out earlier?
Yes, it should have been done before the franc was hovering around 1.20 euro. The SNB's decision was probably influenced by the ECB's decision to begin purchasing government bonds. There is a lesson to be learned from this situation. It is not possible to buy euros in unlimited quantities. The SNB balance sheet cannot be increased indefinitely. What we need are national banks that carry out a sensible monetary policy.

How do you assess the conduct of the ECB?
One objective of the ECB is to curb inflation. But it is currently so low, essentially non-existent, that this institution wants to contrarily increase it in order to reach two per cent inflation. But that does not work. Maintaining the stability of the financial markets is another objective of the ECB. Unfortunately, it has also failed in this respect. The ECB operates *quantitative easing.* As in the United States through FED's operations, huge amounts of money have been pumped into the financial sector, but it has not led to anything positive for the economy. These amounts, instead of being invested in the economy, are used as stakes in the context of casino finance. In this way, inflation remains limited only to specific financial assets and real estate, and a huge bubble is forming again.

So is that the reason why we have no inflation yet?
Yes. But if inflation becomes a reality, its level might be very high due to a huge monetary mass. Currently, Central Banks are playing with fire. Their policy has contributed to driving the world economy into a dead-end street. And, instead of looking for another direction, they carry on following the same policy at an accelerating pace. They keep injecting enormous amounts of money into the financial sector, but many companies cannot really get loans. And yet, it should be a high priority to invest in specific sectors such as renewable energy and education, for example.

What would be the solution for Europe?
In order to stimulate the economy, the ECB would be better off lending money at 0% directly to those companies which want to realise sustainable investment projects. We also need more direct democracy. That is the key issue. Citizens must have a say in political decisions. In addition, the fiscal load is too heavy and public funds are too often wasted. In the period from October 2008 to October 2011, the European States spent about 4,500 billion euros, approximately 37% of their GDP to bail out and stabilize their banking sectors, with success we are well aware of! Furthermore, according to an IMF report issued in April 2014, public subsidies for big banks amounted to approximately 50 billion dollars in the United States as well as in Switzerland in 2011 and 2012 together, and to more than 300 billion dollars in the eurozone during the same period. It is unacceptable for the taxpayer to ultimately assume responsibility for reckless decisions taken by too big to fail banks and to incur the corresponding costs. Subsidizing or bailing out too big to fail banks is contrary to the very liberalism in which the financial sphere wraps itself. What is required are smaller and more efficient banks working for the benefit of the economy.

Professor Chesney, thank you very much for this interview. •

(Interview *Thomas Kaiser)*