Speech

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Reform proposals for the SNB – expectations and reality

108th Ordinary General Meeting of Shareholders
of the Swiss National Bank

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Dear Shareholders
Ladies and Gentlemen
Dear Guests

It is a great pleasure for me to welcome you all to the 108th General Meeting of the Swiss National Bank. The General Meeting is prescribed in the National Bank Act (NBA), and is the traditional highlight of the SNB financial year. Thus certain procedures have remained unchanged over the years. Yet this event has never become outdated. This can be seen, on the one hand, if we look at the modern technology operating in front of and behind the scenes, for instance, for the registration procedure, vote casting, live transmission on the internet and for the simultaneous interpreting mentioned before.

On the other hand – and this point is far more important than all the technological aids put together – the General Meeting provides a forum where the SNB can publicly demonstrate its accountability. That is why, every year, the Chairman of the Governing Board explains the SNB's monetary policy here, and in the general discussion you have the opportunity to speak and ask questions. As you see, the purpose of the General Meeting is not just to deal with the agenda items prescribed by the NBA and company law. On the contrary. It also demonstrates that the SNB is actively established in our democracy, constitutional state and society.

Broad discussion of monetary policy is part of democracy

Today I would like to pick up the threads of my comments last year, which I presented under the heading, 'Swiss National Bank – independent and firmly anchored'. I am doing so, I would add, as President of the Bank Council, a body that has absolutely no powers with regard to monetary policy since the conduct of monetary policy is a matter for the Governing Board alone. Nevertheless, the work of the Bank Council plays a substantial part in creating the conditions needed to ensure that the Governing Board can fulfil its responsibilities with respect to monetary policy, and that the SNB can successfully fulfil its mandate in the interests of the country as a whole.

As last year, I am beginning my reflections today with the observation that public interest in institutional questions relating to the SNB has increased considerably. In this country, too, the shocks triggered by the financial crisis have unleashed a broad-based debate, both on the role which central banks play – or should play – and on the most expedient way of organising the monetary system.

Before I go into detail on a few reform proposals that are frequently brought up in connection with the SNB, I would like to make three general comments.

The first comment is an observation. A broad-based debate on the monetary order in general and the central bank institution in particular, with the emergence of creative ideas, is a good sign of a democratic and open society. There is no reason why monetary policy should be treated any differently in this respect than other areas of state activity. This kind of debate can be especially productive when it results in better understanding of the limits and possibilities of monetary policy. For a country like Switzerland, which has a well-developed system of direct democracy, it is crucial, because voters are frequently called upon in referendums to decide on matters affecting the central bank and the monetary order. Such questions might be, for instance: Should there be rigid regulations about the composition of the SNB's currency reserves? Or: Does it make sense to fundamentally reorganise our financial and banking system and entrust the SNB with important additional tasks? Voters must be in a position to reach an informed opinion on such matters. For example, in 2014, they clearly rejected the gold initiative, which aimed to prescribe a fixed minimum proportion of precious metal in the currency reserves. As for the sovereign money initiative, which by 2015 had gathered sufficient signatures for a referendum and which demands a radical change to a new monetary and credit system, Thomas Jordan will tell you the SNB's thoughts on this in the speech that follows.

However, I definitely do not want you to get the impression of a brash and complacent SNB simply derailing all reform proposals because it imagines itself to be living in the best of all possible worlds. That is certainly not the case. The monetary history of our country, like that of others, shows us that no monetary order exists which is ideal for all times, and that this area, like others, cannot be disconnected from reality. When the situation changes, a review of the institutional framework within which monetary policy is conducted, with the required adjustments, can make sense and indeed be necessary. Care must be taken in doing so, however. It should not be forgotten that a central bank is the embodiment of stability and must be so in every respect.

My second comment follows from the first. It is not enough for the SNB to be simply an interested observer of the discussions about the monetary order and the central bank. On the contrary. It is a major concern for the central bank to inform the general public comprehensively about monetary policy and the currency order. Consequently, the SNB takes part in the discussions on these topics, where necessary. In particular, it makes statements on proposals and submissions that would directly affect monetary policy. Our aim is always to help achieve solutions that are as appropriate as possible. We want parliament and the voters to be able to make informed decisions on matters concerning the monetary order. This shows that the criticism voiced in some circles that the SNB is only interested in preserving its vested interests and would like to remove monetary policy from democratic and social controls, is completely unfounded.

My third comment is a brief guideline, as it were, for examining reform proposals. It consists of three questions, which are: Can a proposal actually fulfil the hopes invested in it, in the long term? Do unintended and undesirable side effects arise from implementation of the proposal, especially in the long term? Is the proposal geared to the common interest or to the interests of specific groups?

Extending the SNB’s statutory mandate

As promised before, I will now talk about three current reform proposals. The first proposal foresees an extension of the SNB’s statutory mandate, thereby picking up criticism that the current formulation of the SNB’s mandate is too narrow and one-sided. It is not enough, it is said, that the NBA requires the SNB to ensure price stability and in doing so, to take due account of economic developments. It is therefore proposed that the goal of price stability be supplemented by additional goals such as full employment and exchange rate stability.

Without doubt, a high level of employment and orderly currency conditions are very important economic concerns, and the SNB shares them. At first sight, then, one might ask who could have anything against extending the SNB’s mandate in this way? It would even be possible to substantiate these two goals more precisely, thereby making them measurable and verifiable, as is now the case for price stability. As you know, the SNB equates price stability with a rise in the national consumer price index of less than 2% per annum, but not below zero. In the case of employment, one could, for instance, specify a certain unemployment rate that should not be exceeded, while for currency stability, a range could be determined within which the Swiss franc exchange rate was required to move.

Ladies and gentlemen, would it not be wonderful if we could guarantee full employment and stable exchange rates in our country in this way? However, such an undertaking would inevitably fail dismally in the real world and would not bring about any improvement to the current situation. Just the opposite. There is already a clause in the NBA and even in the Federal Constitution that the SNB should pursue a monetary policy that serves the general interests of the country. For the SNB, this means that it must not set its sights on the goal of price stability alone when making monetary policy decisions, no matter how important price stability may be. Rather, it always has to consider the consequences of its actions for the economy as a whole. From time to time this leads to difficult trade-offs and complicated reflections on the costs and benefits of specific measures – and this has been increasingly the case in recent years. Employment and the exchange rate are key variables in these situations. The SNB makes no claim to keep inflation within the range compatible with price stability at all times and in all situations. On the contrary. Experience has shown that fluctuations in the external value of the Swiss franc and the oil price, in particular, can strongly influence Swiss inflation in the short term. It is better for Switzerland to accept these temporary deviations from price stability, instead of using drastic interventions in an attempt to absorb them, irrespective of the cost.

However, not only would the addition of more goals to the SNB’s mandate fail to improve things; they would in fact represent a deterioration with respect to the current situation. Although, fundamentally, the relationship between price stability, currency stability and full employment is balanced in the long term, the goals frequently come into conflict with one another in the short and medium terms. How would the SNB decide, should a measure be beneficial for one goal but obstruct the fulfilment of another? The past has shown us that such cases exist, for instance, when an interest rate hike, needed to ensure price stability in the long term, had a negative short-term effect on employment. That is why the SNB's mandate contains a clear and unambiguous goal – price stability – linked with the condition that it take due account of economic developments. The proposal that specific additional goals should be included in the NBA would disappoint the hopes vested in it and make the conduct of monetary policy vastly more difficult.

Larger Governing Board to provide a better basis for decisions

A second proposal I would like to discuss concerns the size of the Governing Board. In order to provide a better basis for monetary policy decisions, it foresees an enlargement of the Governing Board. As already mentioned in my comments last year, the current structure ensures a broad-based foundation for the Governing Board's decisions despite the fact that the board itself only has three members. With the present setup, it is guaranteed that many different analyses, assessments and opinions will flow into the decision-making process. For instance, in addition to the three members of the Governing Board, the three deputies as well as further key individuals from the SNB attend the critical meetings. It is the job of the Governing Board to weight the facts and arguments, and then to reach the best possible decision it can. The small size of the body is in fact an advantage because it facilitates productive discussions.

In this context, I would like to draw attention briefly to a further point. The Governing Board is currently a body of experts. By enlarging the board, interest groups might be tempted to place their 'people' on it. This would transform appointments of members of the Governing Board and their deputies into political actions. Far be it from me to suggest that, in general, supporters of an enlargement of the Governing Board are pursuing individual interests. But it might be that some advocates of the proposal are supporting it because they secretly hope it would allow specific groups to represent their interests in monetary policy more effectively. Consequently, an enlargement of the Governing Board would make the decision-making process more difficult and would not represent any improvement over the current situation. The danger is greater that, rather than the interests of the country as a whole being considered, the interests of certain groups would prevail in the Governing Board, and the impact on monetary policy would be correspondingly negative.

More transparency in monetary policy decisions

The third and final reform proposal relates to transparency in monetary policy decisions. Once again, the aim of this proposal is very reasonable, namely that the SNB's thoughts and actions should be made more transparent, or, from our standpoint, even more transparent than they already are. The argument is that this can be achieved by publishing documents including, in particular, the minutes of the discussions which the Governing Board hold prior to monetary policy decisions. This would provide the general public with a very clear picture of the exchange of views and the decision-making process at the SNB. Other central banks also publish minutes – or at least summaries – of their monetary policy meetings.

It is indeed important to maintain transparency in monetary policy. Transparency is essential for any kind of productive public discussion about central bank matters and this is, as I have already shown, a characteristic of democratic and open societies like ours.

Yet in this area, as in others, good intentions do not always lead to good results. First, the Governing Board already provides detailed explanations of the analyses and considerations behind its monetary policy decisions. It does so in the form of press releases, speeches and the 'Monetary policy report' published in the *Quarterly Bulletin*. Second, the Governing Board presents a carefully compiled, comprehensive accountability report once a year. This means that publishing the minutes of the meetings would be of only limited additional value.

What is more, this reform proposal also incorporates a hidden stumbling block. The SNB's Governing Board is made up of three members, making it significantly smaller than comparable decision-making bodies at central banks in other countries. Imagine for a moment that you were one of these members and were faced with making a monetary policy decision at a meeting. How would publication of the minutes affect debates within the group of three? And how would the board appear to the outside world if, for example, the Chairman were to be outvoted? In such a case, you would consider very carefully how the general public might be likely to interpret your statements with a view to monetary policy messages. In other words, right from the start, you would probably steer clear of any overly sensitive topics, and you would avoid launching any debate on principles. Instead, you would place a few well-prepared, polished sentences on record – as non-committal and inoffensive as possible and thus clearly destined for the general public. The added value of publishing such a document would be relatively low. What would be more serious however, would be that, unlike today, frank and controversial discussions would cease within the Governing Board. The exchange of thoughts and arguments would decline in quality, and monetary policy would ultimately suffer.

As a former politician in an executive body, I would like to bring up another important aspect. The Governing Board is a collegial body. The SNB is not unique in this respect, since this is a feature typical for bodies with executive functions in our country – at all levels of government. Just think of all the municipal, city and cantonal councils, as well as the Federal Council. One of the consequences of the principle of collegiality is that these bodies speak with one voice to the outside world. Even when a member disagrees with a decision, he or she still supports it and refrains from making his or her different opinion known. Although most of the Governing Board's decisions are likely to be consensus decisions, publication of the minutes would still be contrary to the culture of collegiality, as it is understood and practised in our country. Thus, the proposal delivers less than it promises and also has undesirable side effects.

Outlook and concluding remarks

So you see, it is essential that reform proposals be examined without prejudice, but nonetheless with a critical eye. Each proposal must be subjected to a kind of litmus test to see, first, does it deliver what it promises? Second, does it have undesirable side effects? Third, can the interests of the country as a whole still be served or is there a danger that the interests of certain groups will predominate? My examination of the three proposals has shown that, in all cases, the risks clearly outweigh the opportunities. The present institutional framework is sound, even in the current international environment, which – admittedly – is very unusual. In particular, it allows the SNB to conduct a monetary policy that enables it to fulfil its mandate in the interests of the country as a whole.

However, to return to the comments I made at the beginning of my speech today, no ideal monetary order exists. Consequently, it is important to address ideas for reform objectively and think them all the way through, including what their implementation would actually mean in practice. High expectations have to measure up to harsh reality. Our General Meeting provides a forum where such ideas can be discussed. Every one of these ideas is always a product of its times, and this ensures that our event will remain up to date – not just because of our use of technology, but also because of the content of our discussions.

This year, once again, I would like to thank you, dear shareholders, for your loyalty, support and valuable ideas. I include in my words of gratitude the Governing Board, with whose members the Bank Council maintains a close and productive dialogue. I would also like to express my gratitude to the SNB's staff who work tirelessly in the service of our institution.

Thank you for your attention.