**From:** Gary Lambe <gazzalambe@gmail.com>   
**Sent:** Monday, 5 August 2019 2:21 AM  
**To:** RG - Black Economy <Blackeconomy@treasury.gov.au>  
**Subject:** Submission: Exposure Draft—Currency (Restrictions on the Use of Cash) Bill 2019

Dear Treasury Officials, I am very concerned about restrictions on the use of cash. Is this an attempt to herd all money earned into bank deposit accounts? Cash is in alternative to bank deposits. Is this alternative being restricted due to the upcoming possibility of negative interest rates (depositors being charged interest)? Does the government want to prop up the private banking system with depositors paying interest? Is "bail in" legislation allowing bank deposits (bank liabilities or debt to customers) to be exchanged for bank equity (shares, potentially dilutive)? Has the extraordinarily impactful legislation to the lives of ordinary Australians, been properly debated and rigorously considered with empathy towards ordinary Australians rather than banks? I have serious concerns that the hard earned money of all Australians is being held for ransom to bail out risk taking financial institutions. Please see a copy and paste of reading material that causes me to be cynical about the banking system. The option of having cash rather than bank deposits is a consumer right to choose. Banks require earning back the trust of Australians. Responsible consumers should always exercise "caveat emptor". If banks appear to be unsound, why shouldn't depositors be able to exit from these private companies?

Gary Lambe,

2 Lotus Court, Kununurra, Western Australia.

Mob 0439 853 233

The Bank of England [explains](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1prereleasemoneycreation.pdf):

Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower’s bank account, thereby creating new money.

The reality of how money is created today differs from the description found in some economics textbooks:

* Rather than banks **receiving** deposits when households save and then lending them out, bank lending **creates** deposits.

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One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them. In this view deposits are typically ‘created’ by the saving decisions of households, and banks then ‘lend out’ those existing deposits to borrowers, for example to companies looking to finance investment or individuals wanting to purchase houses.

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In reality in the modern economy, commercial banks are the creators of deposit money …. Rather than banks lending out deposits that are placed with them, the act of lending creates deposits — **the reverse of the sequence typically described in textbooks**.

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Commercial banks create money, in the form of bank deposits, by making new loans. When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage. At that moment, new money is created. For this reason, some economists have referred to bank deposits as ‘fountain pen money’, created at the stroke of bankers’ pens when they approve loans.

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This description of money creation contrasts with the notion that banks can only lend out pre-existing money, outlined in the previous section. Bank deposits are simply a record of how much the bank itself owes its customers. So they are a liability of the bank, not an asset that could be lent out.

Similarly, the Federal Reserve Bank of Chicago published a booklet called “Modern Money Mechanics” in the 1960s [stating](https://books.google.com/books?id=iUhgAwAAQBAJ&pg=PA6&lpg=PA6&dq=%22do+not+really+pay+out+loans+from+the+money+they+receive+as+deposits.+If+they+did+this,+no+additional+money+would+be+created.+What+they+do+when+they+make+loans+is+to+accept+promissory+notes+in+exchange+for+credits+to+the+borrowers%E2%80%99+transaction+accounts.%22&source=bl&ots=viH7PWG-7B&sig=yW06hEn9rkdnLKBSN_P6BvpTlQI&hl=en&sa=X&ved=0ahUKEwimn4vNrszSAhVlqFQKHcR-BpIQ6AEIPDAG#v=onepage&q=%22do%20not%20really%20pay%20out%20loans%20from%20the%20money%20they%20receive%20as%20deposits.%20If%20they%20did%20this%2C%20no%20additional%20money%20would%20be%20created.%20What%20they%20do%20when%20they%20make%20loans%20is%20to%20accept%20promissory%20notes%20in%20exchange%20for%20credits%20to%20the%20borrowers%E2%80%99%20transaction%20accounts.%22&f=false):

[Banks] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers’ transaction accounts.

Monetary expert and economics professor Randall Wray explained to Washington’s Blog that:

Bank deposits are bank IOUs.

Economics professor Richard Werner – who obtained his PhD in economics from Oxford, was the first Shimomura Fellow at the Research Institute for Capital Formation at the Development Bank of Japan, Visiting Researcher at the Institute for Monetary and Economic Studies at the Bank of Japan, Visiting Scholar at the Institute for Monetary and Fiscal Studies at the Ministry of Finance, and chief economist of Jardine Fleming – was granted access to study a bank’s books, and [confirmed](http://www.sciencedirect.com/science/article/pii/S1057521914001434) that private banks create money when they simply create fictitious deposits into a borrower’s account.

Werner explains:

**What banks do is to simply reclassify their accounts payable items arising from the act of lending as ‘customer deposits’, and the general public, when receiving payment in the form of a transfer of bank deposits, believes that a form of money had been paid into the bank.**

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**No balance is drawn down to make a payment to the borrower**.

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**The bank does not actually make any money available to the borrower: No transfer of funds from anywhere to the customer or indeed the customer’s account takes place. There is no equal reduction in the balance of another account to defray the borrower.** Instead,**the bank simply re-classified its liabilities, changing the ‘accounts payable’ obligation arising from the bank loan contract to another liability category called ‘customer deposits’.**

While the borrower is given the impression that the bank had transferred money from its capital, reserves or other accounts to the borrower’s account (as indeed major theories of banking, the financial intermediation and fractional reserve theories, erroneously claim), in reality this is not the case. **Neither the bank nor the customer deposited any money, nor were any funds from anywhere outside the bank utilised to make the deposit in the borrower’s account. Indeed, there was no depositing of any funds.**

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**The bank’s liability is simply re-named a ‘bank deposit’.**

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Banks create money when they grant a loan: **they invent a fictitious customer deposit, which the central bank and all users of our monetary system, consider to be ‘money’, indistinguishable from ‘real’ deposits not newly invented by the banks.** Thus **banks** do not just grant credit, they **create credit, and simultaneously they create money**.

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**Instead of discharging their liability to pay out loans, the banks merely reclassify their liabilities originating from loan contracts from what should be an ‘accounts payable’ item to ‘customer deposit’** ….

### How Can Banks DO This?

Professor Werner explains the reason that banks – but no one else – can create money out of thin air is that they are the only institution exempted from normal accounting rules.

Specifically, every other company would be busted for fraudulent accounting if they conjured new money out of thin air by reclassifying a liability (i.e. an accounts payable) as an asset (i.e. a deposit).

But the banks have pushed through exemptions so that they don’t have to follow normal accounting rules:

**What enables banks to create credit and hence money is their exemption from the Client Money Rules. Thanks to this exemption they are allowed to keep customer deposits on their own balance sheet.** **This means that depositors who deposit their money with a bank are no longer the legal owners of this money**. Instead, they are just one of the general creditors of the bank whom it owes money to. It also means that the bank is able to access the records of the customer deposits held with it and invent a new ‘customer deposit’ that had not actually been paid in, but instead is a re-classified accounts payable liability of the bank arising from a loan contract.

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**What makes banks unique and explains the combination of lending and deposit-taking under one roof is the more fundamental fact that they do not have to segregate client accounts, and thus are able to engage in an exercise of ‘re-labelling’ and mixing different liabilities, specifically by re-assigning their accounts payable liabilities incurred when entering into loan agreements, to another category of liability called ‘customer deposits’.**

**What distinguishes banks from non-banks is their ability to create credit and money through lending, which is accomplished by booking what actually are accounts payable liabilities as imaginary customer deposits, and this is in turn made possible by a particular regulation that renders banks unique: their exemption from the Client Money Rules.** [Werner gives a concrete example on British law for banking and non-banking institutions.]

Sound fraudulent? Professor Werner thinks so, also: