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The Secretary
Financial System Inquiry
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Dear Secretary

New forms of money requires extending your terms of reference

The purpose of this submission is recommend that the inquiry either obtains an extension to its terms of reference or for it to exceed its terms reference so that its work does not become irrelevant as crypto currencies like Bitcoin change the nature of money that can by-pass the banking system and does not earn interest.

Soon one or more crypto currencies, using the Bitcoin technology, will emerge that will be uniquely Australian by being tethered to a local sustainable service of nature like renewable electricity in its bioregion. Our un-tethered official currency is currently sabotaging the Australian economy with the loss of major industries.

The Reserve Bank of Australia (RBA) accepts that Australian currency is over valued and that the RBA is incapable of controlling its value. Alien traders, hedge funds, actions of foreign central banks and speculators are controlling the value of Australian money. It will make no sense for local businesses and consumers to continue to use official money whose value the RBA cannot control. As a result, official money and much of the banking system could become irrelevant with your reports unless you extend your terms of reference.

Details of my arguments and the arrangements envisaged for a locally tethered currency are set out in Appendix I: 'Might supplementary tethered currencies reduce financial system risks?' (Posted at <http://ssrn.com/abstract=2417826>) Because it is an academic paper the title does not reflect its conclusion as presented above.

A policy framework for governments and their financial regulators around the world to constructively regulate new types of private currencies that are emerging is set out in my paper presented or accepted at nine seminars or overseas finance and banking conferences¹. My paper is attached as Appendix II on 'How should regulators control cell phone money?' (Posted at: <http://ssrn.com/abstract=2202108>)

¹Australian Working Group on Financialisation (AWGF), University of Sydney, Friday, May 17, 2013; 2nd International conference on complementary currency systems, University of Rotterdam in The Hague, June 21, 2013; 5th International Finance and Banking Society Conference (IFABS), University of Nottingham, June 26-27, 2013; 25th Annual Meeting of the Society for the Advancement of Socio-Economics, University of Milan, June 28, 2013; Center for the Study of Financial Innovations (CSFI) seminar, London Capital Club, July 2nd 2013; 15th conference of the Association for Heterodox Economics, London Metropolitan University, July 6th 2013; City of London seminar: 'Evolution or Revolution? Democratising money', hosted by Alderman Professor Michael Mainelli, Executive chair Z/Yen Group Limited, January 16th, 2014. Forthcoming: INFINITI conference on International Finance, 9-10 June, 2014 at Monash University Prato Centre, Prato, Italy; 16th Annual Conference of the Association of Heterodox Economics, Greenwich University, July 4th, 2014.

Appendix III is my submission to the Australian Treasury of 5 December 2013 recommending, that the draft terms of reference for the Financial System Inquiry be extended to advise how to:

1. Sustain small and intermediate sized businesses (SMEs) by providing alternative sources of liquidity in the event that a financial crisis deters banks from providing finance;
2. Establish a basis to develop a crisis and inflation resisting financial system that can also protect and nurture the environment to sustain humanity on the planet.

Also to explicitly advise:

1. Is modern money fit for purpose?
2. Is the financial system fit for purpose and if so is it cost effective?

In Appendix I, arguments are presented that neither modern money, nor the financial system is fit for purpose or is cost effective. In summary official money is not fit for purpose because:

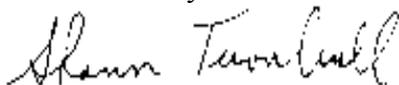
- a) Money is used to determine prices for allocating real resources yet official money cannot be defined in terms of any one or more real goods or services (ie. Like Bitcoin official money is not tethered);
- b) Monetary values are subject to volatility and unpredictable uncontrollable instabilities;
- c) Money can earn interest without risk when neither the money nor its owner is contributing to a prosperous society;
- d) Interest earning money biases investment away from increasing prosperity to increasing the cost of: (i) public infrastructure assets and services and (ii) the financial system that creates a dead weight on the economy;
- e) Interest earning official money creates unearned income that creates inefficiencies and inequities – (Bitcoin does not earn interest but is even more unstable);

The financial system is not fit for purpose as:

- a) Its cost as a percentage of GDP has been growing excessively;
- b) It is unsustainable in no growth economies that are spreading with aging populations;
- c) Its misallocates resources as prices are created by an official money monopoly;
- d) It has been proven to be not self-correcting or subject to reliable regulation;
- e) It is subject to instabilities, crisis and contagion;
- f) It is back to front, upside down and inside out as detailed in Appendix III that quotes the former Governor of the Bank of England. He stated in 2010: “Of all the many ways of organising banking, the worst is the one we have today”. The Inquiry should explain how its recommendations would change the situation.

This submission may be made public and I would be pleased to provide further information.

Yours faithfully



Shann Turnbull PhD

Co-founder: [Sustainable Money Working Group](https://sites.google.com/site/smwgorg/)

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Attachments:

Appendix I: [‘Might supplementary tethered currencies reduce financial system risks?’](#)

Appendix II: [‘How should regulators control cell phone money?’](#)

Appendix III: [‘Expand Draft Terms Reference to allow: Root and branch examination of the financial system’.](#)