My name is Dean Herron and I have the following submission in relation to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Interim Report.

Where the focus of the Royal Commission has been primarily into financial services misconduct, it has missed the broader and far more important issue of the role of the banks in a credit-based monetary system. It is not widely known that the banks are responsible for creating money out of nothing when they issue a loan (see Professor Richard Werner's empirical evidence, International Review of Financial Analysis ScienceDirect 2014 or the Bank of England Bulletin Q1 2014 titled "Money Creation in the Modern Economy"). In fact, 97% of money is formed in this way. The ability for borrowers to service the interest repayments on said loans is entirely dependent on additional loans being made and the money circulated. This elemental feature of money creation in a credit-based system demands exponential monetary growth. While the rate of the growth may vary based on availability and cost of credit, the absolute requirement is that without exponential growth the system collapses into a deflationary depression. This is what the world's central banks fought off in 2008 with massive injections of liquidity – to stave off the hole that was left from a rise in savings and a collapse in credit. The result is ever larger and less manageable debt, posing greater and greater risks as each deflationary shock has a bigger and broader toll on society.

Currently, the banking system has ultimate judgement on where the newly created money is allocated in society. This is a very privileged and ultimately very important position that demands the Royal Commission's attention. Currently, Australian banks allocate nearly all newly created money to non-productive financial assets, namely houses, which results in speculation, asset bubbles, unsustainable debt levels, social inequality between generations and haves and have-nots and will finally culminate in systemic collapse via contagion which destroys the real wealth of everyday citizens. Houses are non-productive in that they do not produce anything over time. Contrast this with small to medium business lending, which drives productivity, lowers unemployment, meets the specific needs of communities and raises real wealth per capita over the long term. Business lending with newly created money does not contribute to systemic or societal issues nor to supply-side inflation. This is not to say that home lending mustn't be allowed, rather, new money must only be allocated towards productive assets. The Royal Commission needs to hone in on how the banking sector can effectively serve the needs of society. Currently, the system is geared towards an ever larger financial services sector that results in vast misallocations of capital, ultimately impoverishing and abusing those whom it is supposed to humbly service.

Likewise, when government borrowing reaches unsustainable levels, society bears the cost through financial repression, a means of controlling capital and inflating a currency's value away through negative real rates over a number of decades. This is how the West effectively repaid the crippling debt after WWII. The cost to the everyday citizen is a massive reduction in their long term wealth, yet the effects are drawn out over such a long period of time and in such a manner that they do not realise it is happening. However, the toll is undeniable and absolute at the individual level.

The role the banks have been afforded in the current monetary system and the current regulatory environment has led to extreme structurally systemic risks. Institutions should never be allowed to be "Too Big To Fail". This term implies the banks may take any number of speculative risks without regard as government bail-outs, or more egregiously, depositor bail-ins, will ensure the risk-free profit-seeking morally corrupt culture can persist without consequence. The lack of inherent moral hazard means that greed will continue to permeate the banking sector. That is, unless the Royal Commission takes action to highlight and address these risks in its Final Report.

I strongly commend and support the Digital Finance Analytics submission to the Royal Commission as it provides a number of recommendations that greatly serve the interests of Australia's citizens. In particular, the disaggregation of banks and implementation of a modern Glass Steagall type banking framework would provide a significant step in the right direction. In addition, I recommend the Royal Commission investigates the critically important money creation powers of Australia's banking sector. The use of new credit for non-productive financial purposes must be curtailed if we are to address a number of the critical issues facing today's society.