

Manager
Black Economy Division
Langton Cres
Parkes ACT 2600

Currency (Restrictions on the Use of Cash) Bill 2019

I have carefully reviewed your exposure draft and wish to register my strong opposition to the bill as proposed (which I may say includes a whole blank section – which is surprising!).

Digital Finance Analytics is a boutique research and analysis firm specialising in financial service sector. We undertake primary research through our surveys, as well as deep research from the global literature relating to financial services. We publish regularly via our online channels at [Digital Finance Analytics](#) as well as preparing reports on a range of related subject matters for our clients, and we collaborate with a number of academics.

My objections are centred around the following points.

1. **The Drafting of the bill is incomplete**, so your review processes is flawed, plus there has been insufficient public discourse on the measures you propose thanks to the very limited time for consultation and the its release late on a Friday night.
2. **Civil Liberties Are Being Eroded**. Further public debate on these measures are warranted as they are fundamentally restricting personal freedoms. This is one in a series of measures which have been taken (including media freedoms) which are curtailing the hard-won freedoms Australians use to enjoy. Surveillance of offending transactions would be required if the Bill were passed. This is not explained, nor how it would be policed.
3. **There Is No Cost Benefit**. The stated objective of the bill is to close tax avoidance and money laundering loopholes. But there is no quantification of the potential “savings” – and this is also true of the earlier Black Economy Taskforce report. It appears that simply stating these desired objectives is seen as sufficient to justify the bill. What is the cost benefit of such a measure, bearing in mind that transactions which fall outside the exemptions would need to be tracked and examined? Who would police them, at what cost?
4. **There are other more pressing areas of tax leakage and AML risk**. According to the OECD report “Implementing The OECD Anti-Bribery Convention” released as part of the OECD Working Group on Bribery, Real Estate is identified as at “significant risk” of being used for money laundering. Among a raft of recommendations, is one saying Australia should be “Taking urgent steps to address the risk that the proceeds of foreign bribery could be laundered through the Australian real estate sector. These should include specific measures to ensure that, in line with the FATF standards, the Australian financial system is not the sole gatekeeper for such transactions”. To date these loopholes, remain open, as do those relating the corporates and big business who, partly thanks to the assistance of the large

international accounting firms are responsible for the lions share of tax leakage and AML activity. Our research suggests that Government, under heavy corporate and business lobbying is deliberately letting this slide, preferring to target in on a relatively inconsequential area of tax leakage relating to cash transactions.

5. **The Legislation Would Be Ineffective.** Beyond that, it is clear from our wider research of a range of sources that such a proposed cash ban would have very little impact on hard core tax leakage. For example, Professor Fredrich Schneider, a research fellow at the Institute of Labor Economics at the University of Linz, Austria, a leading international expert on the black economy has stated that there is a lack of empirical evidence that cash transaction bans will help reduce the black economy. Schneider published a paper in 2017 titled “Restricting or Abolishing Cash: An Effective Instrument for Fighting the Shadow Economy, Crime and Terrorism in which he made this specific point.
6. **There Is Another Agenda.** In addition, while the Bill is silent on the connection to implementing negative interest rates as part of unconventional policy, the link was made clearly in the 2016 Geneva Report by the International Centre Monetary and Banking Studies (ICBM) titled: What else can Central Banks do? This paper which was drafted by officials from international organisations such as the IMF/BIS and multiple central banks + commercial banks.
7. **The IMF Shows Why.** The same thematic came through in recent IMF Blogs and working papers. In April 2019, the IMF published a new working paper on how to deeply negative interest rates work. In previous papers, the IMF has suggested that nominal interest rates may have to go deeply negative, for example, -3% - 4%. First, they say “In summary, ten years after the crisis, it is clear that the zero-lower bound on interest rates has proved to be a serious obstacle for monetary policy. However, the zero lower bound is not a law of nature; it is a policy choice. We show that with readily available tools a central bank can enable deep negative rates whenever needed—thus maintaining the power of monetary policy in the future.” Next they declare “Our view is that, when needed, deep negative rates are likely to be worth the political cost. While the complete abolition of paper currency would indeed clear the way for deep negative interest rates whenever deep negative rates were called for, such proposals remain difficult to implement since they involve a drastic change in the way people transact.”
8. **The Bill Is Connected to Negative Interest Rates.** The connection is obvious in that in a negative interest rate environment households and businesses will be likely to withdraw funds from the banking system and transact in cash. If enough cash is extracted, negative interest rates will simply have no effect. We believe the measures proposed in the current Bill are truly about enabling negative rates, yet this is not mentioned within the Bill. This is misleading and deceptive. The true motivations should be on the record. But it explains the short time frames.
9. **The Structure Allows Change by Regulation Subsequently.** Finally, the structure of the Bill enables parameters to be changed subsequently by regulation (not via Parliament). This opens the door to removing some of the concessions contained in the current drafting by agencies without full scrutiny. It is important to note that where cash transaction bans have

Digital Finance Analytics
69 High Street Thirroul NSW 2515

been introduced, the value ceiling has been lowered. France has legally prohibited cash transactions above 1,000 euros, Spain has legally prohibited cash transactions above 2,500 euros, Italy has legally prohibited cash transactions above 3,000 euros, and the European Central Bank ended the production and issuance of its 500 euro note at the end of 2018.

My overriding concern is that Parliamentarians will only consider the narrow tax efficiency aspect of the Bill and vote it through without grasping the true intent and consequences. Civil liberties are being eroded, and the trap will be set to force households and businesses to transact within the banking system, thus facilitating experimental monetary policies, via the back door.

This Bill should not be allowed to pass.

Martin North
Principal Digital Finance Analytics
0412 210 016
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