Enclosure 1

Submission to Request for Consultation - Currency (Restrictions on the Use of Cash) Bill 2019

I am making this submission as an individual citizen of Australia who is concerned for the welfare, rights and liberties of ordinary Australian citizens. I am tertiary qualified, have a professional background, and have had to deal with most of the financial matters that most Australians must during their lifetimes.

I have examined and studied the material relating to the draft Bill that was recently published on the Treasury's website. I have also read more broadly about commercial/private banking activities in the light of the Banking Royal Commission's findings, the role of interest rates in managing economic activity, the role and influence of international financial and banking organisations, studies regarding the impact of 'black economies' upon taxation revenues of governments, and other related matters.

Given the abbreviated nature of the consultation period (barely 2 weeks), I am concerned that the potential issues associated with aspects of the draft Bill will not have had the opportunity to be properly assessed by much of the Australian population, if even identified or acknowledged at all.

Given the limited socialisation of the draft Bill, my overriding concern is that only the narrow tax efficiency aspect of the Bill will be considered when the legislation is tabled in Parliament, without the actual intent and consequences being fully revealed and debated.

Implications of the poorly drafted Bill are that individuals, households and businesses will be trapped into solely transacting within the private corporation run banking system, which will also facilitate 'experimental' monetary policies as part of potential future economic measures.

Wider reading of material published by the International Monetary Fund (IMF), the International Center for Monetary and Banking Studies (ICMB), the Institute of Labor Economics (IZA) and other banking/economist researchers (Werner, Schneider) and financial/economic policy movements in other countries resulting in reducing interests rates into deep negative territory and restricting citizens' access to cash, informs my views.

<u>Currency (Restrictions on the Use of Cash) Bill 2019</u>

I have reviewed the draft Bill and related material published by Treasury on its website and wish to register my strong opposition to the draft Bill as proposed. I note that the draft Bill includes an entire section which remains blank. This indicates that the draft Bill is incomplete or that the blank section has been reserved for some additional important information to be added later. What has been omitted? It's a placeholder for something.

My objections are as follows.

<u>Drafting of Bill Incomplete</u>

The drafting of the bill is incomplete revealing a flawed review process. There has also been insufficient opportunity for public discourse on the measures proposed given the limited time (2 weeks) for consultation and the manner of its release late on a Friday night.

Further Erosion of Civil Liberties

As there exists the potential for the further restriction of personal freedoms (limiting access to cash above the threshold limits, with potential future reductions in the threshold amount), open and candid public debate and discourse is warranted. Many Australians do not appreciate the loss or curtailing of previously enjoyed hard-won measures.

Lack of a Cost-Benefit Analysis

There appears to be no quantification of the potential recovery of foregone taxation in the material supporting the draft Bill. This is particularly surprising given that the objective of the draft Bill is to close tax avoidance and money laundering loopholes. Inherent in the draft Bill is the aspect of the further surveillance of financial transactions (beyond those which apply currently i.e. AUSTRAC), however, there is no clarity as to how these would be policed or monitored. It has been proposed that some transactions will be exempt from the proposed Bill, however, what additional resources/measures will be required to monitor these?

It's been widely known for some time that the real estate and gambling (casino) sectors for example, provide ample opportunity for money laundering activities. Melbourne's Crown Casino has attracted recent media attention which has highlighted that specific individuals were given special treatment from Australian officials to facilitate their wagering in Australia. Furthermore, it is known that several international accounting firms provide significant advice to foreign and Australian corporations expressly for the purposes of avoiding taxation on business activities conducted in Australia. The fact that Australian subsidiaries of foreign or multi-national corporations seem to avoid paying taxes on what could be otherwise considered Australian profits is an area in which more work should be done to recover foregone taxation revenue. The revenues forgone to the Australian government by these gambling and large business activities make the tax leakage relating to cash transactions relatively inconsequential.

Legislation Likely to be Ineffective

My wider reading of a range of sources suggests that a proposed cash ban would have very little impact on large volumes of tax leakage. For example, Professor Fredrich Schneider (Institute of Labor Economics, Austria) is a leading international expert on the black economy and has stated that there is a lack of empirical evidence that cash transaction bans reduce the black economy. Schneider's 2017 paper 'Restricting or Abolishing Cash: An Effective Instrument for Fighting the Shadow Economy, Crime and Terrorism' makes this specific point.

There Is Another Agenda

It has been evident in several other countries that the restriction on cash withdrawals/transaction as proposed by the draft Bill has been associated with the implementation of negative interest rates. By further reducing the transaction threshold to much lower levels, Australian citizens and small businesses would be prevented from accessing anything but the most meagre amounts of cash in a private banking transaction. The life-time savings of some Australians could be effectively trapped within the private banking system limited by low transaction threshold limits while the value of their savings is eroded by the negative interest rate environment. Recently, the Reserve Bank of Australia (RBA) has made comments regarding the potential for less-conventional measures being necessary in order to stimulate the Australian economy further. It is commonly known from international experience, that negative interest rates are one of the measures that have been implemented in several countries in association with cash withdrawal/transaction thresholds which have been lowered further after being first introduced.

The 2016 report by the International Center for Monetary and Banking Studies (ICBM) titled ‘What Else Can Central Banks Do?’ makes the connection between implementing negative interest rates as part of unconventional monetary policy and the withdrawal of access to cash. This paper was drafted by officials from international organisations such as the IMF/BIS and multiple central and commercial banks. As Australia is not known for leading the trends in monetary and fiscal policies, it’s most likely that the responsible decision makers in the RBA, Treasury and government ministers are going to implement measures that have been endorsed by these major financial/economic institutions, simply because ‘we must’.

The IMF Says So

Recent IMF Blogs and working papers identify significant work about negative interest rates and reducing access to cash, the two elements being complementary in the desired policy implementation. In April 2019, the IMF published a working paper on how deep negative interest rates work. The IMF made a clear conclusion that the ‘zero lower bound’ for interest rates ‘was not a law of nature’, thereby making clear that deeply negative interest rates were a potential policy choice, while acknowledging them to be a political cost. The limitations on the use of cash would clear the way for such a rate regime to be implemented in Australia.

The Bill Is Associated with Negative Interest Rates

The connection is obvious in that in a negative interest rate environment without limitations on the thresholds of cash transactions, individuals, households and businesses will be more likely to withdraw funds from the banking system and transact in cash. If enough cash is extracted, negative interest rates will simply have a limited effect. This is the key to the transaction thresholds proposed by the draft Bill. Based on my reading and analyses, I believe that the measures proposed in the draft Bill are about enabling negative interest rates, something which the draft Bill and supporting materials are silent about. Measures taken in other countries are not however, nor are the indications of future directions on interest rates to be taken by the RBA. I believe that this failure of disclosure is misleading and deceptive, and the very short consultation period reinforces my view. The true purposes of the Bill should be revealed.

The Structure of the Bill Allows Change by Regulation Without Further Legislation

The structure of the Bill enables parameters to be changed subsequently by regulation, without further Parliamentary scrutiny. This facilitates the removal of some of the concessions contained in the current drafting by agencies without full scrutiny of the Parliament. It is noted that in countries where cash transaction thresholds have been introduced, the value ceiling has been subsequently 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.

This Bill should not be allowed to pass.