Manager

Black Economy Division

Langton Cres

Parkes ACT 2600

Re: Exposure Draft—Currency (Restrictions on the Use of Cash) Bill 2019

Dear Manager

I am writing to you regarding the draft legislation Currency (Restrictions on the Use of Cash) Bill 2019.

I am a private citizen and have no affiliation to any group or political party, but am writing to express my concern with the bill and its likely negative impacts of several groups of Australian society.

**Issues with the Proposed Legislation and Regulations**

The level cash in a transaction is to be set at $10,000.00. There is no inclusion for an automatic increase as other legislation that would increase by CPI some other measure (e.g. the level of the maximum amount in a superannuation pension account current set at $1.6 million with provision for increases). Over time and inflation with a medium term target of 2 to 3% per annum, this would mean that the purchasing power of this level of transaction will diminish to considerable smaller transactions.

The second issue is that the maximum amount of the transaction is set in Regulation and not Legislation, giving the relevant minister the capability of adjustment of the level without review or debate. This allows for unintended consequences to manifest without any checks or balances in the system.

**Practical Issues with Electronic Payments Systems**

As someone who works professionally in the IT industry and has for over 30 years, part of my job has been to design systems that fail gracefully. Electronic payments are based on IT systems and it is well known that, at times, systems will experience failures and outages due to the complex nature of such systems. Transacting in a cashless payment system requires (simplistically) that the point of purchase has power and systems available, that communications lines are available and secure and that the payment provider or intermediary is available. As recently shown with Telstra outage on 11 July 20191 and the failure the Reserve Bank of Australia which forced failover to their alternate data centre in August 20182, no system is immune from outages or from malicious attack which can render a payments system unavailable from hours to days.

**Targets of the Black Economy Taskforce**

The Taskforce divides the use of cash for illegal activity into two distinct groups, the illicit group and the underground economy. In total, the estimate is that this sector of the economy is approximately 2.3% of GDP as noted “applying the same 1.5 and 0.8 per cent estimates as for 2009/10 implies annual underground production of $27½ billion and annual nominal spending on illegal drugs of $8½ billion. We will make the assumption that all these transactions are conducted using cash, although in practice it is likely that a growing share are electronic."3 As noted in the report, not all the transactions are using cash and electronic payments are become more prevalent anyway and illicit transactions are always going to be majority cash anyway, which means that the legislation is targeting a continually shrinking section of the economy reducing its effectiveness.

Further, given illicit activity is always cash, the legislation is targeting the percentage (the taxation component), of a percentage (the underground economy) of GDP and that only a percentage of these transactions will ever be investigated and successfully prosecuted. It would be a much better use of the enforcement resources of larger transactions that occur less frequently. Project Wickenby lead by the Australian Taxation Office is a good example of success and the use of tax haves by large trans-national companies would be more viable targets.

Other countries, particularly in Europe, have introduced similar legislation as the one proposed. I could not find any research indicating the black economy was significantly impacted by the restriction of cash transactions. Does such research exist and does it show that this is a worthwhile path for the Australian economy?

The Taskforces own research concluded the following about motivations for using cash in the underground economy. “The Taskforce found that there are a range of drivers that interact with one another and ultimately lead to the decision to participate in the black economy.[14] These drivers range from high tax and regulatory burdens through to changing business and technological landscapes. Other examples of drivers include:

* economic conditions and commercial pressures
* social norms which legitimise participation in the black economy
* availability, use and cost of cash
* inadequate knowledge about the system.[15]”4

This research highlights areas of education and policy that can be addressed to increase compliance in the underground economy that this legislation does not address.

I also attempted to find research that showed the impact on the black economy based on the measures already implemented in the form of Treasury Laws Amendment (Black Economy Taskforce Measures No. 1) Bill 2018. Has this been measured or researched? The latest research I found was from the Australian Bureau of Statistics from 20125. This research is too old to be used as a basis for current legislation.

**Economic Implications**

The International Monetary Fund recently released a working paper6 that argued that restricting the use of cash for transactions is a prerequisite for the introduction of deep negative interest rates by Central Banks. From the paper “The existence of cash prevents central banks from cutting interest rates much below zero."6

Negative interest rates punish savers in an economy, discourage the least wealthy from saving and encourage reckless borrowing practices. Cash, when seen in this light, is a natural counter balance to interest rates when interest rates become too low. An economy needs these natural balances to prevent monetary policy from straying into excesses or too far into experimentation. Given that the RBA's Head of Economic Research, John Simon, said in a speech on 7th March 2019 "...as a macroeconomist I have tended to be particularly conscious of general equilibrium effects. These general equilibrium effects lead, in my view, to economic systems that have a tendency towards stability and self-correction.”7 Removing an equilibrium effect by limiting the effect of cash, will prevent stability and self-correction and work against the Reserve Bank’s own policy.

**Areas of Impact in Australian Society**

Use of cash helps give a psychological impression of the importance that an individual's wealth is being spent. The ease of use of a non-cash system does not have the same impact, potentially leading to over-extending on purchases and hence, increased financial pressure especially on lower income groups8,9.

Should levels be lowered significantly to levels recommended in IMF working paper6, it may disadvantage a group in society that have a history of using cash because they are used to such a payment method and trust that is works e.g. elderly people. Recently, my mother required an operation in hospital and if levels were at some European levels, she would not have been able to pay for this herself as debit card withdrawal limits are not sufficient to cover all costs for the operation and she is not eligible for a credit card with a limit to cover such expenses. As medical costs are only likely to rise in the future making even the $10,000 proposed limit a potential issue.

**Alternative Options for the Future**

Rather than taking a penalising approach, to assist in the reduction of use of cash for these levels of transaction, the electronic transaction must be

1. no more expensive than cash i.e. no surcharges,
2. be as easy to use as cash with an appropriate receipt indicating the new balance of the bank account [not requiring a computer and printer along with knowledge on how to use them and an internet connection],
3. support from financial institutions to assist in making these transactions whether through in person at a branch or via telephone (as long as wait times are not excessive).
4. with education on how to appropriately use such systems aimed at the elderly, new migrants and the socially disadvantaged [along with how to budget and basic financial literacy].

Thank you for considering this submission.

Yours Sincerely

Michael Borosh

**References**

1) <https://www.abc.net.au/news/2019-07-11/telstra-outage-takes-down-atms-eftpos/11300926>

2) <https://www.itnews.com.au/news/rba-confesses-all-in-outage-autopsy-526592>

3) Section 5.1 <https://www.rba.gov.au/publications/rdp/2018/2018-12/the-shadow-economy.html>

4) <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201819/TargetingBlackEconomy>

5) 5204.0.55.008 - Information Paper: The Non-Observed Economy and Australia's GDP, 2012

6) IMF Working Paper No 18/191 <https://www.imf.org/en/Publications/WP/Issues/2018/08/27/Monetary-Policy-with-Negative-Interest-Rates-Decoupling-Cash-from-Electronic-Money-46076>

7) <https://rba.gov.au/speeches/2019/sp-so-2019-03-07.html>

8) <https://www.psychologytoday.com/us/blog/the-science-behind-behavior/201607/does-it-matter-whether-you-pay-cash-or-credit-card>

9) <https://www.abc.net.au/radionational/programs/archived/talkingshop/the-psychology-of-making-purchases-with-cash-and-credit/5595972>