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Subject: **Currency restrictions (on the use of Cash) Bill 2019**

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I am writing with regards to the exposure draft Currency restrictions (on the use of Cash) Bill 2019 otherwise known as A Bill for an Act to restrict the use of cash in transactions, and for related purposes. The limit applies to all cash transactions equal to or in excess of $10,000, except for those that meet the conditions specified in the draft Currency (Restrictions on the Use of Cash—Excepted Transactions) Instrument 2019. There is however no guarantee that the excess limit of $10,000 will not be reduced and this can only be regarded as an intermediate step to going completely cashless.

Professor Friedrich Schneider, one of the world's leading experts[1] on the shadow economy, has suggested that the imposition of cash thresholds has a negligible effect on illicit activity. Indeed, he argues that entirely abolishing cash would only reduce criminal activity by 5–10%. Schneider is also sceptical about the impact of cash thresholds on tax evasion. According to Schneider cash thresholds would have a negligible impact on aggregate illicit activity, since they would have no impact on petty crime or low-level tax evasion. High level tax evasion is attributable to corporations and high wealth individuals who can legally circumvent the tax system not by the *hoi polloi.*

Of course, all it will do is create a more intelligent and resourceful class of criminal that employ hacking, proxy servers and cyber fraud using malware and penetrative algorithms to create bank accounts and funds *ex-nihlo*. The Bangladesh Bank robbery is a good example. It took place in February 2016, when thirty-five fraudulent instructions were issued by security hackers via the SWIFT network to illegally transfer close to US $1 billion from the Federal Reserve Bank of New York account belonging to Bangladesh Bank. Will a $10,000 cash threshold stop Crown Casino or the Commonwealth Bank money laundering? The big institutions are already (supposedly) subjected to scrutiny by AUSTRAC.

Apart from the fact that a cash threshold will have minimal impact on tax evasion and laundering we can list the following three additional objections; infringement of privacy, low-income and unbanked

[1] Friedrich Schneider, 'Restricting or Abolishing Cash: An Effective Instrument for Fighting the Shadow Economy, Crime and Terrorism?', paper presented at the Deutsche Bundesbank International Cash Conference in Konstanz, Germany, 20–23 April 2017.

households can be harmed by low cash thresholds (as well as foreign tourists) and electronic payment can be more expensive.

However, we are ignoring the "elephant in the room", namely, that this bill is a policy tool to keep deposits captured in the financial system. Australia has no reserve requirement (or cash reserve ratio) but it does have minimal capital requirements established under the Basel III capital framework (overseen by APRA).

Frances Coppola notes that, "Bank capital is the value of the bank's assets minus its liabilities, or debts. Assets include cash, loans and securities, while liabilities cover customer deposits, and money owed to other banks and bondholders. If all the assets were sold and all the debts repaid, the value which would be left over is equal to the bank's equity. A bank's capital is made up of certain loss-absorbing bonds, as well as its equity. These bonds include additional tier 1 bonds and tier 2 bonds. These bonds have equity-like features, which is why regulators allow them to count towards a banks' capital. The more capital there is, this means the bank can absorb more losses on its assets before it becomes insolvent. Contrary to popular opinion, banks can't increase their capital by attracting more retail deposits. **Deposits are the bank's liabilities, not its capital**".[2]

In layman's terms, if the banking system keeps the money circulating within the system (even if it is electronically transferred to another bank) this prevents "bank runs" which is the *bête noire* of *factional reserve banking*. Of course, this instability could have been avoided if the **Glass-Steagall** Act (GSA), that separates investment and commercial banking activities, had not been abolished and Central Banks had not blown serial speculative asset bubbles with QE (easy money). "Deposit withdrawals are always a risk for a bank. Banks are illiquid by nature – they typically have large numbers of long-term loans on the asset side of their balance sheet, while deposits may be withdrawable on demand. They don't keep much in the way of cash lying around, since they assume that only a small proportion of customers will want to withdraw funds on any given day. Banks do forecast expected deposit withdrawals, and position cash funding in advance to meet them: but if on any given day a bank lacks sufficient physical cash to meet unexpected customer demand, it must borrow from other banks or from the central bank. Similarly, if a bank lacks sufficient electronic reserves at the central bank to make payments out of customer deposit accounts when requested, it must borrow them from other banks or from the central bank. We see this most obviously when there is a bank run. Ten years ago, when there was a bank run on Northern Rock, the Bank of England had to provide it with emergency cash to enable all those people to withdraw their money. Most of that money had never been loaned by the bank – it had been deposited by the customers. But the bank still ran out of money".[3]

But even worse is the prospect of ever-increasing negative interest rates on captured depositors who through no fault of their own suffer the erosion of their pensions and savings. If they are denied the ability to completely withdraw all their funds out of the financial system, they have no way of

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[2] Frances Coppola, Bank Capital and Liquidity: Sorting Out the Muddle (2017), ©2019 Forbes Media LLC. All Rights Reserved

[3] *Ibid,* Coppola, Forbes

protecting those funds, and no way **of keeping the system honest.** The system has then become a singularity, a monopoly that completely controls the money power.

Martin Brown *et al*, in their investigation of the Cyprus bail-in noted that, “Intentions to limit the use of cash may seriously constrain the asset allocation of households. In normal times, claims on banks may be viewed as an almost perfect substitute for cash, but on this evidence, **this is not the case during banking crises.** Concerns about the safety and soundness of the banking system would be likely to result in a reallocation of money holdings towards cash. This finding is by no means new; Friedman and Schwartz (1963), for example, draw similar conclusions from the US experience in the Great Depression. Moreover, after the 2007-2009 crisis, the demand for currency, internal or external, also increased in the US and the euro area (Jobst and Stix 2017)” …...and…. “We observe a strong flight from bank deposits to cash among surveyed households, just as in the aggregate data”.[4]

In fact, Jobst *et al* observes, “The circulation of cash has increased in many economies over the past decade. The size of the shadow economy is not found to be an important factor for this period. We conjecture that the level shift in cash demand **is related to increased uncertainty**”.[5] In layman’s terms – If you make the system rotten, corrupt and unstable people will not trust it and they will stuff their cash under their mattresses.

And so, it becomes illegal to withdraw your own money and spend it (or hoard it) however you want. It’s your money, in your account, but that doesn’t mean you can take it out any way you please. As Roy KS notes, “Priding themselves for being 'cash-less' post demonetization last year, some Indians may come face to face with a horrific post-apocalyptic future where they could be deposit-less too. Yes, this could be a reality unless the government of the day removes the unholy 'bail-in' clause that theoretically allows beleaguered banks and financial institutions to legally usurp depositors' money in a desperate bid to stop going bust”. [6]

This legislation is the thin end of the wedge. An intermediate step towards going cashless. We are asked to sacrifice our freedom and privacy because “terrorism” and now our freedom to “buy or sell” (666), because “money laundering”. George Orwell was correct. It occurs incrementally, not a rush but a slow march towards a dystopian, authoritarian future. Well, if this legislation goes forward you better prepare a prison cell for me. I for one will not be told what I can do with my own money and if the world keeps heading in this direction I might as well sit in a cell – because at least then there will be no more illusions about “freedom” and “privacy”.

Yours Sincerely,

Paul Wyns

[4] Brown, M, I Evangelou and H Stix (2017a), “Banking crises-bail-ins and money holdings”, Central Bank of Cyprus working paper No. 2017-2.

[5] Jobst, Clemens & Stix, Helmut, 2017. "Doomed to Disappear? The Surprising Return of Cash Across Time and Across Countries," CEPR Discussion Papers 12327, C.E.P.R. Discussion Papers.

[6] Roy, KS (2017), "Preparing for the Cyprus moment", Outlook India, 17 December.