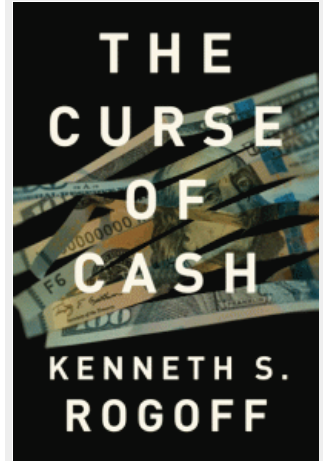


Kenneth Rogoff: Australia contemplates moving to a less cash society

January 5, 2017 by [PUP Author](#)

Today in our blog series by Kenneth Rogoff, author of *The Curse of Cash*, Rogoff discusses Australia's exploration of a less-cash society. Read other posts in the series [here](#).

Recently, the Australian government stirred up a great deal of controversy by **announcing** the formation of task force to study the role of cash in the underground or "black" economy. There is no suggestion of an impetuous overnight change a la India, but rather a slow deliberative process. (For a recent review of *The Curse of Cash* with a special focus on the Indian context, see [Businessline](#)). Among other ideas, the task force is going to consider phasing out the Australian \$100 bill (and presumably eventually the \$50 in due time). It will also contemplate restrictions on the maximum size of cash purchases (as France, Italy, Spain, Greece and other European countries have done), and to wire cash registers to transmit sales information directly to the Treasury, as countries such as Sweden have done. According to the Minister for Revenue and Financial Services, Kelly O'Dwyer, the taskforce will have the full cooperation of the Federal police, immigration authorities, the Reserve Bank of Australia and financial regulators.



Of course, the issues with paper currency and how to mitigate them are the main topic of *The Curse of Cash*, which also provides historical context, data and institutional detail an an economic analysis of the issues. Australia is in many ways a very typical advanced economy when it comes to cash, with huge amounts of cash outstanding and unaccounted for, and mostly in the form of very large denomination notes. Roughly 93% of the Australian paper currency supply is in the form of \$100 and \$50 dollar bills (versus, say, 85% for the United States, and just over 90% for bills over 50 euro in the Euro area).

CIRCULATION AND PRODUCTION STATISTICS, AS AT END JUNE 2016

Banknotes	Value		Number	
	\$mn	%	mn	%
\$5	851	1	170	12
\$10	1,196	2	120	8
\$20	3,196	5	160	11
\$50	32,145	46	643	45
\$100	32,820	47	328	23
Total banknotes	70,209		1,421	

Source: Reserve Bank of Australia (<http://banknotes.rba.gov.au/production-and-distribution/distribution/>)

(Updated from *The Curse of Cash*, which goes through end 2015, when large notes constituted 92% of the money supply; all the data and figures for the book are posted [here](#)).

With 328 million \$100s in circulation and 643 million \$50s, there are roughly 14 \$100 dollar bills for every man, woman and child in Australia, and roughly 27 \$50s. As elsewhere, only a small fraction of these are accounted for.

Overall, the value of cash in circulation (70 billion Australian dollars) is a little over 4% of GDP, which puts Australia in the mainstream of advanced economies, about on par with the UK and Canada, and similar to the United States if USD held abroad are excluded. (See [Figure 3.4](#) in *The Curse of Cash*).

As in the US, cash is widely used for small transactions in Australia, accounting for 70% of transactions under \$20 according to an April 2016 [report](#) by the Australian National Audit office in April 2016. But as in the United States, the importance of cash drops sharply for larger transactions – and that is even considering money washing back from the black economy into retail transactions. (See [Figure 4.2](#) in *The Curse of Cash*).

Predictably, the Australian government announcement met with the usual tirades that equate getting rid of the large denomination notes with going cashless. This is polemic nonsense, readers of my book will know; I have also [discussed the fundamental distinction in my blogs](#). Any legal fully tax-compliant transaction that ordinary citizens want to engage in can be executed easily enough with \$20 bills (or even \$10 bills), up to very large amounts. And smaller bills are also more than sufficient to satisfy ordinary people's needs for privacy, the loss of big bills is a far greater detriment to those engaged in tax evasion and crime. Another strand of nonsense is that there must be better ways to increase tax compliance, such as lowering tax rates. (We can recall this from James Grant's broadside [rant](#) in the *Wall Street Journal*.) Of course it would be good to improve the tax system, but tax evasion is always going to be an issue, and so will enforcement. And to the extent the government can collect a larger share of what it is owed from people who now avoid taxes by clever use of cash, then rates can be lowered for everyone else.

It is also nonsense to say that criminals and tax evaders will not feel the bite of a less cash society, and that they will effortlessly turn to other vehicles such as Bitcoin. There are good reasons why cash is king and why international law enforcement authorities find that cash is used somewhere along the line in almost every major criminal enterprise. Other vehicles simply cannot replicate its universality, convenience and liquidity. (Again, all this is discussed at length in the [The Curse of Cash](#)).

Not surprisingly, there has been [pushback](#) from the Reserve Bank of Australia, which argues that 5% of the cash banked by retailers is in 100s. This, of course, hardly matches up to the 45% of the cash supply that is 100s and more importantly, does not take into account that money from the black economy is routinely spent at retail stores. Many central banks are understandably reticent that a fall in the demand for cash will hurt their "seigniorage profits" from printing cash. The book discusses different conceptual approaches to measuring seigniorage. Perhaps the simplest measure is simply net new currency printed each year as a share of GDP). By this metric the Reserve Bank of Australia earned an average of .25% of GDP annually on average from 2006-2015, a very significant sum of money (see chapter 6.) But, as the book argues, the consolidated government (including the central bank) are likely losing even more through cash-facilitated tax evasion, and that does not even count the costs to the public of cash-facilitated crime.

The Australian authorities have noted that under-reporting of cash income has also distorted the welfare system (*The Curse of Cash* discusses this issue including evidence on Canada). Indeed, former senior Australian Reserve Bank official Peter Maier [has argued](#) that large denomination notes are widely hoarded by pensioners who aim to evade Australia's mean-tested pension system. There are some tricky issues here having to do with privacy and tax fairness, but all in all, getting rid of big bills mainly hits those engaged in wholesale tax evasion and crime, not the poor. *The Curse of Cash* suggests low-cost approaches to financial inclusion to ensure that low-income families benefit beyond just reduction in crime.

Australia's gradual and careful approach to dealing with cash is nothing like India's radical policy, which aims at the same problems, but has created massive collateral damage. For a discussion of India, see [here](#), [here](#) and [here](#). The Australian cash commission's report is due in October 2017; it is a welcome step. Given that Australia has been a huge innovator in currency (the Reserve Bank of Australia commission the first modern polymer notes that the UK and Canada have now adopted), it is encouraging that Australia is still willing to take the lead in the move to a less cash society.

Kenneth S. Rogoff, the Thomas D. Cabot Professor of Public Policy at Harvard University and

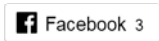
former chief economist of the International Monetary Fund, is the coauthor of the *New York Times* bestseller *This Time Is Different: Eight Centuries of Financial Folly* (Princeton). He appears frequently in the national media and writes a monthly newspaper column that is syndicated in more than fifty countries. He lives in Cambridge, Massachusetts.

Find Kenneth Rogoff on Twitter: @krogoff

This post is part of a series, explore additional posts here

[<< Kenneth Rogoff: India's Currency Exchange and *The Curse of Cash*>](#)

Share this:



Related Posts:

1. [Kenneth Rogoff: India's Currency Exchange and *The Curse of Cash*](#)
2. [The Curse of Cash: An interview with Kenneth Rogoff](#)