Dear Senate Committee Inquiry into digital currency

To supplement my earlier submissions of October 31 and December 3, I have set out below 16 reasons why Australian currency is not fit for purpose and attached my opinion article on "Why Australian needs a digital currency".

You are welcome to publish this information with my earlier submissions and provide any explanatory information at future hearings.

My attached opinion article of 999 words was posted by ***Online Opinion*** last Friday March 13 at: http://www.onlineopinion.com.au/view.asp?article=17170

Set out below are 16 reasons why existing Australian currency is not fit for purpose:

1. It creates government debt instead of government assets:
2. Australians cannot control its value;
3. It has been overvalued in recent years closing down manufacturing and other industries to create unemployment.
4. It is impossible for the central bank to carry out its purpose: "to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people".
5. It misallocates resources by creating misleading price signals.
6. Its value is not defined or determined by Australian sustainable resources.
7. Unlike Bitcoin it can interest.
8. By earning interest it creates a disincentive for investment in assets that increase productivity but deteriorate in value from wearing out or possessing limited life.
9. It increases inequality by making the rich richer with interest payments whether or not money owners or their money increases prosperity.
10. It is not created by producers of wealth but mostly by bankers who consume a disproportion of wealth for their services.
11. It is not tagged like Bit coin to stop its duplication.
12. Its creation is not limited like Bitcoin.
13. It allows a "black" economy to exist from the use of untraceable notes and coins.
14. It cannot be traced like Bitcoin to identify fraud, bribery, money laundering, profit shifting, tax avoidance, criminal activities or the funding of terrorists.
15. It does not incur a storage cost when not used like any real commodity used as money.
16. It does not inoculate the economy from internally or externally created financial crisis?

Kind regards

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Why Australia needs a digital currency

Australia requires a digital currency to balance the Federal budget, inoculate the economy from financial crises, democratize credit and increase sustainable stable prosperity.

A digital currency would eliminate the black economy to create a budget surplus without new taxes. The World Bank estimated the black economy in Australia at about 14% of GDP[i]. With a $1.6 trillion GDP there are around $226 billion in transactions not subject to taxes on profits or goods and services.

All notes and coins would be replaced with swipe cards or mobile phones that become digital purses. Transactions could only occur between digital purses or accounts registered with the Australian Tax Office. Every transaction could become tagged. Bitcoins are tagged to avoid their duplication. The Bank of England has noted the opportunity for governments to adopt the Bitcoin technology[ii].

Sweden is leading the world towards a cashless society[iii]. Welfare recipients could have value added to their digital purses directly by the government from the Internet or from retail store digital purse readers. Governments would collect taxes, fines and fees directly from digital purses. Bank and credit cards could be avoided to eliminate substantial costs.

The ATO could provide each taxpayer, but no one else, a statement of taxpayer total income and expenditure over the tax year. This would substantially reduce accounting and audit costs. It would allow GST to be collected from all imports. Taxpayer would only need to clarify ambiguous taxable and nontaxable transactions. The production of annual accounts for businesses local governments and nations would be expedited. More importantly it would become possible to identify financial frauds, thefts, bribes, money laundering, multinational profits shifting and the funding of terrorists.

A digital currency would allow Australia to establish a stable and sustainable unit of value[iv]. One that promotes sustainable prosperity not subject to financial crises or manipulations by speculators, hedge funds and currency wars between central bankers. For some years the Reserve Bank of Australia has accepted that Australian dollars have been overvalued. This has resulted in less employment in manufacturing, tourism and educational services being exported. These outcomes conflict with reasons for the RBA to exist.

The RBA Act states "Its duty is to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people". It makes no sense for the government to issue money whose value it cannot control. It makes even less sense to use a currency whose value cannot be defined by any one or more goods and services. Australian money is not fit for purpose as set out in my Senate and UK submissions[v]. It seems that contemporary economists accept that the nature of money is a policy given rather than a policy option?

It was not the RBA who initiated the Australian Senate Inquiry into digital currency in 2014 but the ATO. At the first public hearing it was not Treasury officials who raised concerns over the sovereignty of Australian money but a Senator[vi]. Modern economists limit their concerns about monetary policy to processes, not the nature of money. Policy processes involve "3Ts" of: Transmission, Traction and Timeliness. Neglected are the 3Ts of the nature of money being: Tagged, Terminating and Tethered. Digital money makes practical the general re-introduction of 3T money issued during the Great Depression.

The 3T money privately issued during the Great Depression took many forms. Economist Irving Fisher reported how a number of tethered currencies began circulating in Germany in the 1920's inspired by the ideas of Silvio Gesell[vii]. Gesell promoted cost carrying money so that it could not become a store of value competing with real investments that increased

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prosperity. Cost carrying money also reduces wealth inequality by denying owners of money earning interest to increase their wealth without them or their money necessarily increasing prosperity.

Many communities in Europe and the US issued cost carrying money during the Great Depression. A Bill was introduced into the US Congress in February 1933 for the government to issue one trillion dollars of cost carrying paper notes described as "Stamp Scrip".[viii] The cost or negative interest rate was collected from the sale of stamps that had to be affixed to the back of the notes each week. The notes had spaces for 52 stamps valued at two percent of the note. The stamps were to be sold by the US post office that would have received 104 cents for each dollar issued when redeemed/terminated after a year. This would have allowed the US government to make a 40 billion dollar profit from giving away one trillion dollars in welfare benefits and funding infrastructure projects that increased employment.

Besides making a profit, the proposal would have avoided the government incurring any new taxes or debts. However, it would have bypassed the privately owned Federal Reserve Central Banking System. Unsurprising such a profitable deal for the government was replaced in March 1933 by the "New Deal" that increased the powers of the Federal Reserve. It also increased government debt, interest and so taxes.

The private issue of negative interest rate paper money was re-introduced into Germany in 2006[ix]. It has spread to a number of regions indicating its acceptance without a crisis by both citizens and local banks. Much wider acceptance of this money tethered to the Euro could be expected if it was issued in digital form by governments. It provides a solution for distressed economies like Greece.

In Australia, 3T money would achieve substantial budget surpluses with the cost to business being less than the credit card and bank fees avoided. Welfare payments and infrastructure investments become self-financing. 3T money can be used as "lifeboat" money to support Small and Medium sized Enterprises in a financial crisis[x].

All 3T policy criteria are met. Transmission through banks is replaced with direct transmission to the digital purses of voters. Traction is immediate as cost-carrying money provides a compelling incentive to spend it rather than hoard it. Timeliness is immediate.

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[i] http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/10/14/000158349_20101014160704/Rendered/PDF/WPS5356.pdf
[ii] http://www.bankofengland.co.uk/research/Pages/onebank/themeresponse.aspx
[iii] https://kingdomecon.wordpress.com/2014/12/12/sweden-leads-world-to-a-cashless-society-in-2015/
[iv] ssrn.com/abstract=2417826
[v] file:///Users/shannturnbull/Downloads/03%20(1).pdf & file:///Users/shannturnbull/Downloads/03_supp1.pdf
[vi] http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Digital_currency
[vii] http://userpage.fu-berlin.de/roehrigw/fisher/
[viii] http://userpage.fu-berlin.de/~roehrigw/fisher/stamp-ap-1.html
[ix] https://realcurrencies.wordpress.com/2012/02/02/regional-currencies-in-germany-the-chiemgauer/
[x] https://sites.google.com/site/smwgorg/