



Will RBNZ heed the people, or boost the bankers?

By *Elisa Barwick*

New Zealand Reserve Bank Governor Adrian Orr recently claimed his allegiance was to the New Zealand people when it comes to protecting their right to use cash, but the pull of the global central banker cabal is tightening as the global financial system careens into the dust. With whom will he stand? One thing is sure—he can't have it both ways.

In a 10 March speech, "Navigating at Low Altitude: Monetary Policy with Very Low Interest Rates", Orr discussed the unconventional monetary policy tools the RBNZ is preparing to use in the face of an economic shock. The RBNZ would consider lowering interest rates, including the use of "mildly negative interest rates"; forward guidance, to indicate its interest rate direction; interest-rate swaps to reduce interest rates; quantitative easing; term lending activities; or a combination of these measures. The actions of the RBNZ will be made according to the objectives in its just-released "Principles for Using Unconventional Monetary Policy in New Zealand", which is oriented to protecting "financial system soundness" while managing inflation and employment. The guide's entry for "Negative Official Cash Rate" states that as the bank moves towards zero or negative rates, "The Reserve Bank could consider changes to the cash system to mitigate cash hoarding if lower deposit rates led to significant hoarding." The chart was included with the transcript of the governor's speech.

This echoed a 12 August 2019 interview published by online news service Newsroom, when Orr defended unconventional monetary policy, including "helicopter money" stimulus—money injected into the economy via private citizens and businesses. Rate cuts in the negative domain can be just as effective as those in the positive domain, said Orr, but when people start saying, "Hey, I'm not going to be paying money to have a deposit in the bank, I will just go and get cash and store it", a limit is invoked—an effective lower bound. One solution is to "tax cash holdings", said Orr, citing former IMF economist Kenneth Rogoff who is outspoken on the topic.

These statements stand in contrast to recent pronouncements by Orr which followed a stunning response to the Reserve Bank's 2019 consultation on the future of cash. Nearly 2,400 submissions were received from the population of around 5 million. According to stuff.co.nz on 24 February, Orr told an audience at Auckland's waterfront Hilton Hotel that as a result, New Zealand would not go cashless: "We're certain it's going to be less cash, but not cashless." The subject "really touched the heart and soul of an enormous amount of people", he said. "They really wanted the right ... to have access to, and/or to use cash." He said New Zealand would not be making a "bungy jump into the new 'cashless' world", adding that, "We are the central bank of everyone here in New Zealand, present and future, and we have been too narrow and too lax in our engagement with you all, and it is not going to happen again."

In a speech in Christchurch on 21 February, Orr similarly declared that "cash plays a critical role in ensuring financial inclusion and enabling business continuity. We have heard loud and clear that the public insist on cash remaining as a payments option, even though the economics are evolving. Over coming months we need to make decisions on our safe

keeping and distribution of cash. This will require legislative and industry collaboration to support the wider public good."

Cash consultation

In June 2019 the New Zealand Reserve Bank published an Issues Paper on "The future of cash use", which summarised the changing nature of cash use and foreshadowed possible legislative changes in the RBNZ's role in facilitating the ongoing use of cash. We present here some of the factors raised.

Although the amount of cash in circulation is increasing, fewer transactions are made in cash, said the report, increasing the per-transaction cost of providing cash infrastructure. With increasing costs, commercial operators may reduce cash infrastructure. As a result, "Cash held as a store of value might lose its liquidity as it becomes harder for depositors to find banks or retailers that will accept cash deposits and payments." The RBNZ recognised in the paper that many people would be disadvantaged by reduced use of cash, which they label a "market failure". They propose therefore that the RBNZ be provided new powers to intervene.

Many people would be financially or digitally excluded, either because they are "not banked", have no identification, have a conviction or disability, or are illegal immigrants, elderly, impoverished or children. Others affected include tourists and those who use cash for cultural purposes. In addition, "All members of society would lose the freedom and autonomy that cash provides", said the report, and would be impacted in electricity outages or during a natural disaster. It could expose everyone to greater risk of cyber-attack. Privacy of transactions and the ability to live off the grid and avoid the banking system or government regulation were other issues raised.

The report cited legitimate reasons for people to avoid the banking system, including that there is no deposit guarantee in NZ and therefore "households and businesses could lose their deposits if banks were engaging in overly risky lending or if a severe series of events occurred and many loans were not repaid". Also, people may withdraw their savings if they are charged a negative interest rate: "Cash provides an avenue for people to avoid this form of government intervention or any other government intervention that might occur in the future, such as capital controls", it stated. (Not to mention bail-in of deposits, which is explicit in NZ.)

A now infamous February 2019 IMF blog warned that this practice could interfere with unconventional monetary policy. When cash is freely available, "cutting rates significantly into negative territory becomes impossible", it stated. When cash can be "obtained in unlimited quantities ... [it] acts as an interest rate floor." The blog followed a more detailed IMF study on the prospect of decoupling cash from electronic money by creating a kind of exchange rate between the two as a means of levying a fee on cash use. The study cited a paper by Kenneth Rogoff, "Costs and Benefits to Phasing Out Paper Currency". Rogoff was cited by Australia's Black Economy Taskforce, promoting cash restrictions to protect "financial stability" and the efficiency of monetary policy.

RBNZ cited the 2018 Medina and Schneider report on the shadow economy, also published by the IMF but ignored by the Black Economy Taskforce, estimating New Zealand's shadow economy at 11.7 per cent of GDP in 1991-2015. The RBNZ said that while a move away from cash could

potentially disrupt shadow economic activity, “it is also possible that criminal activity would innovate to other mechanisms or forms of payment”. Taking two reports with opposing views, RBNZ reveals that both nonetheless concur that criminals would find alternatives to cash. “Rogoff (2016) and McAndrews (2017) agree that, without cash, criminals could use commodity money (i.e. gold), foreign currency and inflated invoices.” The cited reports are Kenneth Rogoff’s book, *The Curse of Cash: How Large-Denomination Bills Aid Crime and Tax Evasion and Constrain Monetary Policy*, and “The case for cash”, a working paper by James McAndrews of the Asian Development Bank Institute.

McAndrews, according to RBNZ, “suggests that a society without cash would likely move towards deeper institutional corruption of businesses as criminals laundered money obtained from illegal transactions. He also warns that innocent businesses could find themselves forced into money laundering as criminals look for businesses to issue inflated invoices.” RBNZ concluded that “Other activity in the shadow economy is unlikely to be affected by the disappearance of cash as people find other ways to circumvent the law.... People who can no longer launder cash will likely switch to other methods.”

Legislative changes

After receiving the feedback from its June Issues Paper, in October 2019 RBNZ issued a Consultation Paper, “The future of the cash system”. The report announced that in the context of an ongoing review of the RBNZ’s mandate, *The Reserve Bank of New Zealand Act 1989*, legislative changes are being considered “to promote a resilient and future-focused cash

system. This paper proposes that the Reserve Bank take on a more active monitoring and coordination role in the cash system, and be given appropriate information-gathering powers to support this role.”

It proposes two tools to “respond flexibly” to the evolving cash system, preparing for “a broad range of possible outcomes”. The RBNZ would oversee all ATMs and standards, including self-check-out machines at supermarkets; and it would establish regulatory powers to enable the government and RBNZ “to act quickly to require banks to provide access to cash deposits and withdrawals” if necessary. The powers would ensure banks provide “reasonable access to cash” for those who rely on it. The bank cites Sweden, which is legislating to ensure banks provide access to cash; however Sweden has the lowest use of cash in the world and half of all bank branches no longer store or accept cash. (RBNZ adds that it would be more efficient for it to subsidise just one payment system rather than two, i.e. either cash or digital.)

The RBNZ said it will need to collect information from “cash system participants” about their activities, “in order to promote better system-wide oversight and monitoring”. This apparently refers to extending its current information-gathering which applies only to registered banks and financial institutions, to cover cash-in-transit operators and non-bank ATMs. It will also require compliance monitoring, enforcement powers and associated sanctions such as fines, to deliver its new mandate. Amid the current financial chaos, it should soon be clear whether Orr intends to live up to his recent words about listening to the people or whether he will be forced to swallow them.