The End of Money and the Struggle for Financial Privacy

by Richard W. Rahn

Discovery Institute Press • 1999 • 219 pages • $25.00

Reviewed by Lawrence H. White

The first sentence of this provocative book reads: "Money—as we know it—is coming to an end." Money "as we know it" consists of cash (notes and coins) issued by government and checkable deposits issued by regulated banks. Paying with cash preserves your privacy, but is inconvenient for many transactions. Paying by check or debit card (or by credit card) compromises your privacy because the government can look at your bank records. Soon there will be a better alternative. Richard W. Rahn enthusiastically describes new "non-governmental digital money" technologies that combine the privacy of cash with the convenience of electronic deposit transfer. The central thesis of his book is that these new technologies will spread widely, and—rather like the spread of Gutenberg's technology of movable type 500 years ago—will have profoundly liberating implications.

In a few passages Rahn implausibly predicts that a sophisticated barter system, involving payment by the direct transfer of non-money financial assets, will come to supersede monetary exchange in the near future. But his central thesis does not really depend on the *end* of money, only on plausible changes in the methods of transferring it.

Rahn rightly insists that financial privacy is itself a valuable civil liberty, and enhances the enjoyment of other civil liberties. He predicts that the new encryption technologies for financial privacy will make laws against "money laundering" unenforceable, and taxes on financial capital uncollectable, except at extreme cost. A nation will prosper if and only if its government adapts to this new reality. A government that tries to repress the new technology—or tries to continue taxing, spending, and regulating as usual—will consign itself to the dustbin of history. Thus "the digital world will force change toward smaller, less intrusive, and less centralized government everywhere."

The book develops these arguments in a breezy style, offering a parade of colorful anecdotes rather than tight reasoning or systematic empirical evidence. The language is sometimes overly dramatic, and some of the anecdotes are beside the point. Particularly in Chapter 2, there are a number of regrettable misstatements of economic theory and history. These features will put off academic economists, but others will consider it more important that the book is enjoyable to read. Even academics will find that it describes the new payment and encryption technologies and analyzes banking regulations in accurate but accessible terms.

Rahn confronts head-on the two leading rationales for restrictions on financial privacy: tax collection and the war on drugs. He argues that "the digital revolution is about to cause the death of most taxes on capital." Because taxes on interest, dividends, and capital gains hamper growth, and because their collection requires governments to invade financial privacy, he urges that the governments simply abandon them. Rather than replace the revenue through other taxes, governments should shrink.

For some unstated reason, despite his emphasis on personal liberty, Rahn does not propose that the war on drugs should be abandoned. He instead argues only that it is not cost-effective to fight the drug trade through invasions of financial privacy. It is far easier to detect and interdict physical shipments of marijuana or cocaine than to detect or interdict payments for them, especially encrypted electronic payments. Adding the budgets of the federal enforcers to the estimated regulatory compliance costs of banks, and dividing by the number of convictions, he finds that the "total cost for each money laundering conviction . . . appears to be over a hundred million dollars." The people who have been caught and convicted have naturally been novices and small fry, not the sophisticated major operators.

In addition to the budgetary cost, Rahn emphasizes that a major drawback of enforcing laws against money-laundering is the loss of privacy and the associated threat to personal liberty for perfectly innocent citizens. He cautions us to consider governments as they are, not as wishful thinking would have them be: "there is little reason to believe that the same people that have had the responsibility for the oversight of the IRS and FBI will not abuse their knowledge of the most intimate details of your financial life." To illustrate the danger, he provides chilling anecdotes about the use of asset forfeiture statues. At bottom, his case for allowing financial privacy is like the case for allowing private gun ownership: it provides the average citizen with a defense against tyranny. Rahn courageously calls for the elimination of laws against money-laundering and the abolition of the Financial Crimes Enforcement Network of the U.S. Treasury.

As evidence that financial privacy does not breed lawlessness, Rahn points to Switzerland, a country that respects the privacy of bank accounts and yet has low crime. (He might have added that financial privacy does not prevent the Swiss government from collecting large tax revenues.) Switzerland also provides an example of depositor safety without the expense and bad incentives associated with government deposit insurance.

Despite some gaps in the argument, Rahn makes a fairly persuasive case for his central thesis. Greater mobility for financial assets through secure and private electronic funds transfer certainly will constrain governments. Inefficient and destabilizing bank regulations, such as reserve requirements and deposit insurance, will be harder to enforce when savers and borrowers can more easily and securely deal with offshore banks that offer better risk-adjusted rates. Important policy battles loom over whether governments will accept these new realities gracefully or try to fight them in ways that waste resources and invade financial privacy. □

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Clearing the Air: The Real Story of the War on Air Pollution

by Indur M. Goklany

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Reviewed by Bruce Yandle

From the mid-1960s on into the early 1980s, it seemed obvious: Were it not for the benevolent protection provided by the federal government, America's smoke-filled cities and slime-ridden rivers would have become environmental wastelands. The caves were beckoning. Somehow simultaneously struck dumb, citizens by the millions happily traded the last smidgen of clean air for yet one more Pontiac GTO, another hula-hoop factory, or a chemical plant producing Agent Orange.

"Whose garden was this?" Tom Paxton's lovely song asked. How could people allow themselves to slip to the edge of environmental disaster? "Woe be unto us. Externalities overwhelm us; the markets have failed." This was the response from the freshly minted environmentalists and ever-apt politicians. The 1970 Clean Air Act then took possession of the filthy commons and cleared the air. Clean-water legislation gave similar protection to the poisoned rivers and shores. The race to the bottom ended. We now live happily ever after, forever in the debt of far-sighted Earth Day celebrants.

Thank heavens for federal command-and-control regulation!

In this powerfully documented book, Indur Goklany, formerly chief of the technical assessment division of the national Commission on Air Quality, does fatal damage to that story. Focusing on air pollution, he provides a totally different rendering. With meticulous attention to detail, Goklany carefully straps together disparate series of data on air emissions and air quality, examining each of the "criteria pollutants"—things determined harmful like sulfur dioxide, nitrogen oxides, and suspended particulates. He demonstrates that Americans were not struck environmentally dumb in the 1960s, 1950s, and before. No, it was just the reverse. When scientific