

TREASURY'S NEWEST ASSAULT ON PRIVACY

The Treasury Department wants to greatly expand its control over how you spend your money. The government says it needs a heavier hand to combat illegal money laundering. But the new regulations will do little besides waste time and further erode law-abiding citizens' privacy.

Proposed new rules would force businesses that provide check cashing, currency exchange, money orders, "smart cards" or traveler's checks to report transactions of as little as \$500 per day, per person.

Money transmitters and their agents also would be required to "report and retain" records of transactions over \$750 whenever money is sent outside the United States.

But the compliance costs of such money surveillance outweigh any possible benefit. Hundreds of thousands of American businesses and individuals would be affected. Even Treasury Department bureaucrats figure the new regulations would cost tens of millions of dollars. And that's almost certainly an understatement.

We've been down this road before. The rules currently in effect were also supposed to stop crime. Clearly, they have not. Existing regulations, which generally have reporting thresholds from \$3,000 to \$10,000, apply mostly to banks. Officials apparently believe that the cure for failed regulation is more regulation.

Treasury has already tested the proposed rules, with mixed results. Last August, it imposed a temporary order in New York regulating currency transactions with Colombia. Transfers there quickly fell about 30%. Some of the decline was likely from legitimate wire transferers fearful of branding family or friends as suspected money-launderers. But even if the rest was a drop in criminal activity, it proves only that criminals always seek to avoid detection, with or without new regulations.

Also, the number of transmissions under the \$750 reporting threshold doubled. A Treasury report surmised that "launderers are now moving large sums through other money transmitters in other cities."

The order expired last month. During the year-long experiment, 22 search warrants were served. But for all that time and effort, at the expense of the privacy of many legitimate wire transferers, only five arrests were made.

Make no mistake, the proposed new regulations, as broad and oppressive as they are, pose no real barrier to any reasonably competent criminal. But that will become obvious before long. Then Treasury officials will likely say that the threshold is still too high, and that the bar should be lower still.

In the era of electronic commerce, the government will need to know everything or it will only know what people want it to know -- there is no middle ground. And as bad as drug gangs and organized crime are, law-abiding Americans should not be forced to cede every remaining scrap of their financial privacy to make nothing more than a tiny dent in criminal activity.

The government assumes that the regulations will be understandable to the average person -- an assumption not supported by the proposals. It assumes that the correct forms will always be available and that people will be able to get speedy, clear and correct answers to their questions -- an assumption that anyone who's phoned the IRS will have more than a little reason to doubt.

And once all of this detailed, sensitive information is collected, how will it be kept secure? Just imagine the damage that could be done if the financial data the government proposes to collect fall into the wrong hands. It wouldn't be the first time.

Clearly, the costs of Treasury's proposed regulatory regime are terribly high. Worse still, it is based on the naive assumption that paying such a high cost will produce results that justify it.

If drug dealers can transport drugs without being detected, does anyone outside Treasury doubt that they'll find a way to send money back through the same or similar channels?

The proposed regulations exhibit an Alice-in-Wonderland attitude toward the behavior of drug dealers, coupled with the most cavalier attitude toward individual liberties and financial privacy.

Congress should block the proposed regulations and repeal the existing Bank Secrecy Act, under which such rules are possible. Our freedoms and our privacy are much too important to be compromised merely to make money-laundering more costly and inconvenient for criminals.

Richard W. Rahn is president of Novecon Corp. and an adjunct scholar at the Cato Institute.