



Damming up the Dollars

BY RICHARD W. RAHN

If enough people have a demand for a particular product, whether it is prostitution, gambling, drugs and alcohol, or an anonymous, instantaneous and low-cost money transfer, it will be supplied. Poorly thought out regulation or prohibition raises the cost of any product, which causes innovative people to think of ways to get around the bans or regulations — while, at the same time, fostering criminality and corruption. And both users and suppliers of the banned or overregulated product lose their respect for the law because they are deemed to be criminals.

The big issue at the moment is money transfer. Governments want to know both the source of everyone's money and how it is spent in order to collect more taxes, regulate behavior, reduce certain types of criminality and increase political control. When cash and coin were the primary means of money transfer, government's ability to trace transactions was very limited. As the use of paper checks and then electronic transfers grew, the ability of government to observe where funds came from and where they went was greatly expanded. Governments then began to pass various types of "anti-money-laundering" laws and regulations with the claim that they needed these tools to combat drug dealers, tax evaders and various sorts of criminals. The U.S. federal government passed its first anti-money laundering law in 1986.

Criminals and tax evaders obviously do not want the government to observe their transactions. Honest people also

understand that going back at least to the Magna Carta (which is 800 years old this week), there has been a long-standing tradition of the inherent right to reasonable financial privacy that may not be abridged by the king (or state). British castles had a "keep" where the lord of the manor kept his treasure, which was sacrosanct. If those in government know everything about your income and expenditures, they are in a position to abuse it and cause great harm. Remember when the names of some of Mitt Romney's donors were indirectly released to the press by folks in the Internal Revenue Service? The IRS and other government agencies claim that all of the financial information they collect is strictly confidential — which is a laughable claim in an age when Lois Lerner, Edward Snowden and all of those Chinese and Russian hackers flout the rules. Reasonable financial privacy is one of the cornerstones of being a free person.

As the government has become more and more intrusive in the financial affairs of individuals and businesses, the incentives for those who can develop ways to either legally or illegally get around the increasingly costly and abusive regulations has grown. The new Foreign Account Tax Compliance Act has had the predictable but unintended consequence of causing foreign financial institutions to refuse to open accounts for Americans because the costs of the regulations and associated liabilities are so great. This has caused an enormous hardship for Americans living abroad.

Traditionally, banks moved money from place to place, including foreign countries, by having "corresponding" banking relations with other banks, resulting in a global network that ties almost all of the world's banks together and, ultimately, with the Federal Reserve, which serves as the bank for the biggest banks. Without corresponding relationships, banks have no ability to move money for their customers to and from other banks. As anti-money-laundering and tax regulations have grown, banks charge more for moving money to cover their increased compliance costs and liabilities. The anti-money-laundering regulations include "know your customer" — that is, know where the money came from in a customer's

account and where it goes. This has now morphed into "know your customer's customer" and on and on.

The liability for "not knowing" has become so great — multibillion-dollar fines levied on the big banks — that many bigger banks have dropped corresponding banking relationships, particularly with foreign banks in smaller jurisdictions, such as the Caribbean islands, causing great hardship to these banks and their customers, many of whom are low-income people.

All of these government-imposed regulatory costs and hardships have fueled the need and desire to free those who wish to transfer money quickly, less expensively, with greater privacy, and protect their savings from the international bank regulators and tax authorities. Bitcoin was the first major, serious shot over the bow on the financial regulatory establishment, in that it enabled people to transfer value to any place on the globe without going through regulated financial institutions. Unregulated crypto-currencies are now on the rise with the advent of new products like Venmo, Rebit and others.

As this new industry develops, it will be disruptive to many existing financial institutions and their regulators, but with great benefits for those wishing to make instantaneous transactions at near-zero cost and with greater privacy. Ultimately, entrepreneurs will succeed in creating widely used nongovernment currencies, which will be superior to government monies in many ways, including providing financial privacy. The dollar, euro and the yen will become as quaint and useful as the floppy disc.

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