THE END OF MONEY AND THE STRUGGLE FOR FINANCIAL PRIVACY. BY RICHARD W. RAHN. SEATTLE AND WASHINGTON: DISCOVERY INSTITUTE PRESS. 1999

The popular media often see the technological advances of the last century as a frightening boost to the power and reach of the state. The box-office hit *Enemy of the State*, starring Will Smith, shows a government using high technology to persecute an innocent citizen. Likewise, *Gattaca* portrayed a society in which technology had almost erased personal privacy and enabled the state to suppress the most precious individual freedoms.

In contrast, Richard Rahn's view of the future of money and financial privacy is positive and exciting. If he is correct, totalitarians will suffer a massive cut in their power and reach in the next two decades. Technology has been used and abused by the state, but Rahn shows how it will be used by individuals for the enhancement of financial privacy and personal protection.

Two key technologies give the impetus to Rahn's encouraging predictions. Only in the last five years have they both come into common use, and Rahn believes that they now will force major reductions in the size and scope of civil government.

The first development was public-key cryptography, which appeared in the mid-1970s. Public-key cryptography is now easy to use, and allows secure transmissions over telephone lines. Rahn, in a primer on public-key cryptography, shows that it is relatively simple to make a code that is practically unbreakable even by governments.

The second development was the Internet (which Vice President Gore apparently intends us to believe was his brainchild). In combination with strong public-key cryptography, the Internet essentially allows any two modem-equipped computers in the world to trade information that is inaccessible by any government.

Because of these complementary technologies, it is possible for digital money substitutes to be created (publicly or privately) and exchanged worldwide without the knowledge or consent of government regulators. Paper currency will become obsolete as privacy-seekers turn to secure, instantaneous digital transactions.

International private exchange of money substitutes over the telephone allows businessmen to avoid some taxes and government regulations, which are typically geographically constrained. Many services, such as software development, architectural design, legal services, and banking services, can be provided from a distance over the Internet and service providers can move to free-market jurisdictions to avoid taxes. Writes Rahn,

> Free trade in services increasingly will become a necessity, because governments will find they can neither regulate nor tax such transactions, because consumers will

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> receive much of the "product" by way of the Internet in digitally encrypted form. Governments that fail to move to free trade in services will find they are faced with the digital equivalent of trying to sweep back the sea. (p. 30)

Rahn leaves little hope for tax collectors and financial regulators who wish to retain control. "The question is not whether we will have financial privacy—we will. The appropriate question is whether financial privacy will be legal, when, and at what price. The technological genie is out of the bottle. . . . [M]oney as we know it is going to disappear. At some point, all money and the information money conveys, will be electronic in digital form" (p. 65).

Because financial privacy is absolutely essential to liberty, it is refreshing to see Rahn hopeful about the restoration of privacy to individuals worldwide. Governments have enjoyed the ability to monitor the slightest detail of electronic financial transactions, and in some places have legally required reporting of large cash transactions. The well-worn excuse that government snooping is necessary to suppress organized crime and money laundering is spurious, Rahn shows. Suppressing organized crime through money laundering statutes is ineffective, and any small benefit that may accrue is not worth the certain loss of privacy for non-criminals.

Given the history of civil government, we cannot expect bureaucrats to use data about individual citizens only for the detection and prosecution of terrorism, theft, or fraud. Rahn discusses at some length the abuses of privilege by regulators, and shows how certain U.S. laws, such as the RICO statute (allowing federal agents to seize assets without proof of the owner's guilt) and the Bank "Secrecy" Act, result in tragic losses of privacy and private property.

Rahn opposes money laundering statutes and encryption controls of all sorts, declaring that, in any event, any attempt to limit financial privacy will soon become an absurdity. Comparing money laundering statutes to Prohibition, he writes,

> When digitized money is encrypted. . . . it is unseen. . . . Alcohol is composed of atoms, it has to be contained in a bottle or a can and it is heavy, yet, during prohibition, only a small percentage of the bootleg product was ever seized or destroyed. The problem of trying to identify "bootleg" money is infinitely harder. When government officials tell you that they can control money laundering, when they cannot even stop tons (many, many atoms) of cocaine and marijuana from crossing the border, it does not pass the laugh test. (p. 71)

Rahn is careful to delineate his argument.

> Advocating the abolition of laws and regulations that restrict financial privacy is not the same as condoning terrorism, drug dealing, or tax evasion. It is merely acknowledging that the new technology has made it impossible, at least in any reasonably cost-effective manner, to enforce such laws and restrictions and at the same time preserve civil liberties. (p. 20)

However, Rahn argues for the morality of tax evasion in some circumstances. "In Hitler's Germany," he states, "the moral person was the tax evader" (p. 169). Under the heading "When is Tax Evasion Morally Justified," Rahn states,

> An argument against financial privacy is that it will make the collection of some types of taxes more difficult for governments. This argument is indeed true, but that is not a

> justification for preventing financial privacy; in fact, it can be an argument for *protecting* financial privacy. When a government is unjust and corrupt, the people have both the right and the duty to oppose it. A form of opposition is the refusal to fund the government to the best of one's ability, which can take the form of deliberate tax avoidance or evasion. (p. 169)

As long as Rahn is discussing the enhancement of privacy in the digital age, his arguments are credible and hopeful. However, Rahn's economic understanding is deficient in some respects. Despite an attitude toward money that would be generally acceptable to Austrian economists, Rahn displays a few inconsistencies, and a little confusion about the nature of money. In the preface, Rahn emphasizes, "Money will disappear because a circulating medium of exchange is needed only when a time interval is required between the liquidation of an earning or useful asset and the acquisition of a new asset or service. In the digital age, such time intervals are no longer needed, hence there is no need for traditional money" (p. 8). Will money disappear, as the title, and this paragraph seem to indicate? Rahn flits back and forth from discussing "the end of money" and the "non-monetary economy" to mention of the "non-governmental money" of the future and "the world of digital money." If only he were more clear. Rahn cannot mean the literal end of money, but rather the end of the use of physical currency in exchange and the end of government-issued fiat currency.

Mises has pointed out that we cannot function in a world without money. "The whole structure of the calculations of the entrepreneur and the consumer rests on the process of valuing commodities in money. Money has thus become an aid that the human mind is no longer able to dispense with in making economic calculations" (Mises 1980, p. 62). Rahn's digital money is really what Mises would refer to as a money substitute. Money substitutes, to Mises, are "those objects that are employed like money in commerce but consist in perfectly secure and immediately convertible claims to money" (p. 65). Whether these claims are printed or exist in a computer record seems to matter little in principle. Mises shows that what is important is not the physical characteristics of money and money substitutes, but the purposes they serve. In *Human Action*, Mises (1998, p. 444) writes, "Banknotes are not indispensable. All the economic achievements of capitalism would have been accomplished if they had never existed. Besides, deposit currency can do all the things banknotes do."

Rahn also still sees a role for a central bank, though he notes that it will be more disciplined by the market. In his view, government must still set a "unit of account," but he speculates that the dollar may return to a commodity standard. To Rahn (pp. 53, 54), the commodity standard would not be gold or silver, but a basket of commodities, *à la* Irving Fisher, Benjamin Graham, and F.A. Hayek (1976). If Rahn were as well-read in Rothbard as in Hayek, he would be aware that Rothbard had launched a devastating critique of the commodity dollar at least fourteen years ago, which was based on Mises's earlier work.

> There are many deep-seated flaws in this approach. In the first place, such a market-basket currency has never emerged spontaneously from the workings of the market. It would have to be imposed. . . . as a "constructivist" scheme from the top, from government, to be inflicted upon the market. Second. . . . the government would be obviously in charge, since a market-basket currency does not, unlike the units of

> weight in exchange, arise from the free market itself. The government could and would, then, alter the ratios of weights and adjust the various fixed terms, and so forth. Third, the hankering for a fixed market basket is an outgrowth of a strong desire for the government to regulate the economy so as to keep the "price level" constant. As we have seen, the natural tendency of the free market is to lower prices over time, in accordance with growing productivity and increased supplies of goods. There is no good reason for the government to interfere. Indeed, if it does so, it can only create a boom-and-bust business cycle by expanding credit to keep prices artificially higher than they would be on the free market. (Rothbard 1977, p. 371; also Mises 1998, p. 422)

Rothbard also points out, with Mises, that there are fatal problems with the concept of "the price level." In addition, Gresham's Law would produce "perpetual shortages and surpluses of different commodities within the market basket" (Rothbard 1977, p. 372).

Rahn believes that the new digital era will bring about not only a redefinition of the dollar, but a slew of private monies as well. "People can have a choice of monies, both government-issued and privately-issued monies, which will enable them to escape from unstable money." Gold warehouses can now open and, without the knowledge or consent of government regulators, issue warehouse receipts that could, Rahn believes, circulate electronically as a viable alternative to fiat money.[1]

Rothbard, however, warns that such a Hayekian plan for the denationalization of money would not work. "Americans have been used to using and reckoning in 'dollars' for two centuries, and they will cling to the dollar for the foreseeable future. They will simply not shift away from the dollar to the gold ounce or gram as a currency unit" (Rothbard 1977, p. 369). Even during runaway inflation, Rothbard points out, "people will cling doggedly to their customary names for currency." In any case, as Rahn notes, the monetary system would still fall under the influence of the state, as people would "still be forced to use government money for the payment of taxes and for the receipt of payments from government" (ibid., p. 40). However, "for private transactions, people will increasingly move away from government money."

Rahn seems to conflate money and capital. He proposes that the "money" of the future will be instantaneously transferable securities—real working capital will be transferred instead of sterile gold or silver, so money will be interest-bearing. Rahn's definition of money is somewhat vague, and should be clarified.

Rahn's definition of inflation is also problematic. Inflation, to Rahn, is "the situation in which there is too much money chasing too few goods" (p. 39). We obtain from Mises and others the idea that every money supply is optimal—there is no such thing as "too much" money. Properly understood, inflation is the increase of the money supply.[2]

The best parts of Rahn's book are those dealing with the enhancement of privacy in the digital age. These parts are realistic and encouraging. Yet when Rahn

[1]The Gold and Silver Reserve has already set up a legal, Internet-based service (www.e-gold.com) that is a step toward the separation of money and state.

[2]Some Austrians will also cringe at Rahn's definition of public goods, included in a discussion of the functions of a limited government: "A public good is an indivisible benefit, like constitutional rights or national defense, that *government alone* can provide and can provide only to all citizens" (p. 176; emphasis mine).

follows Hayek in his attempts to predict changes in the monetary system that could result from technological changes, he runs into trouble. Some academic economists may be aware of the Mises–Hayek debate on money, but the average businessman for whom this book is written is not so aware and is done a disservice by Rahn's failure to note the controversy.

Rahn also tends to ramble off-topic at times, and a sizable portion of the book is dedicated to a discussion of "what is wrong with the U.S." rather than specific issues relating to digital money or even the monetary system in a broader sense. Most of what he says is consistent with a classical-liberal political position, but readers particularly interested in digital money would be better served to have the broader political issues left to another publication.

The last chapter of Rahn's book consists of a fictional tale of two countries as they might appear in 2013, after taking different paths in response to changing technology. Predictably, "Freelandia," where government took a laissez-faire approach to private finances, is a virtual utopia; and "Malapense," where government tried to squelch freedom, is a poverty-stricken nightmare. Cryptography and the Internet can be used for good or for evil. In the end, changing ideas is of far greater import than changing technology.

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