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Recently the US and Swiss governments settled a dispute
http://online.wsj.com/article/SB125007792394025747.html
about disclosures to the IRS of information on Americans' bank accounts with Swiss bank UBS. The controversy reopens the question of the public policy behind financial privacy.

From an economist's point of view the whole idea of the value of "privacy" seems somewhat mysterious: economic agents care about consuming, but why should they care about whether the engage in that consumption in public or in private? (This of course may say more about economists than it does about privacy).

In the case of financial assets, the role of privacy is clearer, although its social value is more questionable. One of the most important characteristics of cash is that it's difficult to trace. *Pecunia non olet* , *"*money has no odor": by paying in cash a person can keep transactions private.

Well and good, if we want to engage in illegal or immoral transactions, but why should the government encourage such a thing? Wouldn't we be better off as a society if we tried to eliminate the use of cash and so to eliminate these transactions? In a paper a few years ago (See "Money is Privacy" http://ideas.repec.org/a/ier/iecrev/v46y2005i2p377-399.html ) Will Roberds and I concluded that it wasn't just about drugs and prostitution. Instead, there were circumstances in which maintaining privacy of transactions could have a benefit to society: for example, if public knowledge that someone has purchased something expensive makes it more likely that the purchaser become a victim of theft; or if the linking of the purchase to information about the individual makes identity theft easier. (See also our paper "Credit and Identity Theft" http://ideas.repec.org/a/eee/moneco/v55y2008i2p251-264.html )

Still, this isn't the same as disclosing the information to the government itself. What is the social benefit in keeping the government (as opposed to criminals) in the dark? One possibility is the fear of incompetence: as the government keeps tabs on transactions or assets, we may worry that others will break into the databases, or suborn government employees into disclosing the information.

But I suspect that in the eyes of the typical American holder of a Swiss bank account, the fear is of the government itself as the thief. One version of this belief—one which I do not agree with—is that taxation itself is theft. A second version is that these accounts are a kind of catastrophe insurance: protection against the (remote) possibility that tyranny take hold.

A third version, one with which I have greater sympathy, is that governments cannot be trusted to keep their promises. This issue needs to be considered in some detail:

The successful functioning of a society rests on individuals' ability to keep their promises in general. And the laws and mores of a society are designed in part to encourage individuals to do so: promise-breakers are sued in courts and shunned in society. However, it is much more difficult to figure out a way to bind the institution that designs and enforces the laws to stick to its own promises.

In a sense this is inevitable: Part of the difficulty is that we don't always want it to. Circumstances change, unforeseen contingencies arise, and we don't want the "dead hand of the past" to prevent us, collectively, from adjusting to new events. But the agreements reached collectively were compromises in the first place, and so there will certainly be disagreements about whether a new situation merits tearing up or continuing to honor the old promise. And there will be circumstances where we'd all agree up front that it would be better to reach a binding commitment but we know that after the fact collectively we'll end up changing our minds (the jargon in economics is "time consistency").

Nowhere is this more likely to happen than with respect to tax and investment policy. We design a tax system to encourage certain behaviors—specifically, work and investment— but then once the work is

done or the investment committed (and once the society has reaped the rewards), it seems in retrospect inequitable to leave the wealth holders with special privileges; indeed why shouldn't the wealthy be taxed *more*? After all, now that times are tough, they are certainly best able to afford it.
And so one group, focusing on current inequality, advocates emergency capital levies, and the other, focusing on past sacrifices, focuses on the justice of keeping promises. (And if you think one side or the other is clearly right in this debate, then I suggest you try changing the period of time in which the wealth accumulation has occurred and see if you don't change your view: should accumulations over three generations not be taxed more highly? Is it really fair to change the tax rate on savings accumulated over the last three weeks?)

So our inability to commit in satisfactory ways not to impose higher taxes after the wealth has been accumulated has the unfortunate side effect of discourages savings. If we want to encourage savings, then perhaps we'd like to find ways to send the wealth outside of the taxing jurisdiction. Of course, after the fact, we'll always want to change our minds, tighten the taxes and find ways to track down the wealth we initially let hide from us…