Dr. Jackson's Golden Vision
The founder of e-gold discusses identity theft, regulatory compliance, and his libertarian epiphany

When he founded e-gold in 1996, Dr. Douglas Jackson, a former oncologist, had a grand vision. He believed his digital currency -- housed on the Internet, backed by gold bullion, immune to inflation and currency fluctuations -- would "improve the material welfare of mankind." Users could convert national currencies into e-gold, then buy and sell goods with any other e-gold account holder worldwide over the Web.

Since then, that noble endeavor to create a new kind of money has gone seriously awry, according to U.S. law-enforcement officials. While a smattering of small businesses in the U.S. and overseas have adopted e-gold as a payment vehicle, U.S. investigators say many of its other customers have instead come from the dark side of the Internet.

Despite evidence that e-gold is now a favored currency among such nefarious characters as identity thieves and financial fraudsters, Jackson denies the claims and remains wed to the dream that e-gold will one day secure its place as currency for the Digital Age. In a series of interviews in person, by telephone, and via e-mail with BusinessWeek correspondent Brian Grow, Jackson offered his thoughts about the origin of e-gold, how it is regulated, and his effort to fend off critics.

Here are edited excerpts:

In 2000, e-gold Ltd. was registered as a company in Nevis, West Indies. Do you intend to bring it back to the U.S.?
I don't know. There's an element of "good fences make good neighbors." The cost of compliance can sometimes be very high in the U.S. The experience of PayPal is that they find themselves not dealing with one regulatory regime but with [multiple] regulatory regimes.

How does e-gold know who its customers are?
There are business reasons to know who a customer is, and then sometimes there are sort of nonsense reasons to know who a customer is. If you're trying to accept a money payment from somebody, you have to know who a customer is to accept a dollar payment from them. The nature of e-gold -- this is purposeful -- we want that finality of payment. As a result, there is nothing that the user can do that leaves e-gold on the hook.

Gold & Silver Reserve Inc., e-gold's parent company, also operates OmniPay, a digital currency-exchange agent that converts national currencies into e-gold. How does it authenticate the identity of its customers?
To do business with OmniPay, you have to establish a user profile. The [first step] is to make sure that someone controls the e-mail address that they're registering to the account. We send a secret to the e-mail address on file; they have to go back to the Web site and enter that secret.

Also, any e-gold account that they are going to use, they have to bind to that profile. They have to send a payment from that account to OmniPay's e-gold account. Another thing that's done is a postal validation. We mail out a secret to that postal address, [then] they have to log back into the
Web site and enter that secret.

What's the philosophy behind e-gold?
My concern...was that historically it looked like a lot of the suffering of recent centuries -- some of the scale of wars, some of the economic dislocations -- could be traced back to credit cycles, and that credit cycles could be traced back to monetary manipulation. I wanted to try to create a system that was not subject to discretion, that was rules-based and predictable.

But how did you get to the point where you had researched suffering, traced it to credit cycles, and then decided to found e-gold? There were a number of threads to it. At least one thread was just an interest in investing because, as a physician, I had some excess income, although I was a pretty lousy investor. Another strong theme of it -- and this is a little bit embarrassing -- was sort of a libertarian thing.

There was an article in Forbes in 1994, a sort of 50-year look back on Friedrich Hayek's book The Road to Serfdom. I had never read that book, [which condemns government meddling in the economy]. But [its] description was very compelling. [It] made reference to a bookshop in San Francisco called Laissez Faire Books. I got their catalog and started reading through the core works of the whole libertarian thing.

What it comes down to is the base money issuer [governments] -- that's the place where it is inappropriate to have a bank, in my opinion.

So, how does e-gold solve that problem?
By having a system like e-gold, what we were shooting for was to give the general public access to an efficient remote-payment mechanism without the need to go through an obligatory financial intermediary. That's fundamentally what it is all about.

What regulatory regime applies to e-gold? Are you a bank, a commodity, a financial instrument?
The simple answer is: We're nothing that's defined in legislation. Truth be known, we've looked very closely to see if we might be a money-service business, a money transmitter, because those have very distinct regulatory regimes, and also financial institutions and banks do. Clearly, we're none of those things. What we are trying to sort out right now is: Do we want to voluntarily emulate one of those things?

Is it an advantage not to be anything that's defined in legislation?
At the end of the day, we want e-gold to be recognized as a privately issued currency and treated like a foreign currency. Just as the U.S. doesn't presume to regulate the Reserve Bank of India or Bank Negara Malaysia or the European Central Bank, we want e-gold to fall in exactly the same pigeonhole as a foreign central bank.

We want the regulatory focus to be on OmniPay, because OmniPay is where money or value -- as it's defined in regulation and legislation -- comes into play. We've been making the case that OmniPay is really not a money-service business either, but we are close enough to it that it makes sense for it to observe the spirit of the Bank Secrecy Act as it has been modified by the Patriot Act.

So OmniPay is not currently regulated as an exchange provider either?
Correct. The definition of an exchange involves money on both sides. In every currency exchange, there are two payments -- this one goes in and that one comes out. OmniPay is specifically set up so that it never crosses from one national currency to another. There is always going to be e-gold on one side or the other.

E-gold doesn't fit the existing definition of money. In fact, there is not a definition of money; there is a definition of currency. E-gold doesn't fit the definition of currency. Currency is issued by a
sovereign entity.

**Cybercrime gangs like ShadowCrew are masters of using false identities. How can e-gold make sure that they're not using false identities?**

E-gold essentially doesn't need to. OmniPay has to, because it handles money. But e-gold doesn't need to, because [a customer] can come in and be Mickey Mouse. But we have his time stamps, his IP numbers, and we also know all of the other accounts he does business with. If his value is still in the e-gold, we're just itching to get the order to freeze it.

**Do you ever have suspicions of activity going on in e-gold accounts that may not be legal?**

Early on, we had that luxury. Now, generally, we wait until somebody tells us about trouble.

**Why doesn't e-gold police its network more vigorously, instead of relying on law enforcement to inform it of wrongdoing?**

Our obligation is to honor what we have described in the [e-gold] account user agreement: to maintain a 100% reserve for e-gold; to operate a system of transfers that is irreversible; we will exercise a right of association, if there is due process, we can take further action such as freezing accounts.

Some of these things get into the area of legal opinion and regulatory questions, which I believe are a little bit complex. We have been in this process of dialogue and discussion with [regulators] as we try to assess what is the appropriate way to regulate e-gold vis-à-vis U.S. regulations.

**The 2003 National Money Laundering Strategy from the U.S. Dept. of Treasury states that an e-gold account may be opened with only an e-mail address, and that personal information does not appear to be verified. Is this accurate?**

Correct. As noted by the World Bank, excess zeal in [know-your-customer rules] excludes many of the world's poor from the benefits of things like international remittances. We enable the guy living in the shantytown surrounding Mexico City to bootstrap himself, yet without occasioning a risk of someone getting away with truly anonymous abuses.

**Is e-gold aware that cybercriminals are offering "funding" services to help others obtain e-gold?**

No, but when made aware, we can aid in bringing hellfire down on their heads.

*Edited by Patricia O'Connell*