Money Ain't What It Used To Be

However the complicated tale of e-gold Ltd. plays out, it and a few of its rivals have already reached a milestone: For the first time, stand-alone digital currencies have real customers, even if some of those customers may engage in illicit activities.

That's big news, since until recently digital money has been a failure. The idea of replacing paper money -- messy and expensive -- with its electronic equivalent seemed immensely logical in the mid-1990s, as the Internet took off. "Digital money is the ultimate -- and inevitable -- medium of exchange for an increasingly wired world," intoned a June, 1995, Cover Story in *BusinessWeek* (MHP) entitled "The Future of Money." Congressional hearings with the same title soon followed, and Citicorp patented a proprietary version of digital cash. "I think money is about to remake itself," former Citicorp CEO Walter B. Wriston told *Wired* magazine in 1996.

At the time, experts feared that privately issued digital money, untraceable and not controlled by central banks, would facilitate money laundering and tax evasion. They also worried that digital money, on a big enough scale, could undermine central banks' ability to steer economies by setting monetary policy. Government officials sounded desperate to stop the threat. "We are nowhere near the issue of regulating it," Stanley E. Morris, then the director of the Treasury Dept.'s Financial Crimes Enforcement Network, told *BusinessWeek* in 1995. "We're one step back."

Well, it turned out that the regulators had plenty of time to catch up. DigiCash, the most innovative and best-publicized digital cash scheme, sought bankruptcy protection in 1998. CyberCash, a competitor, followed that route in 2001, the same year Beenz and Flooz, two rivals, closed their doors and left holders of their currencies high and dry. "Technologists thought that notes and coins would disappear," says David G.W. Birch, a director of Consult Hyperion, a British consulting firm that runs an annual conference on digital money. "But money is a very conservative technology."

For the past ten years, digital cash has been a solution in search of a problem. Credit cards do just fine for most online transactions, especially since consumers have good legal protection against fraud and mistakes. By contrast, "we don't have the same kind of protection in place for the new forms of payment," says Anita Ramasastry, associate professor at the University of Washington Law School and an expert on laws governing digital money.

That's why the apparent success of e-gold (and rivals like GoldMoney) in attracting customers is so striking. Besides the anonymity -- which previous digital money systems also offered -- the link with gold seems to provide enough solidity to overcome the potential dangers of putting your assets into a private currency. A gold-based banking system, which is what e-gold really is, appeals to people who fret about inflation and exchange rate fluctuations and don't trust the paper currencies central banks issue.

Still, even if digital currencies survive the e-gold controversy, they will never be a serious challenger to credit and debit cards. No one's going to buy a newspaper with e-gold. The best bet for small retail purchases in the future is either a smart card, like the Octopus Card issued by
Hong Kong's mass transit system, or a payment capability built right into cell phones, like the Edy system in use in Japan. These systems, tied closely to respectable institutions, don't provoke the same worries as a stand-alone private currency like e-gold.

But a successful digital currency again raises the issues that regulators fretted over a decade ago, especially now that the world is far more tightly networked. The future of money is not here yet, but it may be a lot closer than you think.

By Michael Mandel in New York