

# The Sad Story of e-gold

(and what Bedrock might do to avoid its fate)

*By Jonathan Carriel*

[History from an article by Nick Giambruno, 10/2018]:

E-gold was the world's first, temporarily successful, private digital currency. Douglas Jackson established the currency in 1996, 13 years before bitcoin came about. As the name implies, it was 100% backed by gold. In other words, account holders **could redeem their e-gold for actual, physical gold**. With e-gold, Jackson tried to tap the 1990s internet revolution and bring sound money to ordinary people. He thought e-gold could liberate the world from the ills of central banks and fiat currencies. And, for a while, it looked like it might. Within a few years, e-gold became the world's second-most popular online payment system, just behind PayPal. Anyone in the world could anonymously open an e-gold account. From there, users could instantly transfer grams of gold to other users and merchants. At first, Jackson stored e-gold's precious metals in safety deposit boxes in Florida. As the company grew, he moved the bullion into secured vaults in London and Dubai. At its peak, e-gold had **over five million customer accounts, spanning 165 countries**. A thousand new accounts were opened daily. Unfortunately, ... e-gold's soaring international popularity caught the attention of the US government. Jackson may have been a visionary and a firm believer in sound money. But he was also naïve. The US government imposes strict regulations and licensing requirements on financial companies. This includes an obligation to collect all sorts of customer information for so-called "Know Your Customer" and anti-money laundering laws. Financial companies also have to file a report with the US government for every transaction involving \$10,000 or more. Plus, there's another mandatory report for any sort of "suspicious" financial activity—a vague, broadly defined concept. [*emphasis added*]

[More info, From [Wikipedia article on e-gold](#) (retrieved 8/1/22)]:

## Criminal prosecution

### Changing definition of a money transmitter

The **USA Patriot Act**, passed in the wake of the September 11 attacks more than five years after e-gold had been launched, **made it a federal crime to operate a money transmitter business without a state money transmitter license** in any state that required such a license. At the time a money transmitter was in most states defined as a business that cashed checks or accepted cash remittances to send from one person to another person across international borders, such as Western Union or MoneyGram. ...

The United States Treasury issued a report on January 11, 2006 titled U.S. Money Laundering Threat Assessment[55] ... apparently confirming that e-gold accounts were excluded from the definition of “currency” under the United States Congress and Code of Federal Regulations definitions.

1. However, in its actions from 2006-2008, the U.S. Treasury Department in conjunction with the United States Department of Justice **stretched the definition of money transmitter** in the USA Patriot Act **to include any system that allows transfer of any kind of value from one person to another, not merely national currency or cash**. Using this new interpretation they then proceeded to prosecute the **USA-based** gold systems, e-gold (and later e-Bullion) under the USA Patriot Act for not having money transmitter licenses, even though these companies had previously been cooperating with regulatory authorities and told they did not fall under the definition of money transmitter. ... Several years later FINCEN further **expanded this definition to apply to foreign companies allowing US persons to open accounts**, which forced the Jersey [U.K. Channel Islands] based

Goldmoney.com to suspend the ability to transfer value from one holder to another in December 2011.[56] (*emphasis added*)

So how, in the name of sanity, might Bedrock deal with such capriciousness?

- Note that “transfer of any kind of value” literally implies every last exchange involving two human beings. Obviously, politicians cannot monitor that, and therefore will pick and choose whom to persecute.
- There is no perfect solution to this: politicians lie and the world suffers.
- However:
  - 1) Bedrock avoids all use of such terms as *money, currency, coin, purchase, sale, profit, loss*, and of course *any references to national fiat units*. Instead it uses *commodity, weight, bullion, fineness, barter, exchange, etc.*
  - 2) Bedrock registers virtually all transactions without external references that it would ever be able to retrieve absent client cooperation.
  - 3) It effectively “out-sources” all non-Nugget exchanges to other, unrelated firms.
  - 4) Despite the ease with which clients can create an account, getting value into the account is not easy. As opposed to other private systems (such as e-gold), Bedrock accounts cannot be funded with checks, wire transfers, or credit cards; they can only be funded by depositing bullion, exchanging goods or services with existing bullion holders, or verifying transactions.
    - If e-gold clients “could redeem their e-gold for actual, physical gold,” they presumably *acquired* their e-gold by transferring fiat cash to the firm, which then used it to purchase bullion at the current open market rate. In so doing, the firm had to have learned the identity of the client, making itself liable (under the totalitarian USA Patriot Act) for the client’s legality.
    - External services might be willing to sell bullion for fiat (and even to arrange the client’s deposit into Bedrock), but Bedrock would not be involved in that transaction.
  - 5) Bedrock can always point to the clear fact that it is not a “financial” firm.

- 6) FWIW, it might pay for Bedrock to avoid any physical (*e.g.*, vaulting) business domiciled in the USA.
- Bedrock assumes that its clients are bartering virtual bits of metal for goods and services, but it does not *know* anything more.
  - Bedrock, itself a client, will always prefer to remunerate validators, staff, consultants, and suppliers with the Nuggets it receives in Maintenance fees. However, it will perforce need to exchange some Nuggets from its own account for fiat payments. However, these will represent a very small, non-indicative proportion of the Bedrock system, which could not be used to assert an overall business denominated in national currencies.
- Would avoiding physical business in the USA really help?
  - The USA is notorious for singling out foreigners who commit US “crimes” in their own jurisdictions: Noriega, Milosevich, Gaddafi, plus Russian “oligarchs,” currently, for example.
  - The US government is currently [2022] openly committing actions that are normally regarded as robbery: confiscating Syrian oil, Afghan and Russian government bank accounts, and “freezing” Iranian accounts.
  - The similar debacles of the [NORFED Liberty Dollar](#) project and [Liberty Reserve, S.A.](#), present additional object lessons in what needs to be avoided.
    - The originator of the NORFED Liberty Dollar (1998–2009) openly and vociferously flaunted anti-establishment ideological motivations. Both NORFED and the Liberty Reserve private currency attempt (2006-2013) involved the purchasing and sale of bullion, plus terminological conflation with U.S. fiat, and other policies that Bedrock will avoid. (Bedrock will never *mint* anything, and will describe its electronic token solely in neutral terms of weight and fineness of bullion.)
- One might hope that a small country would protest any invasion of its sovereignty ... but one would hardly expect that it would put up a losing battle about it.
- On the other hand, private and public entities the world over are eagerly seeking alternatives to using the Dollar as the world reserve currency, and some are expected to launch in the very near future.

