

## A Revived Gold Standard on the Internet

### The Impact of "e-gold" set up by an American doctor and lawyer

By Tomohiko Taniguchi\*

The American founders of e-gold and, most recently, DigiGold are attempting something quite different from the many other digital money schemes that have been mooted so far. In their words, the founders want to use the Internet to launch a bank of issue - in effect, a central bank - which as the world's most creditworthy institution should be capable of producing a stronger currency than the dollar or the euro, so strong indeed that it could be used in central bank reserves.

David Birch, director of Britain's Consult Hyperion Financial Services, says that digital money has developed in two different directions in the United States and Europe. The foremost identifying aspect of the European concept is the 'electronic purse' function. Generally this takes the form of allowing customers to access money in their bank accounts by drawing down funds into 'smart cards'. Japan has taken a similar course. The contents of chips are of course invisible, but they are used to represent actual currencies, be they yen or euros.

In contrast, the course digital money has taken in the United States has included a flirtation with, and the subsequent abandonment of, the idea of creating money that could be used for settlement across national boundaries and currency walls.

This idea was never going to take off on a wide scale unless users could be persuaded to put their trust in an invisible new money form. It is trust that makes currencies what they are, and this trust depends on whether people actually buy into the deception that these scraps of paper have a face value. The failure of the above-mentioned American concept of digital money seemed to prove that nobody outside of the State is prepared to put up credit for currencies.

In 1994, Douglas Jackson asked himself what

would be wrong with individuals creating a bank of issue to equal the State in terms of creditworthiness. Just as with commodities, the argument for issuing currencies freely gains support from the view that it is only when there is competition between issuers that something good can be created. Jackson took his cue from a magazine feature on a work by Friedrich Hayek in which the economist expounded this view.

At the time, Jackson, who claims to have never even heard of Hayek until then, was working as a radiation oncologist. The friend with whom he discussed his ideas, Barry Downey, is an attorney who specialises in employment law. These two total amateurs decided to see if Hayek's theory worked in practice. The Internet enabled them to lift the idea out of the realms of the paranoiac ramblings to which it would once have been derisively banished, and into the realms of possibility.

#### Using money for settlement and to create credit as well

e-gold (<http://www.e-gold.com>) has been available since 1996. In some parts of the United States it is even possible nowadays to use it for wireless settlements via cellular phones. Even so, usage volumes alone are not the sole proof of the value of the experiment. One of the most interesting features of e-gold is that it presents a direct challenge to the seigniorage (currency issuing rights) that normally rests with the State.

In the real world currencies are a deception, and what Jackson and Downey have created is an entire sphere for the gold standard. This is because e-gold is matched by an equivalent weight of gold (or if not gold then silver, platinum or palladium). There is no electronic currency called 'e-gold'. What there is, is an arrangement that enables gold to be used for settlement in the digital world.

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