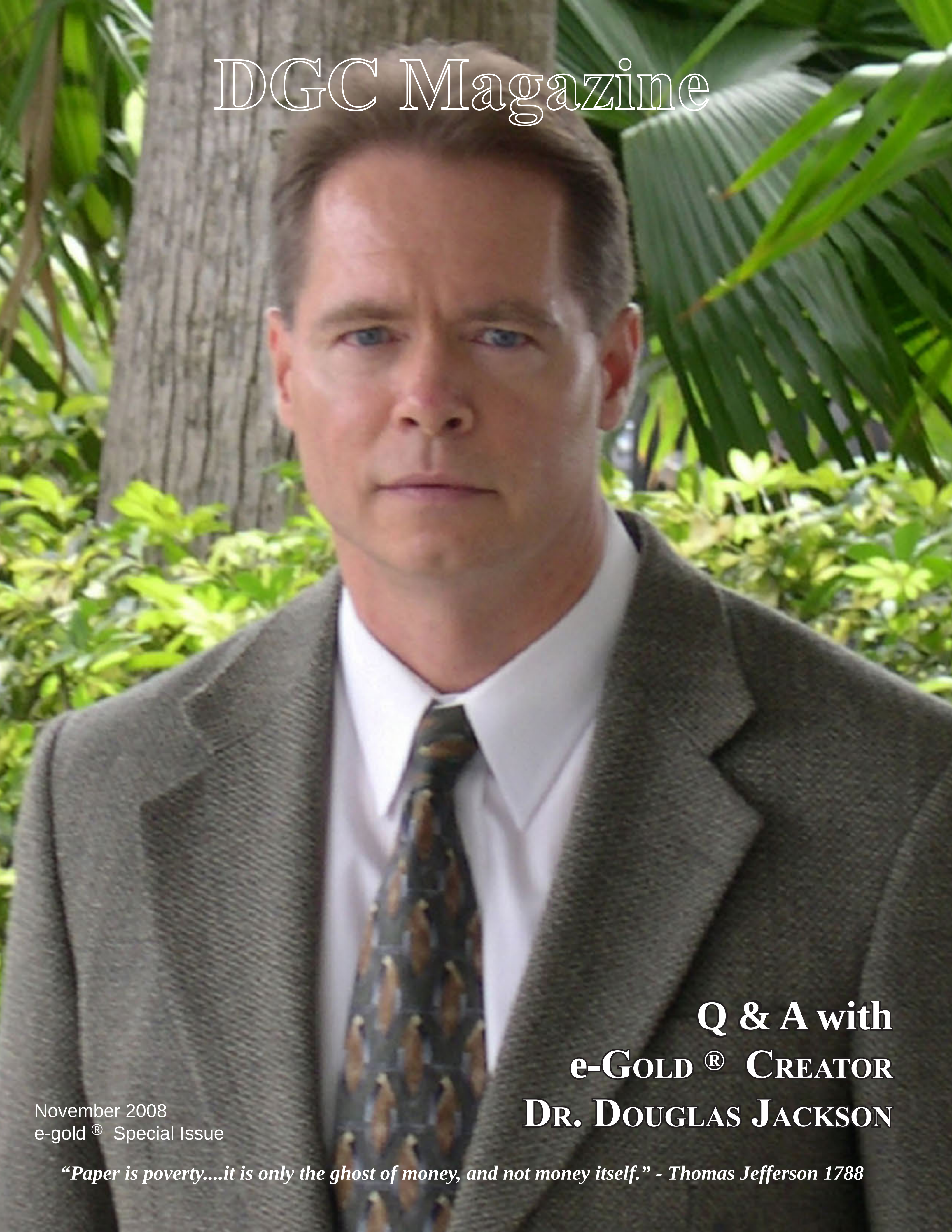
DGC Magazine



Q & A with e-Gold ® Creator Dr. Douglas Jackson

November 2008
e-gold ® Special Issue

"Paper is poverty....it is only the ghost of money, and not money itself." - Thomas Jefferson 1788

COVER PHOTO
DR. DOUGLAS JACKSON
FOUNDER OF E-GOLD

"Throughout the centuries there were men who took first steps, down new roads, armed with nothing but their own vision." - Ayn Rand

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e-gold update: Customer Identification, Identity Document Review

e-gold Ltd. is pleased to announce the deployment of the next phase of its enhanced Customer Identification Program (CIP). All e-gold account Users are now required to submit documentation of identity and residential address. Each User must provide a Government issued photo ID and a second document, such as a utility bill, showing the address they supplied as part of their Point of Contact information. Images of the required documents can be electronically uploaded to the e-gold website. Document review will occur as rapidly as possible and we continue to ask for the patience of our customers, especially initially, as Customer Service staff works through the avalanche of data from existing e-gold Users.

As part of the e-gold Account provisioning process, e-gold now uniformly obtains the four essential identifying elements for a compliant CIP: the User's name, address, date-of-birth, and a government-issued personal identifying number such as a tax ID number. This latest system enhancement supports e-gold's ability to verify this data by either (or both) documentary or(/and) non-documentary means, and represents a significant milestone toward e-gold attaining full compliance with all applicable U.S. laws and regulatory requirements. Of equal significance, e-gold's robust CIP and impending Due Diligence procedures will aid in making e-gold a more secure environment for global eCommerce.

As previously noted, Users located in selected jurisdictions may also experience additional service disruptions as licensing issues are sorted out or, in the case of countries identified as posing an increased risk of online criminal activity, until additional systematic risk-based Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) measures can be implemented.

e-gold Ltd. remains highly committed to offering a cost effective Internet payment system affording instantaneous settlement, free of chargeback risk, to customers around the world. We continue to be confident that a regulated e-gold rebuilt to a more systematic specification will be less hospitable to criminals, and more attractive to mainstream business use without being less accessible to those disregarded by legacy payment systems.

e-gold update: U.S. State Licensing and Customer Identification

e-gold Ltd. is continuing to develop and deploy urgently needed system enhancements in order to achieve compliance with applicable U.S. laws and regulatory requirements. e-gold has registered with FinCEN as a money transmitting business, and is working with various U.S. state authorities to obtain licensing as a money transmitting business where required.

Licensing requirements vary from state to state and country by country. As e-gold completes this process, it is possible that Users residing in some jurisdictions may experience service disruption. We ask for your patience, and assure you we are working diligently to complete this sometimes complex process of licensing as soon as possible.

Another major focus of our efforts is a robust Customer Identification Program (CIP).

As a step towards improved customer identification, e-gold is requiring all Users to update their Point of Contact Information to a consistent format, in addition to providing their Date-of-Birth and Personal Tax Identification number. This improved quality of identifying information is being obtained in preparation for the next-stage CIP, which will include the collection of electronic images of documents to verify identity and residential address. This enhanced capability, supporting both documentary and non-documentary mechanisms of identity verification, will be implemented in the very near future.

e-gold Ltd. remains highly committed to offering a cost effective Internet payment system affording instantaneous settlement, free of chargeback risk, to customers around the world. We continue to be confident that a regulated e-gold rebuilt to a more systematic specification will be less hospitable to criminals, and more attractive to mainstream business use without being less accessible to those disregarded by legacy payment systems.

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FROM DR. JACKSON'S E-GOLD BLOG. HTTP://BLOG.E-GOLD.COM/

...it could be argued that e-gold digital currency has an unfair advantage over the US Federal Reserve because of the zero default risk of pure gold bullion.

Q & A

with Dr. Douglas Jackson
On Recent Changes to the e-gold Business

by Mark Herpel

In the October issue of DGCmagazine, we published a list of questions within an article entitled:
 '***What will the new e-gold look like?***'

At the same time, I emailed the questions to Dr. Douglas Jackson and humbly asked for this information. Shortly after that enquiry, we received several polite email messages directly from Dr. Jackson with the requested information.

While his schedule is a very busy one, he was able to provide us with some very thoughtful answers and also release a detailed agent agreement *(draft)* which shows the requirements for ALL existing and future independent exchange agents for e-gold products. The draft agent agreement is listed in this issue on page 15.

I'd like to thank Dr. Jackson for taking time to answer my questions and provide us this detailed information.

(Q) Will an active marketplace of third party independent exchange agents still operate? Or will the new e-gold v2.0 be required to manage all exchange services? In house?

e-gold is continuing a thoroughgoing transformation, seeking to re-emerge as a regulated US financial institution.

The core attributes that characterize e-gold - 100% reserve of physical gold in allocated storage, immediate irreversible settlement of e-gold transfers, extremely low fees for settling e-gold transfers - <u>will continue</u>. The long overdue changes fall in the area of account provisioning (Customer Identification and Due Diligence), Transaction Monitoring, and regulation of exchange providers.

Since the core e-gold functions of Issuance and Settlement were devolved onto e-gold Ltd. in 2000, business activities that entail financial risk, particularly exchange, have been within the purview of independent third parties. Likewise, responsibility and authority for the specialized actions that lead to an increase or decrease in the quantity of e-gold in circulation, the role we refer to as Primary Dealer, will continue to be delegated to third parties since e-gold itself continues to have no capability of accepting or making money payments.

We have determined however that the unique characteristics of e-gold relative to conventional brands of money issued by sovereign entities - primarily its inherently global nature, the capability of conveying value across borders in real-time, with a strictly online interaction with Users - do introduce a heightened risk of abuses such as money laundering or terrorist finance and warrant a risk-based rethinking of the need to regulate exchange providers.

Exchange services, unlike e-gold, accept and make money payments from/to the public. In Anti-Money Laundering (AML) lingo, exchange is the nexus where the “Placement” stage of money laundering could occur. Although a Customer’s money payments to an exchange provider do not introduce new value into the e-gold system, successful placement of funds derived from criminal activity could lead to a situation in which the e-gold system could be unwittingly used for Layering or Integration of the proceeds of crime.

To mitigate this risk we have devised some core principles, and will be fleshing these out into explicit policies and procedures for the regulation of exchange services dealing in e-gold.

I am attaching a draft policy being prepared for distribution to known exchange services that outlines the regulatory framework we envision. *(see page 15)*

(Q) PayPal restricts the exchange of their units with any other digital money. Whether automated or not, will the new e-gold TOS still allow open market exchanges with other e-currency such as Pecunix, V-money or Webmoney?

It is an interesting question and I don’t yet have an answer pending dialog with government regulators in conjunction with opinion of counsel and other expert advice. This also inevitably depends to a major degree on these other systems as well, particularly their policies and actions vis-a-vis AML and CTF considerations.

(Q) Will all transactions still be final and the slogan “get paid and stay paid” remain true with no chargebacks?

Yes. However, the e-gold Account User Agreement has been modified to broaden the circumstances in which e-gold Ltd. may freeze and account. Please see *4.6.1.1.*, which states:

> ***“4.6.1.1. If e-gold investigators reasonably suspect that the e-gold account of User is being used to launder the proceeds of crime or for any other criminal purpose, Issuer may freeze the e-gold account and any other e-gold accounts of User. Additionally, at the sole discretion of Issuer, User will be subject to damages and other penalties, including criminal prosecution where available and the notification of the general public of User’s actions, at the sole discretion of Issuer.”***

(Q) As PayPal and GoldMoney require, will future e-gold users be sending funds directly to e-gold and never using an independent agent?

The e-gold system is a closed universe of value. By that I mean that e-gold Ltd. has never had the capability of accepting funds from the public. Increases or decreases in the quantity of e-gold in circulation can only be effected as a result of Open Market Operations of Primary Dealers resulting in bailment of gold into the e-gold system for issuance of e-gold (increasing circulation) or redemption of e-gold for gold from the system (extinguishing a corresponding amount of e-gold and thus contracting circulation).

This is similar to the practice of government central banks who also do not accept funds in any form directly from the end-users of the currencies they issue. Although similar, there are key differences that are discussed in my blog post entitled “ Set It and Forget It - Harnessing Collective

Wisdom to Achieve Monetary Stability". (see page 15)
http://blog.e-gold.com/2007/12/set-it-and-forg.html

(Q) Will e-gold be available now to be easily purchased with a credit card or ACH transfer as PayPal allows?

That is an issue for the businesses that undertake to offer exchange to decide, but there are definitely risk based arguments against exchange services accepting value via repudiable payment methods in exchange for another form of value fulfilled via a non-repudiable form of payment.

(Q) Will all future e-gold accounts still operate as both a merchant & customer account with no distinction or additional requirements?

Yes. The only reason other payment systems make a distinction between consumers (people who pay) vs. merchants (businesses that receive payment) is because of the credit risk and attendant repudiability of payments processed through their platforms. In all credit based systems the receipt of payment is conditional, as if the payment is being loaned to the recipient but might have to be paid/pulled back. In the event of fraud losses, as is well known, the loss is generally borne by the hapless merchant/recipient. eBay's PayPal, for example, publishes in its SEC filings a minuscule number (0.25% of Total Payment Value) for fraud losses but that number is THEIR fraud losses.

What they do not disclose is the composite fraud/chargeback losses of PayPal users, particularly the "merchants".

With e-gold, there is no element of credit. The finality of settlement of e-gold's spend protocol derives from Real-Time Gross Settlement (RTGS), further strengthened by a strict debit rule. Since e-gold itself never accepts payment in any form from the public it is not exposed to the default or fraud risks (or other costs) that plague all credit based systems.

Stated differently, the recipient of payment in any credit based system will always be exposed to at least the costs and payment reversal risks of the financial intermediary or intermediaries processing their payment.
Again, using Paypal as an example, for every $million of Total Payment Value (TPV) processed, PayPal extracts net revenue of $38 - 40 thousand. About $26 - $30 thousand per million TPV is primarily comprised of PayPal's direct cost for bank/credit card interchange fees, since an increasing proportion of what is already the majority of PayPal payments continue to be "funded" by credit card. Thus, this puts a rather high lower bound on how low PayPal's net revenue per $million of TPV can go for PayPal to remain profitable.

In contrast, the gross Spend fee revenue per million units TPV in e-gold has always been about 2 thousand.

(Q) Might e-gold now require a monthly fee to operate an account beyond agio/storage?

We don't anticipate any additional monthly fee. Our to-do list does however include implementation of an automated lost-password replacement protocol that would entail a fee that tracks the cost of mailing a code to the User.

(Q) Can OmniPay open again? Will OmniPay ever move to or operate from Africa as proposed?

It is the intent of the Directors of Gold & Silver Reserve to get OmniPay up and running again. One of the challenges is to obtain licenses from the various states that require it.

OmniPay remains committed to an Africa strategy but that does not entail moving OmniPay's Operator function offshore. The original plan was for OmniPay Africa to lease the right to act as the principal for customer exchanges but for G&SR to continue serving as Operator. For the moment, however, other matters, such as G&SR/OmniPay obtaining state licenses and working through other critical tasks on its AML Compliance Enhancement Plan are more urgent.

(Q) In order to establish if a financial profit was generated by rising gold prices in a funded account, will an IRS form be required each time digital gold is sold? *(As Crowne Gold required)*

Our sense is that exchange rate fluctuations are incidental, similar to when a person travels internationally and the exchange rate used for computing credit card charges fluctuates, sometimes in the card holder's favor, sometimes their disfavor. I think it would be more appropriate to regard/treat e-gold as a "foreign currency" rather than as an investment. However, my personal opinion should

not be construed as accounting or legal advice to e-gold Users.

(Q) Might e-gold consider an in house debit card for withdrawals

No. Debit cards are useful but will always remain in the purview of exchange providers and other financial intermediaries. That is not to say however that e-gold will not eventually evaluate other interfaces for Users to enter Spend orders.

(Q) Will e-gold accounts still be offered to almost every country around the world or will e-gold be forced into a country by country selection as PayPal does?

Temporarily, pending further progress in the area of Customer Due Diligence and Transaction Monitoring, e-gold is suspending support for e-gold Users in selected jurisdictions that are regarded as high risk for money laundering and other criminal abuses. We regard it as urgent however to implement these additional safeguards that will enable us to restore service to these countries. This is a separate matter, however, from OFAC sanctioned countries. OFAC sanctioned countries remain strictly off limits for e-gold.

(Q) Now that the bulk of legal issues appear to be sorted out, should or could the current e-gold Ltd. company just pack up and move outside the US or open additional foreign offices (Panama?)

A silver lining of the protracted legal struggle is that e-gold now has a path forward as a regulated US financial institution. I can't conceive of a better means for e-gold to break clean from the reputation issues that have plagued it over the years and finally emerge to play a role in the financial and commercial mainstream.

Regardless of where e-gold Ltd. itself may be domiciled, or which contractor serves as Operator, e-gold is committed to continued compliance with US law and regulation.

I would like to especially thank Dr. Jackson for taking time out to answer my questions.

I think I speak for a large part of the DGC Industry when I say, "We wish you the best in your future e-gold business along with good health & prosperity for you and your family."

US Patriot Act

Section 359 of the USA PATRIOT Act expanded the definition of "financial institution" to include not only a licensed sender of money but any other person who engages as a business in the transmission of funds, including any person who engages as a business in an informal money transfer system or any network of people who engage as a business in facilitating the transfer of money domestically or internationally outside the conventional financial institution system.3

Any individual or group of people engaged in conducting, controlling, directing or owning an informal value transfer system in the United States is operating as a financial institution. Therefore, IVTS operators must comply with all Bank Secrecy Act (BSA) requirements, which include establishment of an anti-money laundering (AML) program4, registration with the Financial Crimes Enforcement Network (FinCEN) as a money services business5, and compliance with the record keeping and reporting requirements, which include filing suspicious activity reports (SARs)6.

3 See 31 U.S.C.5312(a)(2)(R)
4 See 31 CFR 103.125
5 See 31 USC 5330 and 31 CFR 103.41. The registration requirement applies only to principals of such businesses, and not to their agents.
6 See 31 CFR 103.20

E-GOLD POLICY REGARDING EXCHANGE SERVICES

e-gold Ltd., the Issuer of the e-gold family of e-metals, does not provide exchange services. The e-gold community of Users has always relied upon independent providers of exchange who offer their services on a competitive basis. Prior to October 2008, e-gold did not undertake to regulate exchange services other than to exercise its Right of Association to block the e-gold accounts of entities suspected of fraud, money laundering or other criminal abuse.

As of October 2008 this policy is changed. e-gold now requires the following of any institution or business [bank, MSB, exchange service or other financial institution] offering exchange between e-gold and other media (national currencies or privately issued liabilities):

Exchange services offering service to US-based customers must:

- register with FinCEN as a financial institution, and,
- restrict service, offering exchange only to customers in states where the service is licensed or where the state has issued a written determination to that service indicating that a license is not required.

Exchange services that do not serve US customers must:

- activate and maintain the “exclude-US” feature on any e-gold accounts used for provision of exchange services,
- obtain registration and relevant licensing in the jurisdiction they conduct business in.

In addition, e-gold Ltd. will conduct Enhanced Due Diligence (EDD) on all exchange services providing exchanges involving e-gold. The specific requirements of this EDD may be amended from time to time at the discretion of e-gold Ltd. or to comply with externally imposed regulatory requirements.

As of October 2008, exchange services should provide:

- Articles of Incorporation
- Company organizational structure
- Certificate of Good Standing
- Proof of FinCEN registration (US Companies)
- Proof of license for states requiring licensure
- Financial statements

- Geographic areas served
- Names of company principals
- List of principal's ownership in any other company
- Signed and notarized copy of principal's passport or drivers license
- Notarized copy of a utility bill showing principal's home address
- A signed and notarized agreement listing:
    1. The names and relevant addresses, telephone numbers, e-mail addresses and e-gold account numbers of the principal owners,
    2. URL of Web site offering prospective exchange services along with e-gold account numbers that will be used
- Signed copy of the current G&SR/OmniPay User Agreement
- Signed copy of the current e-gold User Agreement

A competitive market for exchange continues to be a vital element supporting the emergence and usefulness of e-gold. Balanced against this need for innovation and competition, however, is the necessity of risk-based measures to combat money laundering or terrorist finance. Accordingly, it shall also be the policy of e-gold to monitor e-gold transactions in order to detect exchange services that have not complied with e-gold's policy. Upon detection of a business offering exchange that has not complied with this policy, e-gold reserves the right to take measures it deems necessary to assure compliance.

(This is a draft document subject to change.)

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Set It and Forget It Harnessing Collective Wisdom to Achieve Monetary Stability

by Dr. Douglas Jackson, from the e-gold blog

Ben Bernanke, Chairman of the Federal Reserve, in his keynote address this week at the Cato Institute 25th Annual Monetary Conference further elaborated his intention to increase the transparency and collegiality of the analytical processes that inform Fed monetary policy. One element of the new transparency will be to publish the forecasts of individual FOMC members in a fashion that enables the public to better observe the range, diversity and provisional nature of forecast projections.

The Fed move, in my view, indirectly acknowledges that collective wisdom can be harnessed in a way that generates predictions of greater accuracy and validity than any individual, regardless of expertise. As noted, however, by William Niskanen, Chairman of the Cato Institute, all of this systematic transparency goes out the window - suspended when a macroeconomic shock threatens an untimely recession. Abrupt ad hoc seat-of-the-pants mode comes into play whenever an asset bubble (likely induced by previous Fed reactions) starts to collapse.

Recent literature examines how, in certain properly conceived settings, collective wisdom, instead of manifesting a dysfunctional madness-of-crowds trajectory, may be the optimum predictive or analytical paradigm. James Surowiecki relates that an average calculated from a large number of guesses - such as the number of pennies in a large jar - tends to be more accurate than any individual estimate. Oddsmaking, pricing of futures contracts, perhaps even maintenance of factual content neutrality on Wikipedia further illustrate the phenomenon.

This note contrasts two qualitatively different institutional arrangements for systematic metering of a money supply; a conventional government central bank, using the Fed as example, vs. e-gold.

The Fed reality is discretionary and given to politically pressured interventions to overrule itself. The e-gold model is automatic and immune to override.

It is necessary to contrast:

1. the processes by which information is channeled and assimilated into protocols that lead to monetary policy implementations, and,
2. the levers by which adjustments are effected.

Both systems have two sets of levers:

1. Procedures by which M0, the aggregate quantity of base money, may increase or decrease.
2. Mechanisms that influence broad money supply (M1-2) by affecting the terms by which base money is made available to the banking system.

With the Fed:

1. M0 is modulated by open market operations with primary dealers.
2. M1-2 is influenced mostly by setting and maintenance of the Fed Funds rate and to a lesser degree by the discount rate. There is a bidding process whereby banks compete with each other for the deposits of the public but the choice is limited to which bank or financial intermediary to lend to rather than whether to lend money to the financial system at all.

In the case of the Fed and every other government central bank, both sets of procedures entail discretion. The Fed itself initiates the buy or sell orders that implement open market ops. The Fed funds target rate is obviously determined/ announced and, to some extent, made effective, by the Fed.

In contrast, once banks have embraced e-gold and an e-gold broad money supply, i.e., AUG denominated deposits, payable in e-gold, has emerged...

With e-gold:

1. M0 is modulated by open market operations with primary dealers.
2. M1-2 is influenced entirely by the aggregated individual decisions of Users of AUG.

M0 (and other monetary aggregates), open market operations, and primary dealers in the AUG economy all have similar meanings, but also have key differences...

Unlike the Fed, e-gold Ltd, the core e-gold institution performing e-gold (M0 in the AUG economy) issuance and settlement, is unable to make open market operation decisions. e-gold Ltd is neither itself a financial

GoldMoney

where your money is still
worth its weight in gold.

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institution, nor is it exposed to financial institutions to the extent that it has no bank accounts, and thus no way to receive, emit or order the emission of a conventional money payment.

As a result it is not able to buy gold and bail it into e-gold reserves for the purpose of issuing additional e-gold liabilities, nor (for the same reason) is it able to redeem e-gold –allowing a quantity of liabilities to be extinguished and freeing up physical reserves to be removed/delivered/sold. Additionally, lacking bank accounts, e-gold Ltd itself also has no ability to own or hold gold, as it has no ability to buy or sell physical gold.

Bailment and redemption decisions are driven by the trading balance requirements of Primary Dealers. Bailments increase the assets held by the e-gold Bullion Reserve Special Purpose Trust (which exists to back e-gold in circulation for the benefit of all e-gold Users collectively), and correspondingly cause new e-gold to be minted. Redemptions decrease the assets held by the e-gold Bullion Reserve Special Purpose Trust, and correspondingly cause existing e-gold to be extinguished (removed from circulation).

The trading balance requirements of Primary Dealers in the AUG economy are dictated by the aggregate individual decisions of all e-gold Users rather than by a central authority; therefore, the circulating amount of AUG M0 (e-gold) derives from collective wisdom rather than centrally controlled, politically influenced, monetary policy.

The unprecedented attribute of e-gold is that the real-time gross settlement system for base money (the portion of AUG consisting of direct liabilities of e-gold Ltd) is available to the general public, allowing each individual the ability to decrease or eliminate their exposure to the banking system or any other financial intermediary. Each and every e-gold user (in addition to deciding the quantity of AUG M0), directly determines, minute by minute, 24/7, how much base money (e-gold) is made available to the banking system for use as reserves (AUG denominated liabilities - i.e. AUG M1-2), and the interest rates at which she is willing to lend to the banks or other financial intermediaries across the full spectrum of maturities.

But what about crises?

Since e-gold has no ability to override the automated mechanisms that govern base money and broad money supply – what could be done in the event of a shock? The responsive assertion is that:

1. The exquisite sensitivity of a huge cohort of individual e-gold users voting with their feet, with zero-latency of their feedback, and,
2. The elimination of moral hazard,

is likely to attenuate the amplitude of swings in aggregate demand and forestall shocks of a bubble forming/bursting nature.

Vera Smith, in her landmark 1936 essay "The Rationale of Central Banking" concluded; "How to discover a banking system which will not be the cause of catastrophic disturbances, which is least likely itself to introduce oscillations and most likely to make the correct adjustment... is the most acute unsettled economic problem of our day".

This monetary holy grail - an automatically self-correcting mechanism for metering money supply and credit is why we created e-gold.

[set it and forget it!]

In another note, however, I will need to address transitional effects. To preview - in the long run e-gold is the ultimate leveler of playing fields. Getting there however will tend to temporarily create winners, losers... and whipsaw effects on exchange rates. The prudent course for early adopting banks will be to reserve their AUG deposits heavily at first, biding their time until exchange rates stabilize before becoming fully loaned up.

http://blog.e-gold.com/2007/12/set-it-and-forg.html

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http://blog.e-gold.com/index.rdf

Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto, http://www.bitcoin.org

What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party. Transactions that are computationally impractical to reverse would protect sellers from fraud, and routine escrow mechanisms could easily be implemented to protect buyers. In this paper, we propose a solution to the double-spending problem using a peer-to-peer distributed timestamp server to generate computational proof of the chronological order of transactions. The system is secure as long as honest nodes collectively control more CPU power than any cooperating group of attacker nodes.

A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without the burdens of going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted party is still required to prevent doublespending.

We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work.

The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as honest nodes control the most CPU power on the network, they can generate the longest chain and outpace any attackers. The network itself requires minimal structure. Messages are broadcasted on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

Bitcoin is a new design for a fully peer-to-peer electronic cash system. A C++ implementation is under development for release as an open source project.

Main properties:
- Double-spending is prevented with a peer-to-peer network.
- No mint or other trusted parties.
- New coins are made from Hashcash style proof-of-work.
- While users are generating coins for themselves, the proof-of-work is also powering the network to prevent double-spending.

Download the PDF: http://www.bitcoin.org/bitcoin.pdf

Anybody Seen Our Gold?

The gold reserves of the United States have not been fully and independently audited for half a century. Now there is proof that those gold reserves and those of other Western nations are being used for the surreptitious manipulation of the international currency, commodity, equity, and bond markets. The objective of this manipulation is to conceal the mismanagement of the U.S. dollar so that it might retain its function as the world's reserve currency. But to suppress the price of gold is to disable the barometer of the international financial system so that all markets may be more easily manipulated. This manipulation has been a primary cause of the catastrophic excesses in the markets that now threaten the whole world. Surreptitious market manipulation by government is leading the world to disaster. We want to expose it and stop it.

Who are we?

We're the Gold Anti-Trust Action Committee Inc., a non-profit, federally tax-exempt civil rights and educational organization formed by people who recognize the necessity of free markets in the monetary metals. For information about GATA, visit www.GATA.org.

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GATA

Bailouts, BandAids & Bullsh*t The smart money is in BULLION

Ignoring inflation, gold prices during this past month reached their all-time highest levels as measured in Australian dollars, British pounds, Canadian dollars, Indian rupees and South African rand.

Are you worried about the long term effects of the so called 'bailouts'?

Do you think that the new trillions of U.S. Dollars swimming around the globe will cause massive inflation and a long term devaluation of the US dollar?

If you answered 'yes' to any of these you are not alone. Both old and new money is now flowing out of U.S. Dollar investments and into gold bullion products at a super-sonic pace. The digital marketplace for gold products is experiencing the biggest increase of retail accounts & buying in it's history.

Natalie Dempster, the WGC's head of investment, said: "The question we get from high net worth individuals and funds is no longer 'why should we invest in gold?', but 'where can we go to buy it?' "

It has been called the Great Gold Rush '08 and in the face of enormous demand, this event has highlighted a global shortage of retail gold bullion products. Buoyed by strong fundamentals, increasing shortages and delayed deliveries, premiums are soaring on physical bullion products across Asia, Europe and the United States.

Pressure and demand is mounting for mints around the globe.

The largest bullion coin mints are running flat out to meet demand. According to Bloomberg, the Austrian Mint has more than tripled production of Philharmonics. In fact, the Austrian Mint, has even added a third work shift in order to boost production of these coins. From January '08 to early October, the Austrian mint produced 370,000 of the Philharmonics which is compared with just 96,000 for the entire previous year '07. Just last month, the Austrian Mint sold 100,000 one-ounce gold coins. Normally, it takes three to four months to sell that quantity.

Peter Munk, chairman of Barrick Gold Corp., owner of the world's largest gold reserves, predicts that bullion prices will continue rising, pushed by large-scale purchases by "major, major" holders of dollars worried about the U.S. government's bailout plan impact on currency. http://www.canada.com/victoriatimescolonist/news/business/story.html?id=946b09ff-4c05-4e51-b4e4-0640aaaab886

Incredibly COMEX gold continues to slide in price while premiums are rising on smaller bullion products such as one ounce coins and 1 kilo bars. COMEX gold futures contracts are NOT actual gold bullion.

COMEX gold is a form of debt. It involves one party promising to produce gold (money) to another at a future date. Like all forms of debt, a COMEX futures contract is only as good as the counterparty behind the contract. Right now, because of low margin requirements, sellers of gold futures only have enough gold to cover 10% of outstanding contracts stored in COMEX warehouses. Considering that the biggest sellers of gold futures contract are insolvent financial institutions, it is obvious that COMEX gold has enormous counterparty risks.

If even a quarter of outstanding contracts asked for physical delivery, it would be enough to guarantee a default. Since a financial collapse would actually creates the risk total default (insolvent banks can't produce the gold or cash), COMEX gold fails miserably as a safe haven . This is why COMEX gold prices are falling, while physical gold is disappearing from the market place.


ASSAYERS
MELTERS
9999

*http://www.marketoracle.co.uk/index.php?name=News&file=article&sid=6952
(By Eric deCarbonnel the Editor of Market Skeptics http://www.marketskeptics.com)

Bloomberg has been reporting lines of buyers on the street outside ATS Bullion, the biggest gold coin and bar retailer in London. Earlier this year, the U.S. Mint temporarily suspended sales of its American Buffalo one-ounce bullion coins because of low inventory, and just recently it announced that no more half-and quarter-ounce American Eagle gold coins would be made for the rest of this year.

GOLD IS THE BRIDGE ACROSS THE LOOMING GAP OF CURRENCY FAILURE. YOU DON'T KNOW WHAT IS ON THE OTHER SIDE, BUT IT IS A GOOD BET THAT GOLD WILL BE EXCHANGEABLE FOR THINGS LIKE EQUITIES AND REAL ESTATE AT GREAT PRICES.

The Perth Mint, which produces 10 per cent of the world's bullion, including Kangaroo coins, has doubled its output in the past six months. Perth Mint sold 62,630 ounces of gold coins in the three months to Sept. 30, compared with 154,501 ounces for the 12 months to June 30. RAND Refinery in Johannesburg is moving to double its capacity to produce Krugerrands.

Local gold outlets in Thailand have suspended trading of gold bars on Saturdays and Sundays until early next year. Manager of the Gold Traders Association said the merchants agreed to suspend trading of gold bars on those days, citing short supply and the precious metal's wild price swings due to rampant price manipulations in the market. He was quoted saying, "Gold mines refuse to sell their output, while price manipulation abounds", he also stated that one of the difficulties for local traders is those who want to buy gold need to complete full payment immediately once a purchase deal is reached, however because of short supply, delivery of the gold takes 7 to 15 days! Over the last five years, Thailand's gold trading structure has shifted markedly to bars from ornaments. Gold bars currently make up 80-90% of daily gold trading at outlets.

German gold dealers say demand has skyrocketed this past week to 10 times normal so no more orders can be taken for the foreseeable future. "The demand exceeds our capacities by a great deal," said Heiko Ganss, head of precious metal company Pro Aurum. "The requests cannot be satisfied right now," a dealer from the Düsseldorf WGZ Bank confirmed. "Demand for gold as a conservative investment has risen dramatically," said stephan Henkel. "right now the demand is about 10 times as high as in normal times." Gold deliveries now take between four and six weeks.

Cashing in on demand, the Indian postal service has even started selling small coins. This month, India Post launched a joint venture with Reliance Money and the World Gold Council to sell Gold Coins through its 100,000 branches. World Gold Council is reporting that nearly 50 tonne of gold, the highest this year, was sold between August and early September. In fact, Indian jewelers are now faced with a supply crunch and wholesalers are charging a premium over and above the base price*
http://timesofindia.indiatimes.com/Nagpur/Its_gold_rush_even_at_premium/articleshow/3641561.cms

There are now three banks selling paper gold in China, starting at 10 gram for around 2000 yuan. Real gold costs more. At six banks that trade gold bars in the country, at least one spends tens of thousands of yuan for a small gold bullion. But it will be very complicated when sell them back to traders.

Bigger and more veteran investors usually go through gold trading companies or agencies, which are involved in trading at the Shanghai Gold Exchange. They at times own gold indirectly by buying shares in gold trust, gold mining stocks, gold options and futures.
http://www.cctv.com/program/bizchina/20081106/103719.shtml

In Russia, jewelry sales surged 50 percent and more in the past two months. Russian sellers directly link the trend to

END THE FED

11:22:08

On the night of November 22, 1910, a group of newspaper reporters stood disconsolately in the railway station at Hoboken, New Jersey. They had just watched a delegation of the nation's leading financiers leave the station on a secret mission. It would be years before they discovered what that mission was, and even then they would not understand that the history of the United States underwent a drastic change after that night in Hoboken."
*From "Secrets of the Federal Reserve", by Eustace Mullins.

So began the dark conception of the Federal Reserve System, a creature which many economists and Constitutionalists argue is responsible for devouring the political and financial wealth of America. The U.S. Dollar has seen a better than 98% decline in its purchasing power since the time of that meeting at the exclusive resort on Jekyll Island, Georgia.

On November 22, 2008, ninety-eight years later, there will be rallies at every Federal Reserve Bank and office in the country. Activists will demand an end to private banker control over the nation's money supply and the return to a hard, commodity backed monetary system. Their slogan is simple and direct: "End the Fed! Sound Money for America!"

November 22, 2008: End the Fed!
Rallies for Sound Money Will Highlight Unconstitutional Monetary System

End the Fed! supports the passage of Representative Ron Paul's legislation which would repeal the Federal Reserve Act, H.R. 2755.

Rallies will be held in the following 39 cities:

Boston, Philadelphia, New York City, Buffalo, Cleveland, Cincinnati, Pittsburgh, Richmond, Baltimore, Charlotte, Atlanta, Birmingham, Jacksonville, Miami, Nashville, New Orleans, Chicago, Detroit, St. Louis, Little Rock, Louisville, Memphis, Minneapolis, Helena, Kansas City, Denver, Oklahoma City, Omaha, Dallas, El Paso, Houston, San Antonio, San Francisco, Los Angeles, Phoenix, Portland, Salt Lake City, Seattle, Washington, D.C.

the aggravating economic crisis and are convinced that the majority of their customers are buying jewelry for investment purposes, trying to preserve their savings.
http://mnweekly.ru/business/20081024/55352576.html

Russians were legally allowed to buy gold bullion in 1997, and today, most major banks offer the service. Besides Webmoney's WMG purse backed by gold bullion, one of the easiest methods for Russians to invest in gold is to open a cashless metals account with a bank. It is denominated in grams of gold instead of monetary units. Russia's Central Bank defines the gold price daily, based on international trading; commercial banks set prices which are 0.5 to 2.5 percent higher than the regulator's. cashless metals accounts are not covered by the government deposit insurance system. Unfortunately these accounts are not insured.

Internet sales and demand for digital gold products has skyrocketed. Blanchard and Company which is one of the largest precious metals retailer in the US has stated that visitors to their web site have increased by approximately 1000% since September. Cnet News had a great article recently which quoted Google's chief economist, Mr. Hal Varian, stating that has been an "obsession" with related search terms among Google users, with "huge increases" in searches for Gold, home safes, Libor, and money market funds.

Digital Gold Companies

Over the past few months, as individuals have sought protection for their savings, Digital Gold Currency (DGC) operators around the world have all reported unprecedented demand.

Mr. Zeno Dahinden, CEO of e-dinar.com had this to say:

"Our business is booming - we do more than 10 times the turnover we did just a few months back. While regular investment purchases (i.e. customers that buy bullion and store it with us) have increased about two-fold, our gold (and until a few days ago silver) production business is what really started to boom (silver we had to discontinue because we cannot buy physical silver anylonger). This increase was greatly helped by the majority of European producers having to stop taking orders because their production cannot keep up with the orders. At present, we are one of the very few that are still able to produce smaller bars and deliver them to customers in a timely fashion. We are the sole distributor for Emirates Gold in EMEA and produce with them small gold investment bars and coins starting at 1 gr, 2.5 gr, 5 gr, 10 gr, 20 gr, 1 oz, 50 gr, 100 gr, 500 gr and 1 kg. Once major suppliers such as pro Aurum and Heraeus closed their online shops because they were not able to produce fast enough to fulfill running orders, we experienced an unprecedented ramp-up from 12 to 15 kg in gold production per week to 120 to 150 kg in gold production per week. Almost all of these bars go to Germany, a small part to Switzerland and soon also to Spain. This is why our turnover has increased more than 10-fold. Most of it is related to the production of small bars which we deliver to wholesalers for retailing."

Founder of GoldMoney.com, Mr. James Turk has seen his new customer growth triple in the month of September. GoldMoney.com bullion holdings on behalf of account holders passed $400 million in the month of September. In the last month, said James Mitchell, a customer support manager for Goldmoney.com, "business has quadrupled, it's gone up four to five times. It's really gone crazy here. We've been growing steadily over the last few years but we've had a boom in the last month."
http://news.cnet.com/8301-13578_3-10069856-38.html

Anglo Far East Bullion (http://www.anglofareast.com)
Recent currency volatility and financial institution fragility has been cited as the driving reasons for the record numbers of investors flocking to silver and gold in recent weeks looking for the stability and safe haven the metals have traditionally offered. Global bullion refining capacity has been quickly overwhelmed by the sudden spike in demand for physical bullion supply.

> *"People are often surprised to learn there are less than seventy industry accredited refiners in the entire world" said AFE's bullion treasury manager Simon Heapes this week, "refineries have been running three fully staffed shifts most of the year. The industry is just not geared for such huge spikes in demand as we have seen in recent weeks".*

Many refineries are announcing long delivery delays and many are taking no further orders till Q1 quarter of 2009, particularly for refining of smaller investor type bars and coins, while North America coin dealers have been out of all stock for many weeks.
AFE announced this last week after weeks of record demand it continues uninterrupted supply to its clients with allocated good delivery bars through its network of long term supply relationships and unique global infrastructure. "In peak times like these, long term multi-decade relationships are critical" commented AFE's Founding Director, Philip Judge.

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Ukash Has Three Big Announcements

http://www.ukash.com/

Ukash is a cash payment services provider for online and mobile commerce. Webmoney accounts can be funded with these vouchers. Ukash is aimed at those who wish to shop online but either do not have a bank account or a credit card or fear they will be the victim of credit card fraud or identity theft. The vouchers are a way shopping, playing and paying online that does not imply revealing private bank details.

Customers can pay cash for a Ukash voucher in a local shop where the PayPoint, payzone or e-pay sign is displayed. The unique 19 digit Ukash number is then used to pay for goods and services online. Ukash vouchers are available from thousands of convenient locations across Europe and direct to mobile on Vodafone UK. Ukash vouchers can be redeemed on lifestyle, shopping, Voice over IP, social networking, virtual worlds and gaming websites across 20 countries.

(1) UK online cash payment provider Ukash has selected mobile operator ***Telefnica*** to make its vouchers available at their telephone kiosks across Spain.

According to the agreement between the companies, the Spanish unit of the international social networking site Habbo is the first to accept Ukash vouchers from Telefónica kiosks, with initial values of EUR 5 and EUR 10.

In order to buy digital cash issued by Ukash at Telefónica kiosks, a customer must follow the prompts on screen and deposit coins for the voucher's value. By means of an SMS, they receive the Ukash's 19-digit unique code which can be used to buy products and services on the internet without disclosing any personal information.

Under the terms of the deal, Ukash is to make the vouchers available at 70,000 telephone kiosks across the country.

(2) Ukash has recently introduced UkashOut, a MasterCard prepaid card targeting online game players.

UkashOut provides players an easy way to turn their money in their gambling account into cash. It gives players access to their funds, regardless of how they were initially deposited. Once held and registered to the gaming account, the customers simply click a button to transfer funds from their gambling account to their card for withdrawal at ATMs. The cash will be available for withdrawal at an ATM or for use at any location across the world that accepts MasterCard. Customers can therefore turn digital currency into hard cash that they can spend anywhere.

The card also enables customers to spend online, over the phone or in shops. Poker and lifestyle website Chilipoker.com is the first operator that has selected UkashOut. UkashOut card is issued by gaming operators directly to customers who then select the value they want to see withdrawn from their gaming account and the amount gets credited to their card.

(3) For September 2008, Ukash, posted a 130% increase in UK and European issued prepaid vouchers over the corresponding period of the previous year. (wow!)


xerobank

The National Debt: Who Bears Its Burden?

Source: Congressional Research Service
(via OpenCRS)

The United States has been free of a national debt for only two years, 1834 and 1835. In its first year, 1790, the country faced a debt of $75 million. From FY1998 to FY2001, the federal government ran budget surpluses. Since then, the budget has returned to deficit, and the debt had risen to $5 trillion by 2007. It rose to a high of 108.6% of gross domestic product (GDP) at the end of World War II; declined to a post-World War II low of 23.8% of GDP in 1974; and, then, rose to another high of 49.5% of GDP in 1993.

The national debt results from borrowing to finance budget deficits. Historically, the major cause of debt accumulation has been war. The United States has financed the extraordinary expenditures associated with war by borrowing rather than by raising taxes or printing money. This pattern was broken by the large budget deficits of the 1980s, the first half of the 1990s, and the period subsequent to 2001, which caused the national debt to rise substantially as a fraction of GDP.

Although economists have long recognized that a national debt imposes an inescapable burden on a nation, they have debated whether the burden is borne by the generation who contracts the debt or is shifted forward to future generations. There has also been some controversy over the nature of the burden.

The current consensus among economists is that the burden of the national debt is largely shifted forward to future generations. However, the burden imposed by the national debt does not arise from debt per se, but from budget deficits that gives rise to a national debt. If an economy is fully employed and the government increases its expenditures, for example, the resultant increase in aggregate demand will cause interest rates to rise and this will reduce or “crowd out” interest-sensitive spending by the private sector. This type of spending is likely to be for capital purposes (e.g., business spending for plant and equipment and household spending for housing and durable goods including automobiles). As a result, the private capital stock inherited by future generations is likely to be smaller and their real income or output will likely be lower. It is the reduction in future output that constitutes the burden of the national debt and it is a burden borne largely by future generations. It is a burden that cannot be decreased by borrowing abroad even though foreign borrowing could leave unchanged the size of the private capital stock.

Crucial to the consensus view (and other views) is the assumption that the economy is fully employed. And the burden discussed must be regarded as a gross burden in the sense that certain intangible gains must be set against it such as freedom from tyranny and domination by a foreign power that might have occurred had the United States lost such a contest as World War II.


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