Selling fantasy-world assets for profit raises real-life concerns

by Kathryn Balint

Booming virtual economies in online worlds such as "EverQuest II," "World of Warcraft" and "Ultima Online" are fueling the real-world economy - and spawning real-life moral and financial issues.

"The lesson of these virtual economies is that the line between play and work is not as solid as we used to think it was," said Julian Dibbell, author of the book "Play Money: Or, How I Quit My Day Job and Made Millions Trading Virtual Loot."

GAMING GOLD - Entrepreneurial players have figured out how to turn loot from â€œvirtual world' games into cold, hard, nonvirtual cash. CNS Photo Illustration.An estimated 100 million people worldwide subscribe to what are known as massively multiplayer online role-playing games, in which players typically pay monthly fees to slay dragons, cast spells and pursue hidden treasures in Tolkienesque worlds. By accomplishing tasks along the way, players acquire money, goods, strength, special powers and status.

Entrepreneurial players have figured out how to turn their virtual loot - everything from magic armor and iron ingots to their characters themselves - into cold, hard, nonvirtual cash. Sales to players who are short on time or skill have created a cottage industry - often called "gold farming" - and given rise to theft and tax questions.

In need of a "World of Warcraft" dwarf hunter, level 60? One sold for $315 on eBay recently. A ranger, level 70, in "EverQuest II" went for $400 at the online auction site.

Some characters have fetched thousands of dollars - even though some of the transactions are against the game publishers' rules. The sellers peddle their goods online, then arrange to exchange them with the buyer within the game.

"There are real economies and currencies inside these games," said Isaac Kato, a venture capitalist with General Catalyst Partners in Cambridge, Mass. "Like any money system, they come down to time and things that people want. People who want to get ahead in the game, but don't have the time, are willing to pay real money to buy items or in-world currency."

Dave Dorman, a freelance artist in Geneva, Ill., realized he had a hot commodity when he received a card with a code for a small virtual pet in "World of Warcraft" at a gaming convention earlier this year. The card was available only to the 1,500 or so people who had attended the convention.

Dorman put his card on eBay, and it sold for $310 to a buyer in France.

"The pet looked like a little monkey or something, just a fantasy-type character," Dorman said. "But it's a status symbol, and the hard-core players who couldn't make it to the convention were willing to pay hundreds of dollars for it."

The brisk real-life trade generated in the $3.4 billion online game industry has drawn the attention of a U.S. congressional committee, which is investigating whether the virtual assets and virtual incomes should be taxed.

Cyber criminals also have begun to target the games, stealing players' passwords, then selling their virtual stash for real money. For his book, Dibbell tracked down online game players who have bought and sold virtual wares. Among them:

- A 29-year-old construction worker who spent six months building a virtual tower, and the 43-year-old bread deliveryman who paid $760 for the piece of make-believe real estate.

- A former chemist who now makes more money as an online retailer selling virtual items from "Ultima Online."

- A man who claims he makes $4,000 a week farming for virtual gold on "Ultima Online."

Dibbell challenged himself to see how well he could do peddling magic swords, enchanted breastplates and the like. The result: Between March 2003 and April 2004, he pocketed $11,357. Edward Castronova, an associate professor at Indiana University, has studied the online world of Norrath, the "EverQuest" universe that got its start at Sony Online Entertainment.

In a paper published in 2001, Castronova calculated that "EverQuest" players were generating $2,266 a year per capita in the game. If Norrath had been real, and not fictional, its gross national product would have made it the 77th-richest country in the world at that time. But those figures were for the virtual economy. Dibbell estimates that the real-life sale of virtual goods generates $880 million annually.

The market for virtual goods isn't limited to sales on eBay. It has spawned online stores and even, reportedly, sweatshops in Asia, where workers play nonstop to amass virtual treasures that are then sold in real life.

Some players say it's cheating to buy virtual goods. Yet, Dibbell estimates that as many as half have done so. "It's funny, because if you take polls, 60 percent of players say they're against this happening at all, and then 50 percent of the people say they do it," he said.

Game publishers have wrestled with the ramifications of virtual loot sales.

Blizzard Entertainment, for instance, publisher of "World of Warcraft," said its terms of use clearly state that in-game items are the intellectual property of the company and are not to be sold for real money.

Blizzard spokesman Shon Damron said the company will ban players caught violating the rules and reserves the right to take legal action. "Blizzard will take any and all actions necessary to stop this behavior," Damron said. "Not only do we believe that it is illegal, but it also has the potential to damage the game economy and overall experience for the many thousands of others who play 'World of Warcraft' for fun."

The unauthorized, black-market auctions of "EverQuest" characters and goods grew so rapidly that Sony Online Entertainment had to hire someone to police eBay full time. With the introduction of "EverQuest II," Sony decided if it couldn't beat 'em, it should join 'em. It opened the Station Exchange last year so that players could legitimately auction items from "EverQuest II." Items for sale are placed in a special account so that Sony can ensure that the buyer receives what he or she paid for. Sony takes a cut of the proceeds and caps each sale at $2,000.

In the first year, $1.87 million worth of virtual items were sold through the Station Exchange. One player made $37,435 by selling goods in 351 auctions that first year.

"The thing we've seen with the Station Exchange is that buyers tend to be people with a higher disposable income and not as much time," said Greg Short, director of Web development for Sony Online Entertainment. "This allows them to keep up with their friends by paying a little bit of extra money."

The brisk virtual economies of these online worlds have also bred criminals.

For Sony Online Entertainment, one of the biggest problems with unauthorized sales on eBay and elsewhere is that of unscrupulous sellers. They sell an account, complete with the character and all its belongings, then later try to reclaim the account by denying that any sale took place.

Short calls the scheme "virtual identity theft."

"There's a lot of risk associated with giving someone your user name and password," he said.

In October, security experts at F-Secure said an increasing number of hackers had begun to target the massively multiplayer online role-playing games. Hackers use malicious programs to steal the account information of an unsuspecting player, secure access to the virtual gold and other assets, then sell their ill-gotten gains online.

One reason criminals have begun targeting games is because it's not as risky as breaking into bank accounts. Hackers have developed malicious software that targets players of specific games, including "World of Warcraft" and the Korean online game "Lineage," according to F-Secure, based in Helsinki, Finland.

The buying and selling of items from online games has also raised tax issues.

Congress' Joint Economic Committee is looking into how to deal with virtual income in these virtual economies. Any real money made on selling online assets is, of course, taxable. But the question is whether the government can, or should, tax virtual assets. For example, if, within the game, a player is rewarded with a treasure for slaying a monster, should that treasure - which has dollar value in the real world - be treated as taxable income? Kato, the venture capitalist, doubts that will happen anytime soon.

"I'm a skeptic that there's going to be any real taxing or regulation for quite some time," he said. "We haven't even figured out how to tax Internet sales."

In the meantime, he says virtual economies - and the real-world sales of items from them - are going to grow. "It's a very real phenomenon, and I think it's going to get bigger and more real over time."

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