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## Virtual Economies, Virtual Goods and Service Delivery in Virtual Worlds

### February 2010

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## **On Money and Magic**

By Edward Castronova, Indiana University

**Keywords:** bank; currency; multiplayer game; fantasy.

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## **On Money and Magic**

By Edward Castronova, Indiana University

*“The Bank will strengthen management of the virtual currencies used in online games and will stay on the lookout for any assault by such virtual currencies on the real economic and financial order.”*

When the world first heard of virtual currencies in the early years of this century, some speculated that there might be a future blending of economy between the real and the virtual. That future came sooner than expected; the statement above was issued by the Bank of China in February 2007, in reaction to a genuine monetary shock produced by the virtual currency QQ Coins.

One recalls also from the early days of this century the repeated stories announcing that “someday” computers would be everywhere: in cars, refrigerators, vacuum cleaners, toys, telephones. As I write in December 2009, “someday” has clearly arrived, although no one reports about it. Similarly, no one reports that virtual and real economies are now, in fact, overlapping. That is so 2007. Media content continues to increase its share of our eyeball time and with it, the share of value being created and transacted through the wires.

Most people still stick on the immateriality of virtual value. A virtual gift given through Facebook is said not to be real. The U.S dollar is said to be real. A moment’s reflection reveals that the U.S dollar exhibits no more reality than a Facebook chotchke, yet the normal person still feels that there is something special about the Dollar.

What is it? What makes the Dollar special? Magic.Magic? Wait. You mean a real magic, a magic that genuinely exists? Yes, and indeed, nothing more than this: Magic is an identifiable sociological process by which individual fantasies become social reality. The magic in the Dollar flows like this: Individual people adopt a fantasy that a slip of paper with green and black ink and certain symbols has a certain worth in exchange. This is initially an individual fantasy, a madness, a construct, a dream. But then the individuals become aware that others share this same fantasy. They share it in general; they share the general as-if that slips of paper with ink may be worth something. They also share fantasy in critical particulars; they share the view that papers with 10 on them are worth twice as much as papers with five on them. These fantasists then become aware that everyone has become aware that everyone has become aware that... And so on, in infinite regress of awareness. It becomes common knowledge that the whole world has dreamed itself into believing that these slips of paper are worth something. In short, the whole world has gone mad.

In a mad world, what is a sane person to do? You might resist; you might stand on your toes and shout “This money is worthless!” But eventually you would need food and shelter and clothing and companionship. You would find that the only way to get these things was by trading in these worthless slips of paper, by giving in to the madness all around you. You would do best to simply allow the fantasy to be real for you.

The same logic applies to everyone: Given that everyone is dreaming, you should dream. The web of fantasies forces you to do so. It forces everyone to do so. Everyone dreams. Everyone is charmed. The whole world lives in a land of make-believe, not because they want to, but because they *have* to. Thus, fantasy is no longer fantasy, no longer a choice, no longer a dream or a hope or a fear or even a possibility or conjecture. It has become real, as real as the nose on your face.

Money's magic is strong in this way. Try to resist it. Try for one day. It is nearly impossible.

In the distant past, magic was largely emergent. Collective fantasies grew on their own. Then there evolved institutions that managed existing magics. The Bank of China is one such institution, managing the magic of Renminbi. When well-managed, magic is powerful: Its fantasy is adhered to by most people and the coordinated fantasies are quite close in details. The magic can be deep and wide; it can penetrate much of individual life. A well-managed magic can structure a great deal of behavior.

Humanity is now on the verge another step in this evolution: We are moving from exquisitely fine management of magic to explicit construction of magic. We need not merely manage the magic that we find; we can create new magic. We are becoming conscious that we ourselves are spell-casters.

Game designers who create virtual currencies cast spells, in words and in code, that induce the formation of certain fantasies in the minds of users. The money that results has certain features.

In the same way, any designer of a multiplayer persistent game is inducing shared fantasies and is therefore casting a certain kind of magic. It may be strong or weak magic, but it is magic: It is an invocation of shared dreams that creates a forceful and compelling social reality.

To move on to construction, to building, to foundation, is a natural step following deconstruction. The French philosophers of the 20<sup>th</sup> century destroyed everything. They tore the facades off the trees and showed that the trees were built, not grown. All very well; but the trees died from this treatment. Fields of dead trees are boring. What are we left to do but build? If all society is a construct, should we not set about building cool things?

As I write at Christmas time I am surrounded by binding realities that have been constructed out of fantasies. Like Scrooge, I have come to judge almost all of these magics to be not only acceptable but positively good: good for the soul. Perhaps there is no Santa Claus, but only a boor seriously thinks about shouting "THERE IS NO SANTA CLAUS!" I would like to up the ante: Denying Saint Nick is not only boorish but corrosive. It eats away at a positively wonderful and uplifting bit of magic, causing an unnecessary decline in happiness for countless others. Don't do it!

Unfortunately, in much old and new writing about imaginatory thinking, the dominant attitude praises debunking. The French philosophers delighted in taking things apart. Dennett (2006) urges us to break spells when we find them. Smug savants in virtual worlds and online media seek about for ways to disrupt whatever it is that people are more or less innocently trying to do.

Debunkers beware. The brio with which the magic of the virtual QQ Coin invaded and undermined the magic of the Renminbi should give us pause. As much as we may want to debunk and demystify a given magical practice, its power may surprise us. Such is the nature of any magic worth its pixie dust: It defies demystifying. Merely shouting that the Emperor has no clothes is often insufficient to make society act as though the ruler were naked. Maybe the people here like having a naked emperor with pretend clothes on. Who are you to object? Why not respect the spells woven around you, unless and until you see compelling reasons to fight them?

The Renminbi has restored its dominance, for now, not because the QQ Coin is obviously fake but because the spell-casters weaving the Renminbi are powerful indeed. Through the State, they command the attention of billions. But the weavers of QQ Coins have their own powers. Virtual world makers command attention through more subtle but quite possibly more penetrating and irresistible means: tools of affirmation, entertainment, comfort, sociality. We would do well to remember that the makers of game worlds weave magics of not only money but of many other things. They weave magics of language and law. They weave magics of meaning and technology. They weave magics of gods and demons. Moreover, game designers are learning to create magic whereas governments are only skilled at managing magics that already exist. Thus while they are the younger wizards, game designers may be the more powerful. When confronted by spell-casters of the State, they have remained comparatively placid—so far.