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VIRTUAL CLERK: An avatar of 'Blaze Columbia' stands in front of his virtual clothing store inside Second Life (secondlife.com). He sells virtual clothes to game players.
SECOND LIFE COURTESY OF MICHAEL ALONZO

A SECOND INCOME ON SECOND LIFE

Entrepreneurs sell virtual products in the online world – but the money they make is very real.

By [James Turner](#) | Correspondent of The Christian Science Monitor
from the January 22, 2007 edition

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"Blaze Columbia" is, by any measure, doing well with his line of designer clothing. He's on track to generate more than \$100,000 in annual profits, barely a year after launching his business. And that's in addition to a first career as a professional photographer.

There's just one big difference between the clothing that this Missouri resident produces and that of any other top-of-the-line dress or business suit: His don't exist – at least not in the physical world.

"Mr. Columbia" is an in-game name for a player on Second Life (SL), a Massively Multiplayer Online Role-Playing Game (MMORPG).

Columbia, who requested that his real name not be used because he wishes to keep his "real life" and "online life" separate, sells virtual clothing to other players, part of a purely electronic economy that's redefining how some think about the nature of money.

In a traditional sense, the word "economy" tends to evoke images of huge factories churning out products that are bought by consumers, who spend the money that they've earned by their labor – perhaps working at a factory. With the advent of the virtual economy that exists within SL, however, the "product" has been so far removed from a physical entity that it's unclear what value it holds.

SL claims more than 1 million users, allowing its "citizens" to mold their avatars (online representations) into whatever form they choose – from mundanely human to exotic animal-human hybrids – and interact with other members.

The website has already generated publicity as a place for distance learning and virtual concerts – and notoriety for its "adults only" venues and instability. But there's also a powerful and thriving economic engine whirling beneath its surface.

The official SL currency used for in-game commerce is the linden. Linden Lab, the privately held company in San Francisco that operates the website, currently sells the currency for about 275 lindens to the dollar.



REAL TEACHER: Doug Bassett, a senior technical instructor for Thomson NETg, has profited from teaching technology-related classes inside Second Life.
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IN VIRTUAL REALITY, VIRTUAL REALTY

One of the most common first purchases involves the massive land boom engulfing this virtual world. Linden Lab offers new users virtual land priced at well below the market rate inside the site. Some savvy real estate brokers have quickly purchased land from new users, still below the going rate, and resold it at a hefty profit. Deals are made using the game's built-in real estate market. In fact, one broker from Germany, whose real name is Ailin Graef, claims to hold more than 275 million lindens in SL assets, the equivalent of \$1 million.

Aside from real estate, an unknown but growing number of SL users have been making a living by delivering products or services to the more than 800,000 accounts active on the system in any two-month period.

According to Columbia, starting an SL business is much like doing so in the physical world. "There are many small differences, but it's so very like running a real-life business," he writes in a e-mail. "Marketing, branding, and good business practices are just as important as a good product. One major difference is that things move lightning-fast in SL. And the customer base is always new."

Doug Bassett (in-game name "Doug Latrell") also operates a successful SL business. As a senior technical instructor for Thomson NETg, a training company in Scottsdale, Ariz., he teaches courses that involve Cisco and Microsoft technologies. Mr. Bassett has now extended his company's presence into SL, offering its courses in the game world. Revenue from in-game sales of courses is more than \$10,000 a month and growing, he says.

A major factor in opening an SL branch was the "coolness factor and a unique way of meeting people that we wouldn't normally meet," he says.

This same "coolness" has led Dell Computers, Nissan, and Pontiac to offer virtual versions of their products for in-game use by players.

For now, only virtual products are sold on SL, but Dell plans to let SL users buy real-world versions of its SL products sometime in the future, perhaps as early as this summer. At the Consumer Electronics Show, held earlier this month in Las Vegas, IBM unveiled online stores for Sears and Circuit City that it developed on SL.

VIRTUAL AUDITS, ANYONE?

But not everything is sunny in the SL economy. The question of taxes on SL income is becoming a hot topic. The US House Joint Economic Committee has recently undertaken an investigation of the entire question of virtual economies, according to Dan Miller, a senior economist working for the committee. An avid user of virtual worlds (notably the most popular MMORPG, World of Warcraft), Mr. Miller is studying how tax policies might be adjusted to account for this new digital world. He plans to issue a report this spring.

According to Miller, some things are pretty clear. "The income tax already applies to income that is removed from virtual economies," he writes in an e-mail – as in when an SL user converts lindens back into US dollars. But the subject of taxing assets inside SL is more controversial, he says. "Based on our initial assessment of virtual economies ... virtual worlds need greater clarification, not additional taxation," he writes. "Governments have a hand in regulating many aspects of physical economies to one degree or another, while the government's presence in virtual worlds is relatively minor."

Some SL businesses already may be operating outside current law. Casino gambling and sports betting are pervasive in SL. The fact that bets are made in lindens, not dollars, won't shield gamblers from possible prosecution under federal laws banning Internet gambling, says Jaclyn Lesch, a spokeswoman for the US Justice Department. "Regardless of how one pays for the bet, it is still a bet if it involves something of value. While not a credit card or cash, [virtual currencies] would still be a thing of value" especially considering the fact that they are later redeemed for cash.

As for Linden Lab, the company claims that it is not responsible for illegal acts on the part of users, just as Internet service providers like AOL aren't responsible for actions committed by their users.

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"Second Life is a service, a platform, much like the Internet," says Catherine Smith, director of marketing for Linden Lab. "As with the Internet, users are responsible for ensuring that their activities fall within the bounds of the law within their local jurisdiction," She points to a "terms of service" statement that SL residents must accept, which prohibits any action that violates a law or regulation.

Aside from staying on the right side of the law, SL entrepreneurs must also face up to the possibility that their very world could end suddenly. If Linden Lab were to close up shop, the entire SL economy would disappear in an eye-blink. Even if Linden thrives, SL can sometimes be an unstable place to operate a business. Around New Year's, the system was plagued with numerous technical failures that took the world down for hours at a time. Digital vandals have been running rampant on SL, crashing large regions of the system with self-replicating pests.

Columbia is philosophical about the future. "We are dependent on the success of Linden Lab," he says. "I really do think we are digital pioneers in this world, and that there are a lot of things to work through. But SL or some form of a 3-D world will keep going because it really is a very unique and enabling place for many people. Whether a business can be maintained throughout the years, or even one platform of a 3-D world, is something I think can be done, but it certainly won't be easy."

SECOND LIFE ECONOMICS 101

For those considering life as a virtual entrepreneur on Second Life, the first step is to open an SL account. Basic ones are free, but if you plan to conduct any form of transactions, real money is involved.

One of the major expenses in SL is land. Those who want to buy "mainland" land, must upgrade to a premium account (\$9.95 per month) and purchase the land itself, which can be quite pricey.

Currently, one square meter of mainland land can be had for about 12 lindens – the website's virtual currency. A typical 512-square-meter plot costs about 6,000 lindens, the equivalent of \$22, based on the current exchange rate of 275 lindens to the dollar.

There is also a monthly "tier" charge, depending on how much land you own. The fee ranges from \$5 for the lowest tier to as much as \$195 per month for an entire region.

Users can also lease land on a private island, which doesn't require a premium account, but does require monthly rent payments to the island owner.

Once a business gets going, a businessperson can use the lindens they earn to fund in-game expenses.

Of course, they can also convert their lindens back into dollars (for a 3 percent service fee paid to site-creator Linden Lab).

Apart from the sale of "manufactured" goods, people also earn lindens by providing services, which can range from serving as staff in stores to working in the thriving escort industry, a polite term for virtual prostitution.

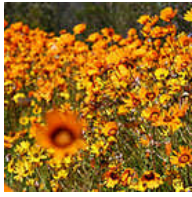


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