

Interview with **Dan MILLER**  
Joint Economic Committee of Congress, USA

Conducted by **Edward CASTRONOVA**

*In many video games, players exchange one resource for another. Sometimes the exchange is between the player and the developers, as when players pay gold coins to receive powerups. Other times the exchange is between two players. Along another dimension, the trading is usually entirely in the form of virtual assets but sometimes there is a real-world asset involved as well. For example, a game company might offer items in the game in return for a small real money payment (microtransactions), or a virtual world player might sell his gold pieces for Euros.*

*This interview is about government approaches to this trade. Three possible roles are regulation (setting limits on what can and cannot be done), taxation (creating tax fairness across real and virtual boundaries), and adjudication (settling disputes).*

**C&S: As a general idea, do you think the government must be involved in the regulation, taxation, and adjudication in trades of virtual items in video games?**

**Dan MILLER:** As a matter of public policy, I personally favor as little government intervention as possible in trades conducted entirely in video games. There are plenty of examples of real-world games where the government stays completely out of trades; many board games like Monopoly revolve around unregulated trades. The question of government oversight becomes more complicated once the trades involve real economic value. Still, it is an unavoidable fact that government tries to intervene, in one form or another, in virtually all commercial transactions. If nothing else, the allure of new tax revenue could entice government involvement.

---

**C&S: Do you think governments will become involved? If so, when? What kind of events would trigger intervention?**

**D. M.:** It is my belief that government will not constrain its own regulatory or taxing authority simply because a transaction occurs in a virtual environment. The federal government has already taken notice of the economic value flowing through virtual worlds. That recognition could turn into a more explicit governmental role as use of virtual worlds becomes more common and as the value of such transactions increase. With respect to taxes, I think it is simply a matter of time until we see the IRS issue a regulation or ruling dealing with virtual worlds.

I expect that two forces will drive government intervention in virtual trades. The first factor is the increased economic value of virtual trades and assets. From the demand side, as virtual transactions involve greater and greater value, participants will seek the same legal protections afforded to real world transactions. From the supply side, governments themselves will push for interventions, initially from executive agencies such as the IRS or Justice Department, and later from the courts. It would not surprise me if legislators are the last of the three branches of government to explicitly address virtual worlds. I expect they will increasingly take notice of virtual worlds and eventually we will see legislation that addresses legal, regulatory or economic concerns related to virtual worlds, particularly if participants are dissatisfied with the scope or reach of regulatory and legal oversight.

The second factor concerns crime and security. As with any new economic medium, virtual worlds will attract their share of the criminal element. With respect to virtual worlds, I imagine that the culprits that will likely command law enforcement's attention will be related to financial improprieties (e.g., tax evasion), terrorism, child exploitation or abuse, or IT security (e.g., viruses)..

**C&S: Virtual assets emerge from many kinds of environments. Video game environments rely heavily on immersion and fantasy for their market value. To what extent will government intervention destroy immersion, and therefore impose an unfair burden on this industry?**

**D. M.:** When it comes to regulation or oversight, the government tends to wield a sledgehammer, not a scalpel. It is a great concern to me personally that government intervention will adversely impact the gaming sector. Can you imagine playing World of Warcraft and having the game deduct a portion of each inter-player trade for taxes? Or perhaps game designers will impose limits on the features and flexibility of game play simply to avoid falling under the purview of the IRS or another regulatory agency?

Right now, game designers focus solely on creating a fantasy setting for their games. Once government intervenes, game designers will have to begin considering how their games might be subject to laws or regulations.

---

For example, will in-game trades be taxable? What legal rights do players have to found loot? Do players need to provide a Taxpayer Identification Number when they sign up? Far from allowing gamers to escape the ordinary concerns of the real world, games could increase exposure to them. Moreover, legal or regulatory concerns could force designers to alter games in ways that diminish their entertainment value.

One particular concern I have is that government regulations and laws intended for commercial or social virtual worlds (e.g., Second Life) will end up being applied to gaming worlds. For example, rules taxing virtual income in Second Life could be interpreted to apply equally to gaming worlds. After all, earning \$100 in Lindens is no different in economic terms than earning \$100 in gold pieces or ISKs. If the government seeks to regulate one type of virtual world, gaming worlds could end up being adversely impacted

**C&S: What limits should government place on itself to reduce the damage from the above?**

**D. M.:** The government does not, I believe, have a good track record of limiting itself. Indeed, in my experience, government intervention tends to expand over time and is rarely bound by earlier commitments to limit itself. If the government does assume an oversight role in virtual worlds, I personally do not expect commitments or promises of limited involvement to be respected. The courts may prove to be the most effective constraint on government action, though it very difficult to predict how they will come down on the various issues surrounding virtual worlds.