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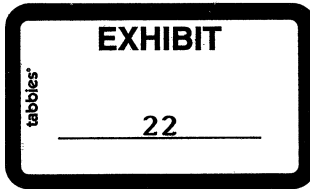
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TRANSCRIPT

Program Transcript

Read the full program transcript of Ticky Fullerton's report on virtual worlds, "You Only Live Twice".

Reporter: **Ticky Fullerton**
Date: **19/03/2007**



TICKY FULLERTON: Anshe Chung is world famous. Last year, she made the front cover of America's prestigious BusinessWeek magazine.

This is the woman behind the cartoon, based in Germany and China. And thanks to Anshe Chung, she's now a millionaire property developer.

AILIN GRAEF, VIRTUAL PROPERTY DEVELOPER: I never expect that I would be so successful. I mean, it was a very low expectation. I think that, "If I can pay for my internet access, it's good enough."

TICKY FULLERTON: But what makes her unique is that the exotic estates she sells are not real land. They only exist in a virtual 3-D world called Second Life.

VOICEOVER: Life beyond reality, where imagination knows no bounds, and the world is anything but ordinary.

TICKY FULLERTON: Virtual worlds are places on the internet you can travel to, make new friends and even make money. They may yet be more far-reaching than YouTube or eBay.

PHILIP ROSEDALE, CEO, LINDEN LAB: It's what we always imagined the internet to be. We always imagined it to be full of other people. We called it cyberspace, and we said that there were all these other people there, but when you're actually on a website, there's nobody else there. But in Second Life, there's always somebody there.

TICKY FULLERTON: You don't see Second Life as just an orgy of gambling, property development, retail therapy and sex?

KEVIN KELLY, CO-FOUNDER, WIRED MAGAZINE: Oh, yes, it certainly is, but that's what life is. That's first life.

TICKY FULLERTON: Tonight on Four Corners, we take you on an unusual trip, and ask just how far can we all go in virtual worlds like Second Life?

The way into a virtual world is through the computer, and the initiation has its challenges. I'm asked to select a name, 'Ticky Tripsa', for my virtual self, called an avatar, and then choose one of the basic avatar models on offer. Then it's off to Orientation Island for a lesson in basic life skills.

OK, connect. Here we are. And there's another avatar over there. Right, "Click me." "To walk around, press the arrow keys on your keyboard." Right. We're off. We're off. This is a bit trickier than it might look. Here we are, another hand. "Click on the hand." There we go. "Changing your appearance. You can change nearly anything about yourself. Right-click on you, click on 'appearance'."

Right from the word go, personalising the avatar creates a curious emotional bond between you and the little character.

You can have a mohawk if you want to. Look at that. Breast buoyancy, what's that? Up here, all the way - oh no, no. Up, up, up. That's better. Victoria Beckham. Excellent. Now...

After a hasty makeover, the next lesson is how to communicate. In 'Second Life' you don't talk, you and your avatar type.

There's a parrot. Oh, "How to talk." "Hello...Polly". "Hello, Polly."

Polly didn't reply.

Oh, look, here's somebody else. House of Twilight is saying something now. "Polly seems pretty quiet." Ha. "Yes, she does." "Must have been insulted." "You have a nice sense of humour." That's made me feel quite good, actually.

Rather surprisingly, I find I'm already taking compliments to my avatar personally, and also any failures.

Oh! I'm in the water. Er, helpless...no.

My flying lesson was much better.

Page up. Whoops. Oh, very high.

I'm now ready to teleport to where the action is.

Teleport anywhere popular in 'Second Life' and you may arrive before your clothes, as technology groans to catch up.

This is one of hundreds of social areas, a buzzing online 3-D chat room. Just like me, every avatar has a real person sitting at

a computer somewhere in the world, controlling them. The average age is 32, and 45 per cent are women. At any moment, around 20,000 people are logged in to 'Second Life', and everyone is beautiful or exotic.

VERONICA BROWN, VIRTUAL FASHION DESIGNER: My avatar looks like my mother, who was a drop-dead gorgeous woman.

LAUREN GELMAN, STANFORD LAW SCHOOL: Nicer looking than you are, and no grey hairs.

ASSOC. PROF. TED CASTRONOVA, DEPT OF TELECOMMUNICATIONS, INDIANA UNIVERSITY: Male, thinner, more hair.

TICKY FULLERTON: It's clear that residents spend not only time but real money on their avatars. You could hang out in here for free, but to look good, you need a credit card. Real dollars are exchanged for the in-world currency of Linden Dollars, where US\$1 is about 270 Lindens.

LUKE CONNELL, WORLD STOCK EXCHANGE: And once I got used to 'Second Life' I was able to go shopping, and I found out you could buy a particular body type, you could buy your face, you could buy the hair, the skin, the earrings, everything.

TICKY FULLERTON: Technology has come a long way in 30 years - from 'Space Invaders' to games like 'Lost Planet'. The huge jump has been from games against the computer to games against other people online in virtual worlds.

TED CASTRONOVA: Well, we have somewhere between 20-50 million people spending time in virtual environments. One game, 'World of Warcraft', currently has eight million paying subscribers, and that is more than 0.1 per cent of the real world's population.

TICKY FULLERTON: Behind this avatar is the virtual world's economic guru. Professor Ted Castronova was the first to put a value on these worlds.

TED CASTRONOVA: If you want to know what the typical productivity is of a person in these environments, it seems to be about \$2,000 per person, per year. So, that's a per capita GDP number. And it's roughly equivalent to countries like, I don't know, Bulgaria and so on.

TICKY FULLERTON: I found the creator of 'Second Life', or at least his avatar, Philip Linden, at his desk. Here there are no orcs or monsters to kill, but the enthusiasts say virtual worlds are far beyond games in evolution. In reality, Philip Linden is Philip Rosedale.

PHILIP ROSEDALE: All the stuff that you're seeing there was made by you and was made by other people, and you can change it. You know, you can reach out and literally grab it and change it. And that fact, the fact that it's a changeable 3-D world that everybody actually collectively owns, like we all own the web, is what makes it so different and what makes the experience of being there so different.

TICKY FULLERTON: Every one of these creations is controlled from here - downtown San Francisco. At its real world headquarters, Linden Lab, 'Second Life' only exists on computer servers - 6,500 of them. In the front office, Philip Rosedale

sells me 'Second Life', his favourite wild island.

PHILIP ROSEDALE: What's so cool about 'Second Life' is that all the computers that make up 'Second Life' are simulating all this stuff 24 hours a day. And so, as a result, you know, when the tree falls in the forest in 'Second Life', it does so even if you're not there.

TICKY FULLERTON: 'Second Life' has big-name backers, including the chief executive of Amazon.com and the founder of eBay, and venture capitalist, Bill Gurley.

BILL GURLEY, PARTNER, BENCHMARK CAPITAL: I've spent 30 minutes with Phil Rosedale, the CEO of 'Second Life', and wanted to invest, because he developed a platform where the third parties are developing the content.

TICKY FULLERTON: This is - the residents are actually...

BILL GURLEY: The residents are building the experiences. This thing has new content being built every day, and it expands at an exponential pace. So, to me, it was like, "Oh, my God, this is something we have to invest in. Have to."

TICKY FULLERTON: There's a strictly hands-off approach to governing in 'Second Life'. But, as we'll see, the freedom and lawlessness bring questions about control. To its creator, 'Second Life' thrives on a live-and-let-live philosophy, as a libertarian Utopia.

PHILIP ROSEDALE: If people, reasonably, can see what everybody else is doing, if there's lots of transparency, if the lights are on, as I like to say, people are basically good, and we see that in 'Second Life'. And I think that means that we want to govern as little as we can, and it also means that in the long term, we won't need to.

TICKY FULLERTON: For all the Silicon Valley excitement, there's a more basic industry that has been very quick to take up residence in virtual worlds, with a big following. You won't find it in 'Second Life's adverts, but enter this world, and you won't go far before you stumble across virtual sex. It's omnipresent - an extension of the chat room.

Amsterdam is a top destination. With a mouse click, an avatar can dance seductively in a window. Just like mannequins, though, you start life without your private bits. It's why the hot business is selling sex toys and sexual animations.

Welcome to Strokerz Toys.

STROKER SERPENTINE: Items? Items? I probably sell close to...200 items a day.

TICKY FULLERTON: It's here that I meet the owner, Stroker Serpentine, for an in-world interview. His voice belongs to the man who helped build 'Second Life's sex industry.

STROKER SERPENTINE: That is my number one selling penis.

TICKY FULLERTON: And that goes for 2,000 Lindens?

STROKER SERPENTINE: 2,000 Linden, which would basically be the equivalent of about US\$7.50.

TICKY FULLERTON: While I'm there, two avatars check out a basic sex animation.

STROKER SERPENTINE: You basically just click on the bed, and two balls will appear, a pink and a blue for a couple, and then you sit on the balls, and it animates you. And your good old basic missionary position there.

TICKY FULLERTON: And because they're new, this would be a first experience for them both?

STROKER SERPENTINE: Yes, they would. They're actually total strangers.

TICKY FULLERTON: But why would you bother?

Can you unwrap for me what virtual sex is about?

KEVIN KELLY, CO-FOUNDER, WIRED MAGAZINE: I can't, I'm sorry.

PHILIP ROSEDALE: I think that every new medium is driven by people's sort of wildest imaginations and fantasies, in the beginning. And I think that, you know, adult stuff is - is a part of that, and always - always will be a new medium ...

TICKY FULLERTON: I mean, one imagines - to be frank - you know, a lot of sticky keyboards. There is - there's no contact, is there?

PHILIP ROSEDALE: Yeah, I, you know, I don't - I don't know. It's interesting. Yeah.

TICKY FULLERTON: Anyway, it's very successful for you. Presumably, it's quite - quite financially successful, is it, for those involved, people like Stroker Serpentine?

PHILIP ROSEDALE: Yeah, Stroker.

STROKER SERPENTINE: Oh, don't feel bad. Everybody comes in looking the same.

TICKY FULLERTON: I feel like I need a bit of a make-over.

STROKER SERPENTINE: Yes, you could use some skin, and a few attachments.

TICKY FULLERTON: At Stroker Serpentine's private residence, he explains that what takes cyberspace to a new level is the typed messages between avatars. And that's where real money can be made.

STROKER SERPENTINE: We have escorts who are prostitutes who earn probably, in an exchange equivalency, \$4,500 a week.

TICKY FULLERTON: You sound like it might even be better than the real thing?

STROKER SERPENTINE: Well, in some ways, it is. There are no sexually transmitted diseases, for one, to worry about. There

are no inhibitions - you can be whoever, whomever. You can pursue any sexual fantasy. You can create any scenario, involve as many partners without any societal, moral repercussions.

TICKY FULLERTON: If you want to know more, you'll have to get your own avatar. But, importantly, this is just one area where real and virtual worlds are mixing together. Stroker Serpentine is moving into the real porn industry.

STROKER SERPENTINE: Absolutely, there are already designs to use an interface that will coordinate online animations with real-life sex toys.

TICKY FULLERTON: Virtual sex is just one area where laws don't yet exist. So should there be limits on in-world immorality? There's nothing to stop real adults from having virtual sex using child-like avatars. Just in the last 10 days, the usually hands-off 'Second Life' has banned in-world advertising of child sex. Other cases are not so simple.

Take virtual rape, which occurred not in 'Second Life', but in another virtual world. It was picked up by Julian Dibbell.

JULIAN DIBBELL, AUTHOR, PLAY MONEY: Now, it was all in words, and it was all a bit silly on one level, but when you're invested enough in a character, and you see that character even symbolically, or electronically violated, it can reverberate, you know, psychologically in very serious ways.

TICKY FULLERTON: Legal challenges of the virtual kind form the latest frontier for Stanford University's prestigious Law School.

LAUREN GELMAN: What is a rape? And in most cases, and most states in the United States, they define rape to include penetration. And so, I think what this issue raises is the larger question of the sort of harms that can happen to people in virtual worlds, and whether we, you know, adjust our real life laws in order to take into account those types of harms.

TICKY FULLERTON: To those who suspect these spaces are just smutty playgrounds, there's much more to virtual worlds. Look further, and you'll find pioneering science. California University's Davis School of Medicine is working on schizophrenia.

PROF. PETER YELLOWLEES, UNIVERSITY OF CALIFORNIA DAVIS: One of the things that I enjoy teaching about is what is the lived experience of schizophrenia like? What's it like to have visions, and to have auditory hallucinations - voices? And it's hard to explain that to students, and it's hard to explain it also to families of patients.

VOICEOVER: Have you met anyone with schizophrenia? It's a common illness that affects one in 100...

TICKY FULLERTON: This is a replica of a real hospital wing, where you can experience the paranoid delusions of real patients.

PETER YELLOWLEES: And we've got a number of visual hallucinations. Here's one here. You see, this is in fact, an Australian poster, that was a real poster that the patient saw. And you can see how it's changed, from 'shit face' to 'Partnerships for Recovery', which was the real name of the conference. I'm going to put the volume up, because, in fact, we've got a whole lot of auditory hallucinations occurring. And you'll start hearing voices, and you'll see how confusing it is -

VOICEOVER: This is all just an illusion -

PETER YELLOWLEES: - when we're moving around

VOICEOVER: You're nothin'. You got five seconds to get the bloody gun. Join us. Get the gun, shoot yourself. Shoot all the bastards. Do this, get the gun, do it now. Do it. Do it now. Get the gun. Kill yourself.

PETER YELLOWLEES: And then, you see there's another visual hallucination here of a man's face appearing in front of you in the mirror.

VOICEOVER: Do it now. Dead.

TICKY FULLERTON: Even bigger experiments on people's behaviour are on the way. For social scientists, virtual worlds can make a new laboratory for scenarios we just can't test in the real world.

TED CASTRONOVA: Well, what if we had an environment where could build two virtual worlds, have them be completely parallel, except we do some policy intervention in this one that we don't do in this one? Then we have perfect causality. OK, here we didn't change the income tax, here we did, and this is what happened.

I want to be a virtual Ben Bernanke, operating levers on the money supply of these systems, and conducting a super-secret experiment that I can't tell you about, and trying to watch what happens.

TICKY FULLERTON: For most people who use 'Second Life', it's another vice that keeps them hooked - retail therapy. Avatar-to-avatar dealings run to US\$15 million a month.

CHRIS COLLINS, BUSINESS ANALYST, LINDEN LAB: We're looking at about 40 per cent of people that are logging in on a daily basis are getting involved in some kind of a transaction that involves some Lindens.

VERONICA BROWN, VIRTUAL FASHION DESIGNER: Right round the corner here is the formal area, and we're looking at bridesmaids and evening gowns.

TICKY FULLERTON: Simone! Design is one of the many virtual fashion houses.

So, you actually get quite a lot of bridal wear sold?

VERONICA BROWN: Yes. Yes, very popular. I think the average 'Second Life' marriage lasts about three months.

TICKY FULLERTON: The talent behind the designs is Veronica Brown. From here in Indianapolis, 'Second Life' is her fulltime job.

So, how much time do you actually spend in-world?

VERONICA BROWN: Way too much. Way too much. 10-14 hours a day. Would you like to try one on?

TICKY FULLERTON: I'd love to try one on.

VERONICA BROWN: So, let's put you in a formal gown, and I'll pass that to you.

TICKY FULLERTON: OK, here we go. Well, that looks very nice. Now, if I was to buy that, how much would that set me back?

VERONICA BROWN: That dress is 550 Linden.

TICKY FULLERTON: That's about US\$2.

And is it profitable?

VERONICA BROWN: Yes.

TICKY FULLERTON: Can I ask you how much you're making annually?

VERONICA BROWN: I am doing exceedingly well.

TICKY FULLERTON: Julian Dibbell also made money in other virtual worlds. Virtual items from 'Second Life' are even auctioned on eBay.

JULIAN DIBBELL, AUTHOR, PLAY MONEY: People pay real money for these imaginary things because they have real investments - social, psychological investments - in these fake things. And that's what's real.

TICKY FULLERTON: The huge attraction for Simone! Design and thousands of other virtual businesses is that 'Second Life' allows them to exchange their Linden dollars back into US dollars to spend in the real world. Suddenly virtual products have real value.

BILL GURLEY: No other game company ever embraced currency exchange. So, there's a lot of virtual currency inside a lot of virtual environments. But no one ever poked a hole in it. No one was willing to say, "Hey, you can trade that virtual currency for real world dollars," and the Linden, as it's called - the currency exchange that the company runs - has been running for several years now.

TICKY FULLERTON: Every day, real and virtual worlds are moving closer. Shop at American Apparel, and you can buy clothes for your avatar and the same real world clothes for yourself, posted to your real home. Or buy for your virtual dog or your real dog.

VERONICA BROWN: Imagine logging in an avatar that not only looks like you in the face, but has your body proportions, and being able to try on clothing that may not be available at the local mall.

TICKY FULLERTON: That would mean some fatter avatars.

Multinationals are rushing into 'Second Life'. None wants to miss out on the next big thing. PR firms charge up to a million

dollars to build their brands, and the media is hyped about virtual worlds.

BRAD KASELL, EMERGING TECHNOLOGIES, IBM: So, whether it's IBM or, more importantly, our customers, everybody acknowledges that there's business opportunity now.

TICKY FULLERTON: In January, IBM recreated the Australian Tennis Open and ran it live in-world as a demonstration of 'Second Life's potential for its clients.

BRAD KASELL: Looks like we've got Federer and Gonzalez in play right now. There they go. See the guys on the court?

TICKY FULLERTON: As sponsor of all the Grand Slams, IBM uses its ball tracking technology to replicate games, shot for shot. I don't see these avatars looking like Federer and Gonzalez. Why is that?

BRAD KASELL: The way we've actually had it set up is, a situation where you and I can take the place of one of the avatars. So, if you wanted to have a quick look through Roger's eyes, we can become Roger and see how he's playing.

TICKY FULLERTON: Sport is just one virtual application for IBM. Its target customers range from financial services to travel. Philip Rosedale has even bigger plans for shoppers. He believes 'Second Life' could become the search engine of choice in 3-D.

PHILIP ROSEDALE: I think that many of the things that Amazon and other e commerce companies have done to make their community stronger - letting people review books and share those reviews with each other, and send things around - those are the same sorts of things that I think 'Second Life' can potentially just do a lot better.

TICKY FULLERTON: But is 'Second Life' now being oversold?

CLAY SHIRKY, INTERACTIVE TELECOMMUNICATIONS, NY UNIVERSITY: No one is going to give up Google to go into a 3-D space to search for something that is a couple of mouse clicks away.

TICKY FULLERTON: And yet people are very excited in-world about the idea of buying a book through Amazon.

CLAY SHIRKY: No. No-one is excited about that. People are excited about other people being excited about it.

JULIAN DIBBELL: You know, we'll have our jobs there, we'll have our lives there, all those things, and yet it will be online. Well, why?

TICKY FULLERTON: 'Second Life's reality check, and its top critic, is Clay Shirky.

Do you have an avatar in 'Second Life'?

CLAY SHIRKY: I can't say.

TICKY FULLERTON: You can't say?

CLAY SHIRKY: I can't say. No, because were the name to be known, I'd get a degree of attention in-world that I don't particularly want.

TICKY FULLERTON: He did agree to meet me undercover using a second avatar.

CLAY SHIRKY: So, we're in Dell. We're in an environment that Dell has built, and, as you can see, there's not many people here. One of the interesting questions is what is happening to all of the marketers who've built environments in this space, who were expecting the masses to come in to begin using it?

TICKY FULLERTON: It's the hype about the fantastic success of 'Second Life' that most frustrates Clay Shirky.

How would you describe Philip Rosedale?

CLAY SHIRKY: Charming. They've done a phenomenal job in getting good press - covers of magazines, cover of 'BusinessWeek', lots of buzz, David Kirkpatrick has gone out saying this is a preview of the internet of the future. These are serious business publications that are making claims on behalf of 'Second Life'.

TICKY FULLERTON: Shirky says the dramatic figures put out by Linden Lab are misleading.

PHILIP ROSEDALE: The overall registration number, I think, is about 3.2 million at this point. Now, that's different people that have signed up for an account.

CLAY SHIRKY: This is what I mean about Linden's gift for PR. The "resident figure" is people who've signed up for an account. But it includes hundreds of thousands of those people who've never actually logged in. So if you've...

TICKY FULLERTON: So, they don't really become a resident?

CLAY SHIRKY: They've never even become a visitor, much less a resident. They've simply indicated a minimal amount of interest that includes filling out a form on a web page and clicking "submit". That's where that 3.2 million figure comes from. At least a million of that figure are ersatz users - people who've never actually been in the world.

TICKY FULLERTON: Since we spoke to Linden Lab, growth in registrations has rocketed from 3.2 to 4.6 million. But it's the figure beneath the hype that may be more telling - the number of people who log in and are still in 'Second Life' weeks later.

CLAY SHIRKY: Five out of six of them - roughly 85 per cent - drop in the first month. So in fact, the number of people who can be said to do anything like residing in 'Second Life' is actually a tiny fraction of the unique users.

PHILIP ROSEDALE: Three months later, you see at this point something around 10 per cent of the people who've signed up for 'Second Life' still logging in three months later. But that is still hundreds of thousands of people.

TICKY FULLERTON: The muddle over numbers, the spin and a media frenzy make it hard to measure 'Second Life's real potential.

CLAY SHIRKY: What's happened though is that their press has been based on the idea that this is both an enormous population - measured in millions, which is simply false - and that it's growing so quickly that this will soon become a normal way of dealing with one another for many, and some people say most users of the internet - also false.

TED CASTRONOVA: Some people are saying, "Oh it's deceptive to say that you have 3-4 million people registered, but there are only 20,000 in there at any one point in time." I'd like to accept that point, but also say it's really something to have 20-30,000 people interacting in a virtual space at one time, and that's a new thing.

TICKY FULLERTON: 'Second Life' may well be the prototype of a whole new way of behaving. But, despite its action-like promotion videos, will its sign-ups ever come close to 'World of Warcraft's 8 million?

CLAY SHIRKY: The difference between general purpose virtual reality and games is that games have always done well, and general purpose virtual reality has always done badly.

TICKY FULLERTON: 'Second Life' may lack 'World of Warcraft's action games, but one big business has taken off.

JULIAN DIBBELL: In order to be - you know, create on an ever bigger canvas, you need land.

TICKY FULLERTON: The sale of virtual land means private enterprise has well and truly arrived. Property speculation, moneymaking and the ability to change Linden dollars back into US dollars is groundbreaking. But there's more.

What makes 'Second Life' so revolutionary is that Linden Labs has given to all its residents intellectual property rights over everything that they create. This means that avatars can buy virtual land, develop it, build fancy houses on it and onsell it for a profit. It's lead to a huge virtual property boom.

PHILIP ROSEDALE: That was something that if you looked at 'Second Life' as a video game, you'd never have done that. You would, as many game companies do, just say anything you build in there - your avatar, your house, whatever - that belongs to us. We realised that's not the way that this sort of magic happens. You know, people need to own their own things, and they need to be able to do with them what they like, and that's part of the basic appeal.

TICKY FULLERTON: Virtual property development is where Anshe Chung has made her fortune.

ANSHE CHUNG: It's just empty here, and then I just plant some trees - it's like a magic stalk.

TICKY FULLERTON: Linden Lab sells barren land to buyers like Anshe Chung. The buyers then use 3-D modelling tools to landscape gardens and design their dream buildings. In virtual acreage, 'Second Life' is already twice as big as San Francisco. Landowners also pay hefty land taxes to Linden. It's where Linden Lab makes its money.

In real life, Ailin Graef now employs 50 technicians based in China to develop her estates.

AILIN GRAEF: I want to see how real this 'Second Life' can be. I think maybe one day you can even not realise, you can't realise what is a real world, what is a virtual world.

TICKY FULLERTON: Media reports claim Anshe Chung's property business is now worth a million US dollars. But is this real wealth?

CLAY SHIRKY: This is one of the things that's been embarrassing to see the business press do. The way they got at the idea of a virtual million was to take the last sale price of some object, and multiply it across the number that she happened to own. But, of course, if you sell everything in a virtual world, you risk affecting the price quite dramatically.

TICKY FULLERTON: Even if all the properties could be sold, the other problem with this small economy is taking money out of world - exchanging large amounts of Linden dollars for US dollars.

TED CASTRONOVA: The first 20 dollars you might get a good exchange rate, but the fact is you would become such a huge player in that market that you would drive the exchange rate down.

TICKY FULLERTON: There's one man banking on deals getting bigger.

This is the World Stock Exchange, half owned by a new entrepreneur.

LUKE CONNELL: Directly in front of us is the actual trading floor which contains the World Stock Exchange, and on the left of the trading floor is the World Currency Exchange.

TICKY FULLERTON: And you're actually hoping to have residents come in and trade virtually?

LUKE CONNELL: Definitely.

TICKY FULLERTON: In Melbourne, Luke Connell is an ambitious 24-year-old out to make his fortune.

How much have you invested in 'Second Life'?

LUKE CONNELL: \$260 Australian.

TICKY FULLERTON: And what do you reckon your business is worth today?

LUKE CONNELL: If I auction it off the website, it will probably go for around \$US48,000 at this very moment, with no doubt it will grow a lot further over the coming weeks.

TICKY FULLERTON: And how long have you been in 'Second Life'?

LUKE CONNELL: Three weeks.

TICKY FULLERTON: After some technical hitches and a merger with the other virtual exchange, Luke Connell now has over 10 companies listed, including his own virtual company, which went up 800 per cent on the first day of trading.

He now wants real companies as well as virtual ones to list in 'Second Life'.

LUKE CONNELL: Unlike the real world stock exchanges, you don't need to have a large market capitalisation. You can be a real life company that has an avatar that wants to raise money for your small expansion, where you might only require \$US20,000 to 100,000, and you could raise that off the World Stock Exchange.

TICKY FULLERTON: Don't imagine the same investor protection as the real world. There are rules, but just how they deal with misleading and deceptive conduct, or companies trading while insolvent - which could mean jail in the real world - is unclear. Companies don't need a track record. They can list based on a vision.

If they've got virtual financial information, you'll stick it up, but if they don't and it's just a vision, then people will invest on the basis of the vision?

LUKE CONNELL: That's right.

TICKY FULLERTON: Virtual worlds and their virtual profits raise the matter of taxes.

DAN MILLER, ECONOMIC ADVISOR, US CONGRESS COMMITTEE: Tax law has fallen behind technology, and technology moves faster than bureaucracy ever will.

TICKY FULLERTON: Dan Miller is advising a US Congress committee on the pros and cons of taxing virtual profits. Because there's real economic value and a currency exchange, the taxman may well have a case against residents. That could be quite damaging to the economy.

DAN MILLER: Oh, sure, it could. And that's why I think this is an issue that we want to tackle now, before it gets out of control.

TED CASTRONOVA: If 'Second Life' says it wants to be an extension of the real economy, I don't see how they can argue that they should not be taxed, should not be regulated, should not face reporting burdens, just like the rest of the world.

TICKY FULLERTON: In cyberspace, though, jurisdiction is a problem. Take Anshe Chung's deals.

Where do you tax that, because Linden Lab is in California...

DAN MILLER: She's in Germany...

TICKY FULLERTON: And she has employees in Wuhan, in China.

DAN MILLER: Mm-hmm.

TICKY FULLERTON: And she might be doing deals with people anywhere in the world?

DAN MILLER: Yeah, she could be doing deals with people in Australia. So, where does the tax come into play?

TICKY FULLERTON: Linden Lab says tax would not shut down 'Second Life', although it might cramp its creativity.

BILL GURLEY: It would be a burden, there's no question about it. It would fly in the face of the past 10 years of internet legal history around tax, but yeah.

TICKY FULLERTON: I guess it depends how much money these virtual worlds really start making?

BILL GURLEY: Yeah, potentially, yeah.

TICKY FULLERTON: Other real world laws may hit 'Second Life' much sooner. When Linden Lab granted residents the intellectual property rights over their designs, it raised questions for lawyers like Lauren Gelman. Despite these signs, when you buy virtual land, you don't own it outright.

LAUREN GELMAN: All of this is virtual bits and bytes, ones and zeroes, that are sitting on the servers at Second Life's headquarters, and the server farms they have around the world. So, how much can you own something that's really under the control and domain of another party?

TICKY FULLERTON: To enter 'Second Life', you must sign up to a terms of service agreement which sets the rules in-world. If somebody committed fraud by acquiring one property, you, under your terms of service agreement, can actually not just claim back that property - you can actually claim all the other properties that that resident might own and what is in his account, can't you?

PHILIP ROSEDALE: Yes, we can. Sure.

TICKY FULLERTON: That may seem fair where a resident uses bugs in the system to get land fraudulently on the cheap. But what happens if he claims the system allowed him to buy land cheaply in good faith, and he was led to believe that he owned the land outright? Just such a case is now in a US court.

LAUREN GELMAN: So the question is really going to be is it just the contract that the user has with 'Second Life', the terms of service, the thing you click on every time you sign onto a new web service, is that going to be the rules that govern it? Or is the courts going to step in with their own rules, the rules that we've developed for the real world?

TICKY FULLERTON: The most challenging cases of the future may well be not against Linden Lab, but between the avatars.

LAUREN GELMAN: If my avatar sells your avatar a dress or some property, and there is some dispute between us and we go to a court and ask them to resolve it, how are they going to apply the law? Because there, we don't have any contract, there's no terms of service agreement that we can fall back on, or a court can fall back on.

TICKY FULLERTON: How secure do you think the ownership of your designs is?

VERONICA BROWN: Not at all.

TICKY FULLERTON: In 'Second Life', designers like Veronica Brown have ownership of all their designs. But what if someone figured out how to copy their work?

That's exactly what happened last year, when a rogue program called CopyBot emerged that could copy anything.

VERONICA BROWN: When you spend 10 hours a day at a job, and somebody comes along and in just a couple of minutes they can copy something that took you weeks and weeks to create, or months, or years, yeah, that's scary.

TICKY FULLERTON: Shop-owning avatars took up their virtual placards in protest. Linden Lab said it would ban all copies and banish offenders, where it found them.

Just what damages designers could claim through the real courts is untested. And all the uncertainty is holding back business.

KEVIN KELLY: Second Life is generating a dust cloud of questions that are unanswered in particularly the legal realm. And this is one indication that it's a very powerful frontier, because wherever you find a place where there's changing language and is ahead of the law, you know that you have something very hot.

TICKY FULLERTON: In one way, no-one in the world is completely safe, not even the powerful Anshe Chung. Beware the hackers. Last year, Anshe Chung held a press conference. She was rudely interrupted.

JULIAN DIBBELL: JULIAN: Let's say they sort of took control of the weather in the space that she was in, and invoked a rain of penises that came sort of soaring down from the sky at her.

PHILIP ROSEDALE: People routinely put self replicating objects into the world that'll duplicate themselves and duplicate themselves until, you know, a whole server crashes. But what's cool about 'Second Life' is that it's 6,500 servers, so you can only crash a few of them at once.

TICKY FULLERTON: Despite, or perhaps because of the anarchy, the web that creates people power is exciting.

KEVIN KELLY: So we have things like Wikipedia, we have things like the Google search, we have things like 'Flicker' or even 'Second Life', where lots of people coming together very intensely - there's a new kind of a social power.

TICKY FULLERTON: Is there anything scary about that social power?

KEVIN KELLY: Is it scary? Yes, the wisdom of the crowd can flip into the stupidity of the mob very, very fast.

TICKY FULLERTON: In the meantime, here's a real world warning - 'Second Life' can be very frustrating. Patience is required to put up with the many downloads needed as the platform upgrades, and for the frequent crashing of the system.

Plenty of people, some watching this program, will be shaking their heads and thinking anyone who spends hours and hours in 'Second Life' really needs to get a first one. But here in California, the supporters of 'Second Life', and many others who've been watching the web for years, see virtual worlds as a whole new way for society to communicate and prosper.

KEVIN KELLY: 'Second Life', as a genre, as a phenomena, will be as big as the world. Eventually, everybody will be in it.

TICKY FULLERTON: Whether 'Second Life' itself is the blockbuster may, in the end, be unimportant. New rival virtual worlds are arriving all the time.

TED CASTRONOVA: If indeed human attention continues to flow into these spaces at the rate that it has been, in 10 years the amount of real-valued assets in virtual worlds will be enormous by current standards. They will have raised policy questions, tax questions, certainly they will have raised very interesting investment and portfolio questions for everybody. And the only question in that future is really how much time do human beings want to spend as a virtual self, which is an open question.

TICKY FULLERTON: As my virtual self salsas the night away, I'm left pondering if, for most of us, virtual worlds will just be a short-lived curiosity, or a place where we'll all be spending the best hours of our days.

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