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Article

Interview: Ilan Talmud interviewed by Asaf Darr

economic sociology_the european electronic newsletter

Provided in Cooperation with:

Max Planck Institute for the Study of Societies (MPIfG), Cologne

Suggested Citation: Talmud, Ilan; Darr, Asaf (2014) : Interview: Ilan Talmud interviewed by Asaf Darr, economic sociology_the european electronic newsletter, ISSN 1871-3351, Max Planck Institute for the Study of Societies (MPIfG), Cologne, Vol. 16, Iss. 1, pp. 28-30

This Version is available at:

<https://hdl.handle.net/10419/156045>

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Interview

Ilan Talmud interviewed by Asaf Darr

Professor Ilan Talmud (Ph.D. Columbia University, 1992) is the Chair of Graduate Studies at the Department of Sociology and Anthropology, University of Haifa. Previously he served as the Head of the Economic Sociology Program. His general interest is social and economic relations. He publishes in the areas of network models of economic sociology and internet studies. Among his recent publications are the book (with Gustavo Mesch) *Wired Youth: The Social World of Adolescence in the Information Age* (Routledge, 2010), and the entry *Economic Sociology* (in *Sociopedia: The Online Encyclopedia of the International Sociological Association*)

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1 For the past year or so you have been studying Bitcoin. What is the main motive for your study? What does the virtual currency represent for you?

The emergence of digital currency is indicative of a rising distrust in the current political economy. It is an attempt to re-socialize finance, to locate it within a community, without state control or the mediation of banks. Also, digital currency represents a tight coupling between materiality, community, and virtuality. This is also related to my long interest in computer-mediated communication and virtual communities. Bitcoin resembles other economic, network-driven, disruptive technologies that are aimed at producing more democratic economic networks, such as peer-to-peer lending and crowd funding. As an economic sociologist, I study Bitcoin as an extreme case; I ask to what extent is it possible to construct an alternative monetary system "from below" and to enact a global and online financial market in the face of institutional hostility.

2 What do you see as the main differences between virtual and "real" currencies?

Let me recall that all types of money are social and virtual in one way or another. Fiat money is embedded in a polity, while digital money is embedded in an abstract community. The production of legal tender is carried out in terms of mainstream monetary theory, while digital currency is

"disembodied," outside mainstream economics. Bitcoin's production (or "mining") is decentralized in an online community. This process is highly complex, involves tacit knowledge, and is not accessible to the general public. As a result, users and miners tend to be a selected segment of society: young males, experienced in computer hardware and cryptology and even in forex algo-trading.

Real money can be inflated, but crypto-currencies are self-limiting, and cannot be inflated. The theory to justify the limited supply of the currency comes from the Austrian School of economics. Because fiat currency is embedded in a legal system that protects it, people can view it as a near-tangible asset. By contrast, digital money is only virtual, does not enjoy the protective shell of a widely accepted economic theory, institutional regulation, or political backing. In practice, this gap heightens uncertainty and generates fluctuations, fraud, technical interruptions, and public scepticism. But these gaps are precisely what make the Bitcoin market an intriguing case for economic sociologists.

3 Your focus, as I understand it, is on the social organization of Bitcoin trading, and more specifically the online social networks and communities involved in it. Why did you choose this focus?

I used to study the effect of network position and political ties on economic performance, using quantitative network models of social structure. But in my study of venture capital funds, I learned to appreciate that under extreme uncertainty, the social organization of valuation is critical for the construction of shared cognition of worth among investors. In the case of Bitcoin, the construction of cognitive interdependence is paradoxical. Engagement in the most abstract and anonymous type of currency has to be complemented by face to face social relations and by frequent offline community gatherings. Activists have to act on a local level because, due to Bitcoin's complexity, it's easier to educate individuals in person, to teach them the relevant software and to transfer tacit knowledge through co-practice. More importantly, market organizers use various rhetorical devices and morality tales in their technical training. Community leaders form a civic association centred on lobbying, supplying legal and technical advice, encourag-

ing local businesses to accept Bitcoin, and initiating recurrent community meetings; all in order to promote market legitimacy and velocity.

4 What can you say about the unique features of the social organization of the Bitcoin market?

For over a decade I have been examining the links between online and offline relations. Computer mediated ties are more precarious. In the Bitcoin community, online relations seem to be the backbone of the currency's production and exchange, but they are fostered by frequent face-to-face gatherings. One crucial market device involves constructing an imagined alternative monetary community via online links to the global community. Bitcoin is the main cryptocurrency, but it is not the only one. Using variations on Bitcoin's protocol, a complicated network of startup ventures are trying to develop second-generation currencies for specific monetized assets or "smart contracts". There are virtually hundreds of other similar crypto-currencies and less similar complementary, alternative exchange systems, which extend both the innovation legitimacy and competitive pressure which is exerted on Bitcoin. This generates ambivalence towards them among Bitcoin's community activists.

5 What are the main institutions involved in Bitcoin trading? What state-level and international-level institutions are trying to regulate, control and suppress this type of trading?

Most regulatory agencies, central and commercial banks, are investigating its potential benefits and risks. Many central banks and intelligence agencies treat Bitcoin as a potential threat and have issued warnings about its risky nature, followed by refusals of private banks to support its trade. The Russian and Chinese authorities, for example, currently forbid its trade altogether. But beside isomorphic trends, there is no noticeable international cooperation. Regulatory positions vary within and across countries. This sometimes involves a contradiction: the American IRS defines Bitcoin as a taxable commodity, while other federal and state agencies treat it as a financial instrument or virtual currency. Some states make the exchange harder, while others (recently California) removed legal obstacles to trade in alternative currencies. The regulatory framework is still evolving. In this process, exchange bureaus, academics, and industry leaders are involved in incoherent

negotiations with state agencies on regulation and facilitation of the trade.

6 What are the main methodological challenges that you face when conducting a study of a virtual market? What did you do to address these challenges?

I use global and local "netnographic" study, and offline, multi-site, local ethnographic research, in which I focus on the relatively large Israeli Bitcoin community. The Israeli community is composed of approximately 4,000 members and is very prominent in the global Bitcoin arena. My main dilemma is boundary demarcation. I focus on the Israeli locale in order to inquire into the local context of the trade. But this context is tightly coupled with the global sphere; I try to make context-sensitive decisions. Besides other typical dilemmas of participant observation, I attempt to embed my local observations in the global mechanism of market enactment.

7 What, in your view, is the future of Bitcoin and does the internet offer a real alternative to more traditional types of currency?

Bitcoin's future depends on its ability to constitute trust in electronic decentralized transactions, as well as on making applications easily accessible, the acceptance of a "folk theory" of economics, and the infiltration of the Bitcoin community into the financial establishment. In principle, Bitcoin can unite all payment systems. But this, in turn, could jeopardize the decentralized nature of the trade. A key point is that Bitcoin is not only a currency, but also a technology. The most desirable attribute of Bitcoin is its smooth transferability. It seems that virtual marketplaces will continue to evolve and thrive with more innovative products and new digital currencies. To the extent it comes to be regulated, Bitcoin's protocol may be an online alternative to some of the mediating roles of banks within payment systems; not only of money, but of other monetized goods, such as licenses and titles. Another possible scenario could be the emergence of an acute, anomic, political crisis at the core of the capitalist system, in which central banks are deemed ineffective, which might result in fiat money losing its social credibility and worth, and virtual currencies gaining legitimacy.

8 Are there any initial findings that you can share with us?

The most interesting finding for me is the assemblage of a hybrid, syncretic discourse, composed of incoherent fragments of mainly libertarian, but also socialist and syndicalist notions, inspired by ties to a diverse mixture of political actors. In this discourse, the state is considered to be an enemy, and inequality is downplayed. Instead, actors emphasize inequity, which is understood only as a function of

a highly concentrated economy with tight links to the polity. Bitcoin is supposed to correct all this. The irony is that organizers use ideas from the libertarian perspective of the Austrian School of economics – as they understand it – in order to generate solidarity and community. They view themselves as both idealists and speculators. Market devices result in the framing of bifocal “fictional expectations” of utopian and material futures, which enable investors to perceive their investments as valuable.