Article
Interview: Ilan Talmud interviewed by Asaf Darr

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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 (Routlegde, 2010), and the entry Economic Sociology (in Sociopedia: The Online Encyclopedia of the International Sociological Association)
Talmud@soc.haifa.ac.il

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 recur-
rent 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 crypto-
currency, but it is not the only one. Using variations on
Bitcoin’s protocol, a complicated network of startup ven-
tures 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 sys-
tems, which extend both the innovation legitimacy and
competitive pressure which is exerted on Bitcoin. This gen-
erates ambivalence towards them among Bitcoin’s com-
munity 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 de-
fines 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 frame-
work is still evolving. In this process, exchange bureaus,
academics, and industry leaders are involved in incoherent
negotiations with state agencies on regulation and facilita-
tion 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 alter-
native to some of the mediating roles of banks within
payment systems; not only of money, but of other mone-
tized 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.