Policies for Internet and E-Commerce

By Utah State Senator Scott Howell (D-Salt Lake)

The new wave of technological innovation is creating an unparalleled era of higher productivity and income growth. Nurturing the growth of a digital economic infrastructure must be one of the main concerns of the New Economy policy. Current estimations place over $350 billion within the U.S. Internet economy, establishing an enormous potential within our economy. The possibilities regarding e-commerce in every aspect of our lives include business-to-business transactions, consumer retail, financial services, and Web content. By the end of 2001, 35% of America's adults and 45% of America's businesses will be connected to the Internet. The flourishing of this digital economy has the strength to reverse the 25-year-old slowdown in productivity and income growth that has plagued the U.S. economy.

The full benefits of the digital economy will not be felt until a number of factors are in place. There must be broadband telecommunications capability in the home, extensive access to the Internet, ability to allow individuals to authenticate themselves online, systems that give consumers trust and confidence, and finally, a legal framework that enables e-commerce to function effectively. To ensure that the digitization of the economy in the 21st century will bring the same kinds of economic benefits to Americans that mechanization brought in the 20th century, three main policy areas require government intervention.

First, the Federal government should develop the appropriate national and international legal, tax, and regulatory framework to promote e-commerce. Seven conditions are needed to successfully accomplish this goal. The Federal government should:

1) Pass a World Trade Organization treaty designating the Internet and cross-border e-commerce a tariff-free zone, with the exception of country or state sales taxes. In addition, any product purchased through e-commerce should be subject to the same tariff rules as a product which is imported in other ways.

2) Pass fair Internet taxation legislation that addresses the concerns of both state and local governments and provides easy implementation for e-commerce merchants. There is a solution. A public sector organization (such as the Federation of Tax Administrators or the Multi-state Tax Commission) would contract for the development of software listing the state and local sales tax rates for all jurisdictions in the nation. The software would be downloadable by all retailers free of charge over the Internet. Its design would integrate easily into commercial web sites. When making a purchase of an item on-line that is subject to sales and use tax, a customer would enter the address for where the item is to be delivered. The software automatically computes the tax rate for that locale, and the customer pays the full amount (purchase price, sales tax, and shipping and handling). The merchant would then transfer the sales tax via electronic funds directly to the government bank accounts.

For this solution to work, a sales tax would also be required on all remote sales such as telephone and catalog orders. Otherwise, it would discriminate against e-commerce, where online transactions are subject to the tax, but telephone or mail orders are not.

3) Allocate to the private sector the initial responsibility for consumer privacy with only minimal federal standards. Congress's intervention should address only two topics: (a) A mandatory posting of a web site's privacy policy, and (b) an increase of resources allotted to the Federal Trade Commission (FTC), thus enabling the FTC to prosecute e-commerce companies that violate their privacy policies. Additional federal oversight should be implemented only if the private sector abuses its initial self-regulation.

4) Pass legislation accepting electronic signatures as valid. This will allow all business dealings to be transacted over the Internet, compared to the current practice of only selling items over the Internet.

5) Pass legislation to check unsolicited commercial e-mail ("spam"). A number of legislative solutions include: (a) Outlaw spammers' most common fraudulent and deceptive practices (e.g., using false header information as a way to avoid detection and to deny consumers the choice of opting out of future mailings); (b) require commercial e-mail marketers to offer consumers the chance to opt out of future mailings; (c) allow the FTC to prosecute marketers not honoring consumers' opt-out requests; (d) empower the Internet service providers with the ability to take a legal course of action against spammers for breaking posted policies; (e) ban the sale of "spamware"; and (f) require e-mail marketers to clearly label their messages as advertisements.

6) Liberalize encryption export controls.

7) Create a system of Regional E-Commerce Assistance Centers to help small businesses embrace the digital revolution.

Secondly, digital technology should be incorporated into government systems. This will re-engineer its structure in a way to provide more efficient service at a lower price. A few cities should be given funds to "push the envelope" and integrate digital technology into their systems. They will serve as models for all other cities and other local governments to observe and emulate.

Three needed factors will assist in this process: (a) State governments should require the Department of Motor Vehicles to issue digital certificates to residents who want them. This will allow individuals to "sign" documents on line. (b) The national government should establish a $500 million annual digital Federal fund to invest in cross-agency projects. This will enable the streamlining of government, automated business-government, and consumer-government transactions. (c) The national government should establish the position of a Federal Chief Information Officer, who would report directly to the President. This person would be responsible for an independent budget that will drive the next generation of digital government.

Thirdly, governments must resist pressures from threatened industry and business interests in such interests' attempt to delay the transition to digital technology. Many of these industries will lobby for laws making it difficult to conduct e-commerce. These laws will be disguised as protection for smaller business or for the benefit of the consumer, when in reality their objective is to advance a firm or an industry attached to the status quo.

In order to continue American economic dominance into the 21st century, we must be willing to accept and incorporate the new technology that is so readily available. This emerging technology includes smart cards, voice-based computing, video telephony, and expert systems. As more of the economy and society are linked through digital networks, the majority of the economic functions will be conducted through digital technology, thus decreasing the need for low technology services (e.g., cash, forms, files, clerks and order takers). As a result, the animating force for productivity and wage growth in the New Economy will be the pervasive use of digital technologies. Once this occurs, the productivity paradox could very likely give way to a productivity boom.