

New Economy Briefing for Texas Governor George W. Bush Preparing for the 2000 Republican Presidential nomination

Thursday, May 13, 1999, At the Governor's Mansion

Economics Experts Attending and briefing the Governor:

*Jim Barksdale (Finance) Scott Cleland (Internet, E-Commerce, Telecom), Todd Buchholz
(Globalization & Tax Policy),*

*Jeff Eisenach (Antitrust Privacy, Encryption, telecom), Esther Dyson (Digital Age),
Peter Huber (Telecom) Virginia Postrel (Limited Govt.)*

Scott Cleland's Internet & E-Commerce Briefing for Governor George W. Bush, May 13, 1999

○ **Key Fundamentals to Understand about the Internet and E-Commerce:**

- The Internet is simply a universal communications language which links any kind of electronic device over any carrier's physical architecture, to deliver any type of information (text, graphics, data, voice, or video). For the first time, the Internet has "de-linked" from the particular physical technology. In the past, communications was driven and controlled by the physical hardware technology: phone, radio, TV, cable, wireless, satellite etc.
- Thus, the Internet is not the physical infrastructure, but the virtual and boundary-less world of communications and e-commerce that rides on top of various infrastructures.
 - Thus, the Internet is fundamentally a new and different way of communicating and doing business that is not limited to either traditional practices or normal physical or proximity limitations. Massive force restructuring the economy, creating winners and losers among consumers and businesses.

○ **Impact of Internet and E-Commerce on Consumers**

Benefits: Provides 60 million consumers with: More choice in products and services; Access to better more timely information; Time and cost efficient way to comparison shop.

- Offers consumers lower prices by eliminating middlemen.
- Saves consumers travel and phone time increasing their productivity.

- Makes the physical place where one works or does business is much less relevant.
- Makes the global interchange of ideas much easier.
- Creates new 'communities by organizing groups which previously were to difficult to organize or bring together.

Risks: Threatens consumer privacy, increases the threat of certain types of fraud and 'Predator' crimes, can make consumers more vulnerable to market power by suppliers, if left unchecked.

○ **Impact of Internet & E-Commerce on Politics**

- The Internet and its speed of adoption are creating groups of winners and losers (both consumers & businesses much more rapidly that anything we have ever seen before.
 - The extraordinary speed of change will make increasing political.
- Government policy is powerfully biased in favor of the virtual world over the physical world which could increasingly make the Internet/E-Commerce a politically divisive issue over time.
 - The taxation debate is a precursor of things to come.
 - Political debate could become one between: haves vs. have nots, us vs. them, winners vs. losers, free Internet vs. interventionists.
- This is a huge grass roots state and local issue as evidenced by 700 state Internet bills introduced around the country and 300, in Congress in 1998.
- The lack of boundaries on the Internet increasingly will create friction and conflict between different levels of government jurisdiction.
- Digital Divide: The Internet naturally accelerated the gap between the haves and have nots, because it more rapidly advantages those with access to the Internet than those without.
- 'Internet Time' vastly accelerates the traditional news cycle, enables cost-effective one to one polling, message tailoring, and voter communication on a scale of millions.

○ **Impact of Internet & E-Commerce on the Economy:**

- Creates more wealth than it destroys.
 - Enormous productivity gains and creation of new markets.
 - Increases revenues through improved productivity and sales effectiveness.
 - Lowers overhead, distribution, and transaction costs.
- Fundamentally restructures the economy.
 - Fundamentally changes what people do and how they organize to do it.
 - The 'Virtual World' has a huge cost, efficiency, and a time advantage over the physical world.
 - 'Auctionizes' markets making the much more efficient/competitive.
- Gives U.S. powerful competitive advantage

- As the Internet/E-Commerce leader, the U.S. leads this fastest growth industry.
- U.S. leads in productivity gains and enjoys competitive advantage as a 'first mover' and de facto standard center.
- Over 25% of Americans are online vs. Japan 13% UK & Germany 7% Italy 4%, France 3%
- The Internet's impact is universal, but not uniform.
 - Every industry is affected but in different ways and at different rates.
- **Impact of the Internet & E-Commerce on Business**
 - Rearranges winners and losers.
 - Virtual world competitive advantages are very different than physical world advantages.
 - Undermines middleman and gatekeeper businesses.
 - Bypasses middlemen, enabling producers and consumers to interact e.g. undermining \$6 billion in travel agent commissions.
 - Reduces transaction times and costs.
 - Dramatically reduces transaction costs between buyers and sellers.
 - Makes physical distance less relevant.
 - Creates new markets, extends the reach of businesses, bringing physically separated groups and people together much more cheaply.
 - Collects and makes better use of customer data.
 - Marketing, sales, customer acquisition and retention are improved with detailed data on customer purchases, when, where, how much, preferences, etc.
 - Makes more competitive markets.
 - Greater efficiency through transparency in pricing, suppliers, and product info.
- **Government Internet policy in 1996 Telecom Act.**

It is the policy of the United States—

(1) to promote the continued development of the Internet and other interactive computer services and other interactive media;

(2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation;

(3) to encourage the development of technologies which maximize user control over what information is received by individuals, families, and schools who use the Internet and other interactive computer services;

(4) to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material; and

(5) to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer.

○ **Current Government Policy**

- There has been a longstanding U.S. 'industrial policy' (tacit and bipartisan) to promote data communications which has evolved into what we now call the Internet.
 - Government has subsidized online access by exempting it from long distance per minute access charges.
 - Government implicit subsidies have enabled a \$20 monthly flat fee for Internet access rather than what it would be without implicit subsidies --\$50 per month on average.
 - Other nations' online penetration is much lower because they pay for a minute for Internet access.
- Government is subsidizing Internet connections for schools and libraries.
- The Internet Tax Freedom Act imposed a three year tax moratorium on the Internet which is propelling e-commerce and represents a massive government policy to shift commerce from the physical world to the Internet.
- Government has created an unregulated Internet world defined as 'information services' which rides on top of the physical world defined as 'information services' which rides on top of the regulated infrastructure which is defined as 'telecommunications services'

○ **Political and Policy Thorns.**

- Who pays or doesn't pay taxes? Feds vs. State vs local jurisdiction; e-tailers vs retailers.
- What's Regulating? Not regulating the Internet vs. legitimate government enforcement.
- Who benefits? Digital Divide: digital haves vs. digital have nots.
- Consumer Protection: Privacy, Fraud, Internet filters and parental control over kids online from: P0rn, predators, violence and hate sites.
- Infrastructure industry fights: Lack of local phone competition and a lack of Baby Bell entry into long distance. Cable industry facilities: remain closed, to competitive Internet access.

○ **Core Political Principles?**

- Internet embodies American ideals of growth, opportunity, and bringing disparate groups together.
- All Americans should benefit from the Internet – no one left behind.

Briefing of Governor Bush 5-13-1999

- Universal Service – core communications policy for over 60 years.
- National value of network increases with the number connected to it.
- Internet should maximize consumer choice and control.
- Encourage competition and protect ease of entry.
- Minimize regulation of Internet to foster innovation and growth.
- Protect vibrant competition through antitrust vigilance.
- Protec ‘open’ technical nature of the Internet.

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