

Subj: Real World Examples Impact: Perspectives of IPI: Center for Technology Freedom
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To: Internet Caucus Advisory Committee

As the 21st Century dawns, few people doubt that something fundamental has changed in the American economy. This new economy is being fueled by a revolution in information technology and electronic networking—the Internet. By 1996, the Internet was producing dramatic boosts in productivity and was helping to pull the economy out of the mire of slow growth that began with the early 1990's recession and the 1993 tax increase.

The first inter-computer network, which was housed in the mainframe computers of four academic institutions—the Stanford Research Institute, the University of California at Los Angeles, the University of California at Santa Barbara, and the University of Utah—went "online" in 1969. This network was called "ARPAnet" after its creator, the Department of Defense's Advanced Research Projects Agency. The National Science Foundation's NSFnet, originally established in 1986 by linking together five supercomputers, eventually linked other academic institutions around the country to create small mini-networks that all linked to each other back through the supercomputers. This system replaced ARPAnet in 1990, and the Internet was born.

Now, networked systems like the Internet are taking over every part of our communications systems, our businesses and our government. Today, more than 100 million American adults are using the Internet, up from 65 million in mid-1998 and 84 million at the end of 1998. As more and more people jump onto this speeding train, those networks will develop into truly life-changing technologies. Cisco Systems reports that every month, 18 million people around the world go online for the first time. Email already outnumbers regular mail by a ratio of 10 to 1.¹

The amount of commerce conducted over the Internet is growing exponentially. According to a University of Texas study, Internet-economy revenues should reach \$1.2 trillion by 2002, rivaling health care as the nation's largest industrial sector. Forrester Research, Inc. even more optimistically predicts that by the year 2003, a minimum of \$1.8 trillion worth of business transactions will occur online. Illustrative of the explosion of e-commerce, the American Council of Life Insurance, which reports over \$3 billion in term insurance sold online this year—a number it expects will double next year—estimates that within 10 years.²

Since 1970, Detroit's share of America's industrial production has ranged between four and six percent and now hovers at just below six. Silicon Valley's share of our nation's industrial output, however, has followed a steady upward path from just over one percent in 1970 to eight percent in 1998, having overtaken Detroit for good in 1995. Between 25 and 33 percent of America's economic growth in the 1990s has been due to the information-technology sector. Four-fifths of total business investment now comes from information technology investments.³

The Politician's Creed: Let No Good Deed Go Untaxed

The Internet is clearly a revolutionary—a transformative—technology, and politicians, no less than business firms and individuals, are struggling to come to grips with it. President Ronald Reagan characterized politicians' natural predisposition as, "if it moves, tax it; if it keeps moving, regulate it; and if it stops moving, subsidize it." The Reagan dictum still holds, it seems, even if "it" moves in data packets at the speed of light.

[Editor's Note: Footnotes unavailable. Please see <http://www.ipi.org> for more information]