



# TAXING OUR WORLD, BIT

By Tom Giovanetti

The other day, between lawnmowing chores, my neighbor and I were chatting over the fence about the various trials and tribulations of homeownership. During the course of the conversation I requested a piece of information from him, a phone number or something. As we returned to our respective mowers, he shouted back across the fence to me, "I'll email it to you."

Few recent innovations have affected our lives as thoroughly and as quickly as the Internet. Some services, such as Internet telephony, have the potential to revolutionize whole businesses. Long-distance phone calls through the Internet, at a fraction of the cost of going through the major long-distance carriers, is now a reality.

Bits are bits, and anything that can be converted to bits can traverse the globe at light speed and at almost no cost through the Internet. And at such speeds, there are no geographical limits on bits. Practically speaking, bits aren't limited to distance, time and speed, or to states and nations. Someday soon you won't pay any more for a long-distance call than you do for a local call. Once your voice has been converted to bits, it doesn't matter to anyone whether those bits land next door or in Zimbabwe.

Well, that's not exactly true. It does seem to matter to the govern-

ment. Governments seem terribly concerned about anything they can't control, regulate and tax. And the government is getting terribly concerned about the Internet.

And that should concern us. Beyond making things much more expensive, taxes and regulation slow down innovation and distort the path of technological development. Does anyone believe that the Internet would have progressed as quickly and as efficiently if the government had directed its development?

Today, the government is getting involved in the Internet in a big way, and it is doing so through back-channel programs, hidden taxes, and a deceptively-named program called the FCC's Universal Service Program.

## Lessons from the Past

Here's a lesson in why a government program should be eliminated once it's finished. The Universal Service Program was instituted in 1934 to provide subsidized telephone service to rural communities.

Today, I'm confident that everyone in America who wants phone service has phone service. Yet the Universal Service Program has no intention of shutting itself down, so yet again it has invented a cause for

itself: wiring schools and libraries nationwide for the Internet.

This expansion of the Universal Service Program was implemented with great gusto by the Clinton administration. Rather than using existing Universal Service Funds, and rather than using education funding, the FCC imposed a new excise tax on phone carriers, who pass the charge onto consumers. This "e-rate," better known as the "Gore tax," is in the neighborhood of 5% of your phone bill.

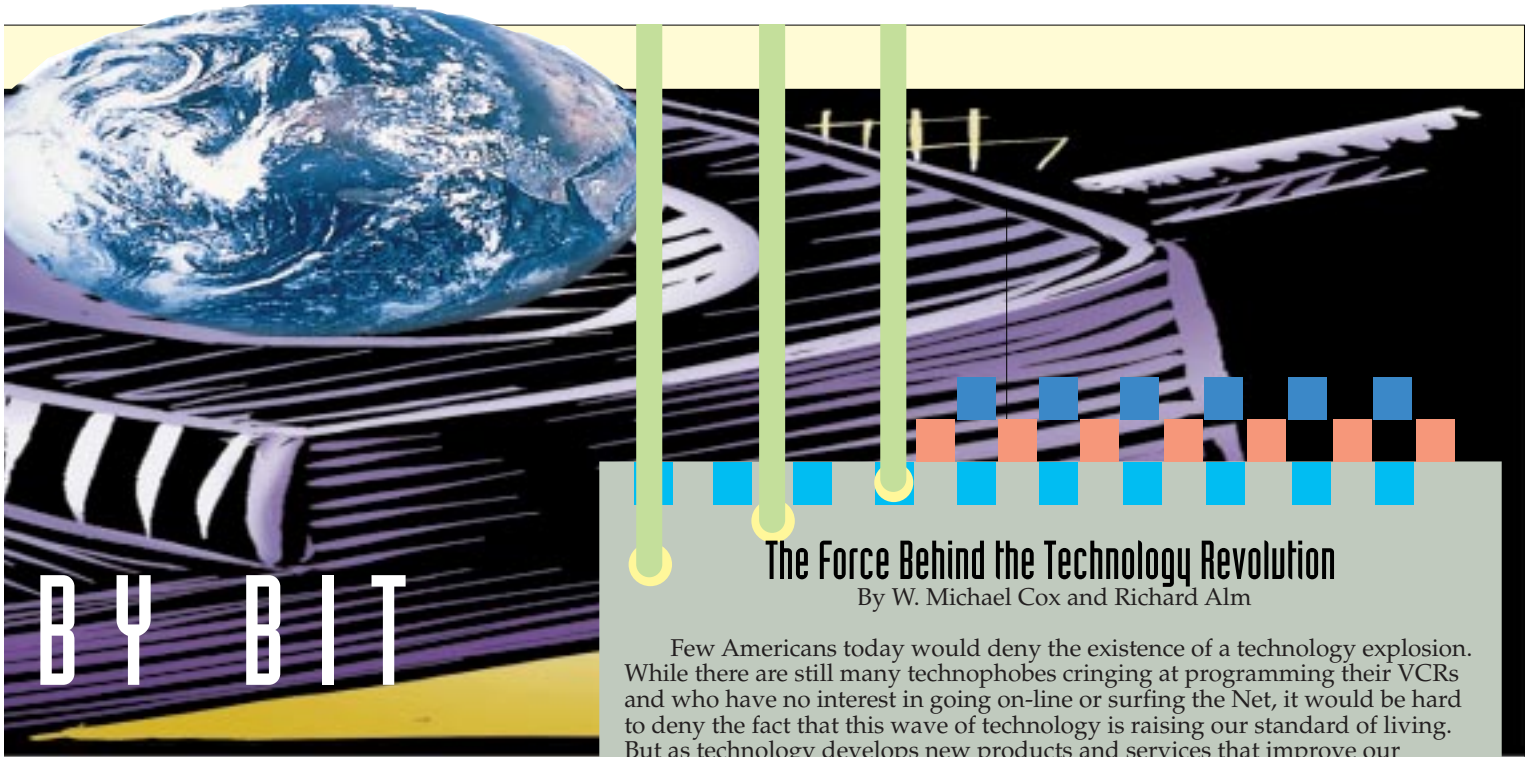
That's bad enough. But when phone companies itemized the tax on their phone bills, the FCC was livid, and demanded that they hide the tax from consumers. But that is not the only troubling thing about the Gore tax.

First, why is the FCC imposing taxes at all? The FCC has no constitutional authorization to impose taxes. Second, if the cause is noble and has public support, why demand that the tax be hidden? And third, what about the dubious premise of the e-rate in the first place? Granted, having schools and libraries wired for the Internet is probably a good thing. In fact, 78% of schools already had Internet access before this new program started.

But taxing consumers to pay for dubious Internet-related government programs is only the tip of the iceberg. The Universal Service Program is an example of how the government will use any device at its disposal to get its hands on new sources of revenue, including the burgeoning field of Internet telephony.



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# BY BIT

## Taxes for the Future

The FCC has already announced that it “might” tax Internet telephony through its Universal Service authority by imposing access charges. Taxing Internet telephony would be another example of government standing between people and the technological solutions to their problems.

More important, the FCC would be adding taxes and regulations to the Internet, a previously tax-free environment that is generating jobs, innovation, and new forms of commerce for our economy. The Internet Tax Freedom Act shields much of the Internet but leaves a gaping hole for the FCC to impose charges on Internet telephony.

Congress should protect the Internet from taxes, fees, and regulations that will stifle its development. One way would be to declare the Universal Service Program a success, and shut it down.

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**UPDATE :** On May 27<sup>th</sup>, the FCC voted to increase the Universal Service Charge (“Gore tax”), by almost \$1 billion. In addition, the FCC adopted a rule that would bar telephone companies from separately itemizing this tax so as to hide their actions from the taxpayers.

## The Force Behind the Technology Revolution

By W. Michael Cox and Richard Alm

Few Americans today would deny the existence of a technology explosion. While there are still many technophobes cringing at programming their VCRs and who have no interest in going on-line or surfing the Net, it would be hard to deny the fact that this wave of technology is raising our standard of living. But as technology develops new products and services that improve our everyday lives, it propels the dynamics of economic growth. After all, every innovation must pass the most basic test of the marketplace: if people don’t want it, they won’t buy it. This marketing reality is tested every Saturday in retail establishments across the country. There, the most desirable technology is being consumed with a voracious appetite.

But where are all the new products coming from? The evolution of technology doesn’t just happen. New products don’t just suddenly appear in the marketplace. Ideas are sterile until an entrepreneur or a company transforms them into new goods and services or better production methods. The long, arduous process involves all the steps of the marketing plan, but comes with no guarantee of the product’s success. However, there is one single incentive that continues to motivate the business community to take the monetary risk and bring us these new technological advances. It’s called profit.

Capitalism provides the most tangible incentives to innovate by bestowing profit on those who bring successful products to market. Equally important to future economic growth, capitalism readily shifts money, people and other resources from producing yesterday’s goods and services to what consumers will buy today and tomorrow. Its ability to unleash innovation and invention lies at the very heart of the great legacy of the American experience—economic progress.

By its very nature, capitalism seeks progress. Understanding this fact helps us see what speeds it up or slows it down. Because technology in large part drives growth, stepping up the pace of invention and innovation increases the speed of economic progress. As with most economic activities, putting technology to work has a lot to do with incentives. An economy will produce technological change faster when the costs of doing so go down or the benefits go up. Several factors influence the speed of the process: the breadth and depth of a society’s existing endowment of technology, the introduction of inventions with wide-ranging uses, the time it takes for products to spread throughout society, and overall market size.

We are in the throes of one of history’s great bursts of technology, put to use quickly and effectively by a vibrant market economy. Rising incomes add to the number of people who can afford to splurge on the latest bells and whistles. Falling transportation costs and quickening information flows can enlarge markets. The dismantling of trade barriers can open whole new markets to U.S. producers. For many products yet to come, the market will be global, so the rewards for successful innovation figure to be even greater in the next century.

In the meantime, free enterprise continues to be America’s greatest welfare program. For more than two centuries, the system has worked to make our lives better. Whatever we’ve wanted—new and improved products, more leisure, better jobs, easier lives—it has provided in abundance.

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