

<THE DIGITAL ECONOMY>

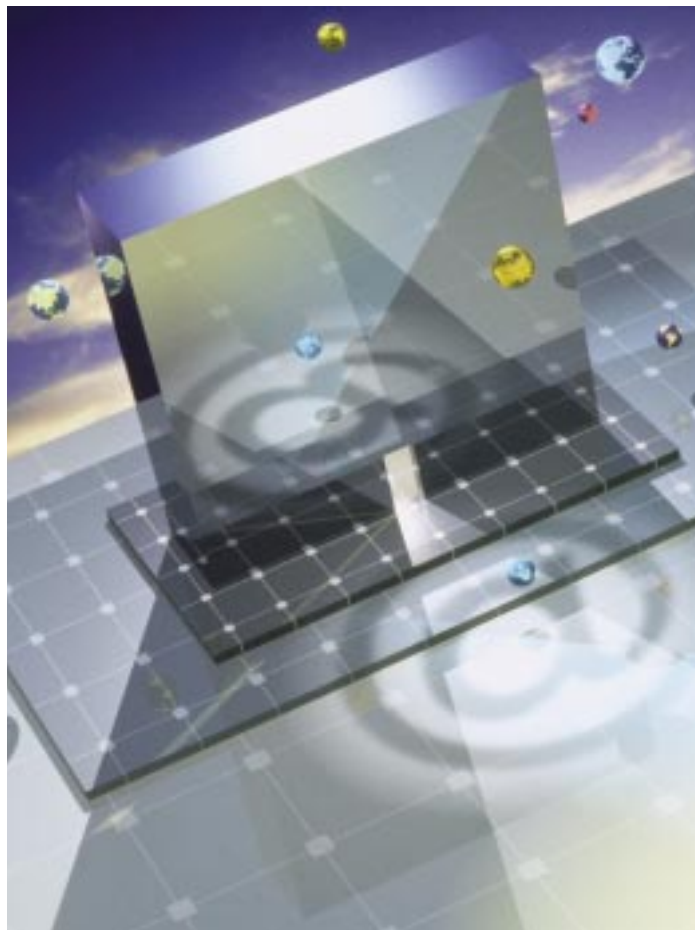
PROMOTING COMPETITION, INNOVATION, AND OPPORTUNITY

EXECUTIVE SUMMARY

Faster, easier, and more pervasive exchange of global information through digital electronic networks, notably the Internet, is creating beneficial economic and social change. We are at an early stage in these developments where the decisions of business and government leaders can have an extraordinary influence on our future. This report focuses on four key areas of public policy that have been roiled by technological and commercial developments: *competition, intellectual property, privacy and security, and the gap in skills and income.*

FINDINGS

- Our prosperity has been made possible by policies that promote a skilled and flexible labor force, advances in technology, innovations in business practices, a pro-investment macroeconomic stance, and economic opportunity for all segments of society.
- The principles that underlie current policies are sound. Our challenge is to find practical solutions based on those principles in situations that extensively involve digital network technologies.
- In some cases, enforcement of existing laws needs to adapt to changes that have occurred because the Internet has reduced the relevance and effectiveness of traditional means of enforcement.
- Market forces will in time resolve many of the issues that seem so difficult today. In part, we need patience to allow sufficient time for markets to respond.



RECOMMENDATIONS

Competition policy. Antitrust policy remains important in policing predatory and collusive practices. However, other competition and economic regulatory policies are becoming less relevant in situations characterized by rapid technological change, lower barriers to market entry, and the prominence of networked products and services.

- The antitrust process should be reformed to allow market competition greater leeway to resolve questions of market dominance. At the same time, it should resolve issues and cases more promptly after they have been initiated.

Federal antitrust lawsuits should pre-empt state actions.

- U.S. merger guidelines should raise the threshold for reporting from \$15 million to \$100 million and adhere to a four to six month limit on reviews.
- Regulators should adopt a wait-and-see approach, rather than regulate preemptively on the presumption that a particular technology will confer an insurmountable competitive advantage.

Innovation and Intellectual Property. While the foundation of our copyright and patent protection policies is strong, their application to cyberspace has created some problems. In some instances, such as automated business method patents, current policy defeats the very goal it seeks to promote—the flow of innovation and creative works. Copyright owners

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have been left with nominal but impractical protection for their works.

- Automated business methods should not be patentable when they are obvious or merely replicate existing physical practice. Copyright is the more suitable form of protection and should be used instead.
- The patent application process should be more open to public review and comment. The patent system should not create new types of patents, differentiated by type of invention or number of years of protection.
- Existing principles for establishing copyrights should apply regardless of whether the content is in digital or analog form.
- Education and enforcement of property rights should both be used in public and private efforts to cope with the new realities of copyright law. Private efforts should also emphasize technological solutions and better business models. We should not attempt to protect specific technologies or business models.

Privacy and Security. Privacy, consumer protection, and business security have become urgent issues. Privacy concerns arise from several sources, but in general they relate to information gathering methods on the Internet. Online security threats are unlikely to disappear but can be diminished. Even if standards are legislated, these issues will require consumers and businesses to increase their understanding of potential online dangers and the means of safely navigating commercial websites.

- A federal privacy law should establish online standards that require the full disclosure of practices and policies. It should encourage use of voluntary trust marks, allow the use and appropriate disclosure of information needed for the delivery of health and finance services, and be enforceable by the Federal Trade Commission. In general, it should rely on markets to mediate privacy concerns between consumers and businesses.
- Businesses and consumers share responsibility for educating consumers about the benefits and costs of privacy restrictions, options for protection, ways to express their preferences, and steps they can take to improve their online security.
- We encourage the further development of security reporting systems that allow businesses to report hacking, break ins, viruses, and other security breaches anonymously, without fear of possible legal or financial repercussions.

Digital Divide. The spread of digital network technologies may exacerbate existing income and education disparities, both domestically and internationally. These disparities are already the object of numerous public and private programs. It is in both the narrow and broad interests of the business community to bridge the digital divide. There is a danger, however, that some digital divide programs may become short-term fads that siphon resources from core programs aimed at economic advancement.

- Programs to close the digital divide should not replace or diminish sustained efforts to lift people from poverty. Computer- and Internet-oriented goals should be integrated into programs that concentrate on development of basic skills, education, and social and physical infrastructure. New digital technologies should be applied to enhance the performance of those programs.
- Public and private programs should promote wide access to the Internet as rapidly as possible. The development of community access points and computer literacy should be priorities.
- CED supports equipping schools and libraries for the digital age, but equipment must be accompanied by training. Sufficient funds should be made available to support a wider array of technology-related needs, including professional development for teachers and classroom software. Such programs should be funded in ways that allow the integration of these activities with other educational purposes.
- Federal, state, and local governments should provide their internal and external services electronically and promote their use. Private and government providers of Internet content should address the interests of low-income markets.
- Global efforts should proceed with a three-pronged strategy. First, developing countries should help themselves by establishing the basic institutional groundwork for sustained economic growth. Second, both these countries and international aid organizations should address basic access and literacy issues, which are more acute than similar problems in the United States. Third, they should improve the technological capabilities of medium and smaller businesses to engage in international electronic commerce.
- CED urges larger businesses to consider the implementation of volunteer-based “Digital Corps” programs to support small business development in developing nations.