

THE ROLE OF GOVERNMENT IN A DIGITAL AGE

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About This Study

This study was commissioned by the Computer & Communications Industry Association (CCIA) as an independent analysis of the appropriate role for government in an information economy. The views and opinions expressed in this study are solely those of the authors and do not necessarily reflect the views and opinions of CCIA.

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Table of Contents

	<u>Page</u>
About This Study	1
Executive Summary	4
Introduction	6
Part I: Information Technology and Government Policy	11
I. The Impact of Information Technology on the Economy, Business, and Government	12
<i>Impact of information technology on the economy</i>	<i>12</i>
<i>Impact of information technology on business</i>	<i>16</i>
<i>Impact of information technology on government</i>	<i>25</i>
II. The Theory of the Government’s Role in a Digital Age	30
<i>Public provision versus public financing</i>	<i>36</i>
<i>The role of government in a “bricks and mortar” economy</i>	<i>38</i>
<i>The role of government in a digital economy</i>	<i>39</i>
III. Current Government Policy	47
Part II: Principles for Government Action	49
Principles for Government Provision of Goods and Services in a Digital Economy	50
Green Light Principles for Governmental Activity	53
<i>Principle 1: Providing public data and information is a proper governmental role</i>	<i>53</i>
<i>Principle 2: Improving the efficiency with which governmental services are provided is a proper governmental role</i>	<i>54</i>
<i>Principle 3: The support of basic research is a proper governmental role</i>	<i>56</i>
Yellow Light Principles for Governmental Activity	57
<i>Principle 4: The government should exercise caution in adding specialized value to public data and information</i>	<i>57</i>
<i>Principle 5: The government should only provide private goods, even if private-sector firms are not providing them, under limited circumstances</i>	<i>61</i>
<i>Principle 6: The government should only provide a service on-line if private provision with regulation or appropriate taxation would not be more efficient</i>	<i>62</i>

<i>Principle 7: The government should ensure that mechanisms exist to protect privacy, security, and consumer protection on-line</i>	64
<i>Principle 8: The government should promote network externalities only with great deliberation and care</i>	67
<i>Principle 9: The government should be allowed to maintain proprietary information or exercise rights under patents and/or copyrights only under special conditions (including national security)</i>	69
Red Light Principles for Governmental Activity	71
<i>Principle 10: The government should exercise <u>substantial</u> caution in entering markets in which private-sector firms are active</i>	71
<i>Principle 11: The government (including governmental corporations) should generally not aim to maximize net revenues or take actions that would reduce competition</i>	72
<i>Principle 12: The government should only be allowed to provide goods or services for which appropriate privacy and conflict-of-interest protections have been erected</i>	74
A Decision Tree for Policy-Makers	75
Part III: Case Studies	78
<i>Case Study: The Department of Labor's On-Line Job Market Information</i>	79
<i>Case Study: United States Postal Service eBillPay</i>	86
<i>Case Study: Lexis-Nexis</i>	98
<i>Case Study: On-Line Tax Preparation Software</i>	104
<i>Case Study: Fee-Based Search Engine from the National Technical Information Service</i>	112
Conclusions	118
Biographical Information	120
Appendix A: Circular A-76	121
Appendix B: Memorandum for the Heads of Executive Departments and Agencies on Electronic Government	130
Appendix C: Circular A-130	135

Executive Summary

- Existing rules for evaluating governmental activities need to be updated to reflect the ongoing shift toward a digital economy. Industrial developments at the beginning of the 20th century required major rethinking of the role of government, as evidenced by the creation of the Federal Reserve System, the Sherman and Clayton Anti-Trust Acts, and the Constitutional amendment allowing a Federal income tax. A substantial review is also warranted now.
- As President Clinton has emphasized, for the government, “knowing when to act and – at least as important – when not to act, will be crucial to the development of electronic commerce.” The purpose of this study is to examine when the government should act and when it should not act in a digital economy. In particular, our focus is what services the government should and should not be providing on-line.
- As the report discusses, the theoretical underpinnings behind private versus public production shift as the economy moves toward a digital one. On one hand, the public good nature of production in a digital economy, along with the presence of network externalities, may suggest a larger public role than in a bricks-and-mortar economy. On the other hand, an information-based economy may also improve the quality and reduce the cost of obtaining information, which by itself makes private markets work better than before. Furthermore, government failure may be even more pronounced in the context of rapidly moving information-laden markets than in traditional bricks-and-mortar markets.
- The lack of clear theoretical guidance regarding the separation between government and business in a digital economy makes decision-making rules all the more important. OMB Circular A-76 and other existing norms for government provision of goods and services need to be updated for the digital age. We therefore devise a set of twelve principles for government action in a digital economy (see box below), along with a decision tree for policy-makers (see page 75) to use when evaluating new government activities. The principles are divided into three categories: “green light” activities that raise few concerns; “yellow light” activities that raise increasing levels of concern; and “red light” activities that raise significant concern.
- The report applies these principles to five case studies, including the Department of Labor’s on-line job market information system, the United States Postal Service eBillPay program, private-sector dissemination of legal information, on-line tax preparation software, and a fee-based search engine from the National Technical Information Service. In some cases (e.g., the America’s Job Bank), the government seems to have struck the appropriate balance among conflicting pressures. In other cases (e.g., eBillPay), the government seems to have overstepped the boundaries that should apply to public provision of goods and services.

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