

Cybernetic Wal-Mart

Will Internet tax breaks kill Main Street, USA?

By 2003, annual online sales in the United States are projected to soar above \$1.4 trillion, and a politically loaded question is now unavoidable: do we tax online shopping? Already, the US Congress has resolved — 423 to 1 — that there should be a worldwide ban against levying special or discriminatory taxes on electronic commerce. The next step, according to such powerful figures as Senator John McCain and house majority leader Dick Armey, is to permanently exempt e-commerce even from *existing* sales taxes.

Thus far, the debate encompasses the perspectives of public servants, businesses, and consumers. But how about that of citizens? What would tax-free e-commerce mean for democracy and civic life? Very possibly it could mean the same thing the proliferation of Wal-Marts and megamalls has meant for Main Streets: a demise that no one intended.

Suppose a Wal-Mart store locates on the outskirts of a town, and half the residents start to do one-third of their shopping there. That means they do two-thirds of their shopping downtown, while the other half of the population continues to do all its shopping downtown. Although all the residents still patronize Main Street, downtown retail revenue drops about 16.7 percent — enough to start killing off shops.

It's a perverse market dynamic: a loss to the entire community that not a single person wanted. It is also self-reinforcing; once the downtown starts to shut down, people who preferred to shop there have no choice but to switch to Wal-Mart.

Systems theorists explain this kind of unwelcome, coercive and extreme outcome as the result of a "positive feedback loop." That is, the output of a process (some residents opting to shop Wal-Mart on occasion) feeds back into the original process as input (a smaller, less diversified local economy), generating more output (more people compelled to patronize Wal-Mart). In other words, a little generates more, more generates a *lot* more. Systems with positive feedback loops can easily burst limits.

To social scientists this is a "collective action problem:" an example of reasonable individual actions that together add up to a socially irrational outcome. As more commerce goes online, an emerging Cybernetic Wal-Mart Effect threatens to aggravate this dynamic. It works just like the regular Wal-Mart Effect, except more powerfully and pervasively.

Brick-and-mortar Wal-Marts mainly threaten mom-and-pop retail shops. But online commerce pits local businesses not just against a mall on the outskirts of town, but against the entire global marketplace. The Internet is spreading into every sector of the economy, from local manufacturers and suppliers to service providers such as travel agents, lawyers, and stockbrokers. A few of them may thrive by going online themselves, but they are the exceptions. In general, the economies of scale involved in enticing a viable customer base to a website will overwhelmingly favor a few deep-pocketed, very un-local enterprises.

If we think of ourselves solely as consumers, this isn't necessarily a problem. While local economies wither, the Net

should enable consumers to enjoy access to a wider range of goods and services, in some cases at lower cost. The catch is that we're not simply consumers. We're also family members, friends, local community members, and workers. From the standpoint of democratic society, above all we are citizens.

As consumers, we always ask, "Is this the best deal for me?" But as citizens we must ask, "Does a Cybernetic Wal-Mart Effect serve

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the common good? Does it further our fundamental interest in preserving and improving the character of our democracy?"

From a democratic citizen's perspective, e-commerce with its coercive Cybernetic Wal-Mart Effect is problematic. My online shopping contributes to shrinking the local economy. Eviscerating a local economy weakens local cultural and community vibrancy. That's bad in its own right, but worse for democracy. As social bonds weaken, people relinquish mutual understanding and the capacity for collective action. Those are essential conditions for a workable democracy.

At the same time, undercutting local economies increases local dependence on national and global market forces and decisions made in faraway corporate headquarters — powers over which communities have little or no control. As the locus of political intervention shifts to distant centers, the influence of everyday citizens declines.

A refusal to tax e-commerce amounts to a public sanction of this anti-democratic shift. But there's a simple way to maintain a healthy balance between e-commerce and local business, between sometimes perverse market forces and the social good. First, tax online and mail-order catalog sales. Second, grant some of the revenue back to municipalities to invest in their local economies and community life (e.g., sidewalk benches, parks, playgrounds, public toilets, public music and theater, local meeting halls, and so on). If necessary, another portion of the revenue could be rebated to low-income citizens.

Our judgments as citizens need to consider but also transcend our narrower interests as consumers. When it comes to public policy and the common good, our citizen-selves ought to be sovereign over our consumer-selves. And so the unavoidable question changes: If our consumer-selves say "yes" to sheltering e-commerce from taxes and shrug at the Cybernetic Wal-Mart Effect, are our citizen-selves prepared to live with the consequences?

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