

Counter the Cybernetic Wal-Mart Effect

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*This little piggy went to the market,
Another piggy shopped online from home,
The second piggy paid no sales tax,
So why do both feel disempowered and alone?*

With annual online sales projected to soar above \$1.4 trillion by 2003, Congress is debating whether to limit taxes on purchases made via the Internet. Last fall, the House resolved - 423 to 1 - that there should be a worldwide ban on levying special or discriminatory taxes on electronic commerce. Sen. John McCain and house majority leader Dick Armey propose permanently exempting e-commerce from existing sales taxes.

Critics charge that the loss of revenue to state and local governments would endanger schools, roads, and other essential public functions.

The debate encompasses concerns from 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: demise, though no one intended it.

Suppose a Wal-Mart locates on the outskirts of a town, and half the residents start doing some of their shopping there while the other half continues to do all its shopping downtown. Although all the residents still patronize Main Street for the bulk of their shopping, downtown retail revenue drops enough to start killing off the shops.

This is a perverse market dynamic - a loss to the entire community no one wanted. Once the downtown starts to shut down, people who preferred shopping there have no choice but to switch to Wal-Mart. Sociologists call this a "collective-action problem": reasonable individual actions that together add up to a socially irrational outcome.

As more commerce goes online, a new cybernetic Wal-Mart effect threatens to aggravate this pattern. Increasingly, local businesses are not just competing with a mall on the outskirts of town. They are now up against the entire global marketplace.

Brick-and-mortar Wal-Marts mainly threaten mom-and-pop retail shops. But online commerce is spreading into every sector of the economy, including local manufacturers, business suppliers, and service providers such as travel agents, lawyers, stockbrokers, and accountants. A few of them may thrive by going online themselves, but they're the exceptions. In general, the economies of scale involved in enticing a viable customer base to a Web site 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 Internet should enable consumers to enjoy access to a wider range of goods and services, in some cases at lower cost.

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

These are criteria overlooked by most analysis of online commerce, which considers Internet tax issues from business and consumer perspectives, but never from a citizen or civil-society perspective.

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, forcing you to go online when local business alternatives are no longer available. That dynamic, foreclosing your option of choosing a locally oriented way of life or remaining offline, is an entirely involuntary imposition.

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 - essential conditions for a workable democracy.

At the same time, undercutting local economies increases local dependence on national and global market forces and on 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 individual citizens declines.

A refusal to tax e-commerce amounts to a public sanction of this anti-democratic shift. The simplest way to maintain a healthy balance between e-commerce and local business, between market forces and the social good, would be to tax online and mail-order catalog sales, granting some of the revenue back to municipalities to invest in local economies and community activities.

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.

If our consumer-selves say "yes" to sheltering e-commerce from taxes and shrug at the cybernetic Wal-Mart effect that will assuredly follow, are our citizen-selves prepared to live with the civic consequences?
