



DIGITAL ECONOMY

Winning the Race 2012 is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage.

Context and Policy Divide

We live in the Digital Age but are not tapping the full potential of information technology (IT). The advent of systems like intelligent transportation systems, the smart grid, and health IT offer vast opportunities to increase productivity and quality of life. But we need to overcome opposition from “digital Luddites” and parochial interests while also recognizing that government has a vital role as an early adopter and catalyst for advancing the digital economy.

Impediments to this transcend party identification. Some conservative small business owners and liberal labor leaders might see innovative IT-based business models as a threat to their companies or workers. But as a general rule, Republicans want to take a light touch with regard to imposing regulatory burdens on the digital economy while Democrats are more willing to support public investment in key digital platforms. The next administration should recognize that we not only need a light regulatory touch but also a helping hand from government in key areas, while working to build on areas of consensus from elements of both parties, such as reforming laws regarding government surveillance of electronic communications and e-commerce taxes.

Innovation Race Principles

- **Use a light touch to regulate legitimate uses of technology.** Given the rapid rate of IT innovation, policymakers should apply a light touch and rely on flexible industry codes of conduct, and other less-onerous methods to govern legitimate industry practices rather than using more burdensome government regulations. This is particularly true for areas with changing technology and social norms such as cloud computing, mobile apps, and online privacy where slower-moving government-led regulatory processes are too cumbersome to efficiently regulate. The imposition of stringent new rules to regulate legitimate Internet technologies will likely hurt consumers more than help them.
- **Take a hard line on regulating illegitimate digital activity.** Illegitimate activities such as online piracy and cybercrime disrupt the digital economy. Similarly, anti-competitive trade

practices, such as server localization requirements, threaten U.S. economic interests. The federal government should take aggressive enforcement actions against illegitimate activity that threatens the development and competitiveness of the digital economy both domestically and abroad. In addition, it should continue to encourage private-sector led initiatives to combat digital piracy, such as a graduated response system to detect copyright infringement and issue alerts.

- **Government should support investment in digital platforms.** Digital platforms, such as electronic health records, mobile payment systems, and electronic IDs, provide the foundation for the development of a variety of innovations. Electronic health records enable innovations to improve the quality and reduce the cost of health care. Similarly, electronic IDs enable both the public and private sector to develop more secure online applications. Government has a unique role in promoting emerging digital platforms. When simultaneous action of a wide range of players from vendors, merchants, and consumers to government agencies is required, government is uniquely suited to be the catalyst to bring multiple parties to act together synergistically and simultaneously. With these new platforms, just as with the Internet, private sector innovation can then flourish.

Policy Recommendations

- ✓ **Promote digital platforms:** The next administration should support the development of digital platforms including intelligent transportation systems, mobile payment systems, health IT, and the smart grid. This means not only developing IT platform transformation plans but also by shifting federal funding from analogue and physical infrastructures to digital platforms.
- ✓ **Use IT to make government more efficient and effective:** Many organizations use IT to boost productivity, and the federal government is no different. However, more should be done to modernize the federal government by implementing new IT systems to reduce costs and deliver better services. For example, the next administration should create a task force to identify opportunities where federal agencies can use IT to automate work, including switching to self-service technologies, and require federal agencies to meet demonstrable IT transformation goals.
- ✓ **Create a Data Policy Office within the Department of Commerce to focus on data policies that foster innovation:** It's not enough for the next administration to work to protect people from inappropriate use of data, they should proactively encourage the appropriate use of data, including pushing for policies that increase data sharing and reduce barriers to global information flows. A newly created Data Policy Office should also lead the



development of an R&D framework for privacy to ensure that federal research dollars are directed at the most pressing privacy challenges.

- ✓ **Fight local data center requirements and highlight instances of non-compliance by foreign governments:** Strong U.S. leadership is necessary to combat the unfair trade practices nations are using to block foreign competitors in the rapidly growing cloud computing industry. For example, the United States Trade Representative should highlight this type of behavior in its annual 301 report.

- ✓ **Reform the Electronic Communications Privacy Act (ECPA) to ensure that citizens have a right to privacy for their electronic data whether it is stored at home on a device or remotely in the cloud:** ECPA was enacted in 1986 and has not kept pace with the advancement of technology. For example, there are different levels of protection afforded to the privacy of an individual's data based on where the data is stored and how long the data has been stored. Where possible, the privacy of an individual's communication should be the same regardless of the type of technology that is used to facilitate this communication.

- ✓ **Strengthen the Computer Fraud and Abuse Act (CFAA):** The CFAA should be changed to make it easier to prosecute criminals who hack into cloud computing services and establish penalties more in line with the impact of an attack. For example, CFAA should be changed to make penalties correspond to the number of accounts illegally accessed on an online service rather than limit them to the penalties for hacking into a single PC.

Related ITIF Resources

The Need for an R&D Roadmap for Privacy

Cloud Computing: An Overview of the Technology and Issues Facing American Innovators

Create a Fair and Simple Tax for E-Commerce

Benefits and Limitations of Industry Self-Regulation for Online Behavioral Advertising

Explaining International IT Application Leadership: Electronic Identification Systems, Health IT, Intelligent Transportation Systems, Contactless Mobile Payments

Policymakers Should Opt Out of "Do Not Track"



Digital Quality of Life: Understanding the Benefits of the IT Revolution

Digital Prosperity: Understanding the Economic Benefits of the IT Revolution



The United States is losing the race for global innovation advantage and the jobs and income that come with that. Many other nations are putting in place better tax, talent, technology and trade policies and reaping the rewards of higher growth, more robust job creation, and faster income growth. It's not too late for the United States to regain its lead but the federal government will need to act boldly and with resolve to design and implement strategies that include cutting business taxes and boosting public investment. *Winning the Race 2012* is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage. For more actionable policy ideas, visit ITIF's *Policymakers Toolbox* at www.itif.org/policymakers-toolbox.

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