

## **Reining in e-commerce.**

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Should e-commerce be regulated by governments, or should it should be allowed to be “self-regulated” by the forces of the free market. Economies work more efficiently when they are free from governmental interference. In this regard, a classical economist Adam Smith claims that an individual pursuing his self-interest by engaging in commerce is “led by an invisible hand to promote an end which was no part of his intention.” This “invisible hand” is said to guide individuals to achieve greater collective wealth. Smith felt that the idea of the “invisible hand” applies to the realm of international commerce as well as to domestic commerce. However, Smith did not argue against government regulation in all instances. There are certain limited areas of economic activity where governmental regulation is necessary (to protect individual rights, for example). Smith also believed that it is permissible for governments to tax commercial activities, as long as the tax is collected on the basis of earned revenue.

There is currently a debate over whether or not these views on governmental non-interference are applicable to e-commerce and international trade that is conducted over the Internet. Some argue that individual countries should impose regulations in order to protect their own economies, and others argue that an international organization (such as the World Trade Organization) should be in charge. The WTO has, in fact, established programs and issued declarations regarding cross-cutting issues in e-commerce.

However, there are also many compelling arguments for allowing the e-commerce industry to be kept free from regulatory control. One of the arguments is that governmental interference will reduce e-commerce usage and thereby slow down the industry’s growth potential. Another argument against efforts to restrict electronic trade is that governmental bodies are incapable of keeping up with the rapidly developing technologies of e-commerce.

Some of the proponents of government regulation have emphasized the idea that such regulation is necessary in order to protect the privacy rights of individuals who wish to conduct transactions on the Internet. According to this argument, many e-commerce companies will use unscrupulous means in order to obtain (and sell) information pertaining to people who have visited their web sites. It is claimed that this problem will discourage many potential e-consumers from using the Internet for

trading purposes. This is a serious concern; however, there are indications that self-regulation would be more effective in the long run than government-based regulation in this area. Specifically, e-commerce businesses will tailor their activities in accordance to the types of choices made by Internet consumers. If a customer feels uncomfortable making transactions on a particular web site, he or she has the freedom to visit a different web site that clearly utilizes a privacy-protecting programme. In this way, e-companies that want to succeed will be motivated to seek methods for insuring the privacy and security of their online customers. Based on this argument, it is evident that consumer education, rather than government intrusion, is the key to improving privacy rights in e-commerce.

Yet another concern that has given rise to calls for government regulation of e-commerce is the threat that certain companies are able to attain monopolistic power in the market. In fact, as seen in the example of firms such as Microsoft, the “invisible hand” often encourages a successful network to grow until it becomes dominant. The existence of a monopoly interferes with competition and can thus have a damaging impact on international trade. Monopolies also cause consumers to suffer as a result of such things as reduced product variety and higher prices. However, again, a free market solution is available for this problem, rather than relying on the use of governmental intervention. The new economy may lead to more monopoly-like concentrations of economic power but there will be temporary concentrations that are quickly overthrown by other concentrations. Thus, just as World Wide Web-based portals may loosen Microsoft’s hold on computer operating systems, so too will other shifts in technology keep others from feeling too secure about their market dominance.

Thus, it can be seen that Adam Smith’s theory of the “invisible hand” and self-regulation in markets applies to international trade in e-commerce as well as to other types of free economic activity. Again, it should be noted that Smith also felt that there are certain limited areas where government regulation is necessary in the conduct of trade. As such, it makes sense to agree with the view that transactions that are taxed in the physical world will be taxed on the Internet, and activities such as medical and financial services that are regulated in physical space will be regulated in cyberspace. The protection against child pornography is an example where governmental regulation of e-commerce is appropriate. Another area is that of preventing the illegal sale of prescription drugs over the Internet. Governments or

international organizations should also be involved in protecting individuals from other acknowledged criminal activities on the Internet. Beyond this, however, companies using e-commerce for legal purposes should be left alone to conduct their own businesses in their own way. Such companies will work on their own or in collaboration with other companies to increase profits, which are in turn derived by meeting the needs and demands of customers.

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