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The Internet, Securities, and Security

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The Internet, Securities, and Security

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The Internet, Securities, and Security

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Editor, Interface

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.01 INTRODUCTION ([return to index](#))

The central mission of the Berglund Center, to analyze the impact of the Internet, seems to grow more complicated daily. We planned the initial development of the Berglund Center in the spring of 2000, just prior to the dot.com crash. As our first issue of *Interface* was going to press, Americans experienced the tragedies of September 11, 2001. The spring and summer of 2002 have been marked by the continuing decline of the American stock market. To most of us, the sequential occurrence of these events may seem simply to be bad luck.

However, we argue here that these are not isolated events: they are all in considerable part impacts of the Internet. And the fact that they share a common casual factor, the impact of the

Internet, means that solutions to these problems, too, must be considered as a whole. Research and development funding (R&D) in particular could be badly damaged by hastily considered solutions to any of these problems with resultant adverse long-term consequences for American productivity and competitiveness.

We have dealt with September 11, 2001 as an impact of the Internet in previous editorials. (1) Here we will concentrate upon the dot.com bubble, the continuing decline of the stock market, and conclude by arguing that both not only are impacts of the Internet, but intimately related to security concerns as well.

.02 **THE INTERNET AND AMERICAN TRIUMPHALISM** ([return to index](#))

We think that, in the long run, historians will recognize the twenty years or so between 1990 and 2010 as a period of great stress caused by a transition from a world based largely on territorially defined units, i.e., nation states, to a more globally distributed environment created by electronic communications.

At present, we are all feeling stresses which we barely understand, if we understand them at all. Formerly isolated communities, like the radical Islamicists, believe that Americans are extending a godless and self-centered culture into every corner of the world. But the same electronic technologies that so threaten such groups have also given them the power, for the first time, to deliver devastating blows to the American homeland.

Many Americans came, in a sense, to agree with such groups in that Americans, too, saw the period following the fall of the Berlin Wall and the collapse of communism as a new period: the beginning of a new American-dominated era, the “End of History” in Fukuyama’s phrase (2) . This feeling of triumphalism extended, John Cassidy argues in his work dot.con, reviewed here (3), even to the American economy.

The American economy in this boom period was often described as the “New Economy.” This was said to be an economy dominated not by the centuries-old verities of conventional business, but by new measures of productivity and new ways to create value (4). Many felt that it promised a continually rising standard of living for virtually everyone.

.03 **THE INTERNET AND THE NEW ECONOMY** ([return to index](#))

Just as the Internet was at the center of what we now term the war against terrorism, so was the Internet at the very center of the New Economy. The spectacular success stories of the New Economy were largely Internet-enabled companies. Although they often lost far more money than they made and burned through incredible amounts of investment capital, they seemingly could do no wrong insofar as the equities market was concerned. Initial Public Offerings (IPO) set record after record until it seemed that no valuation was impossible, and that no firm was too outlandish to be accepted by investors. Firms with no real prospect of profits

quickly were valued far above the stolid (and solid) icons of the “old economy.”

Not only was the Internet the *subject* of the new economy, it was also the *medium* whereby it was transmitted. American investors subscribed to electronic services, were guided by the “buzz” on bulletin boards and in chat rooms, bought and sold equities as rapidly as company web pages could load in their browsers.

As Alan Greenspan pointed out in his report of July 16, 2002 to the Senate, the Internet-driven economic activity of the era included not only the companies themselves, but also entire capital goods manufacturing sectors, even office space rental and office and industrial building construction. (5)

The crash of the spring of 2000 affected all these sectors. That time seems to have signaled not only the end of the dot.com bubble, but the beginning of a period of decline that continues as of this writing (July 23, 2002), when the stock market is closing at five-year lows.

.04 **THE INTERNET AND PRESENT ECONOMIC PROBLEMS** (return to index)

It is the prevailing interpretation that today’s problems are unrelated to the dot.com crash, but are a new economic difficulty, primarily caused by the lack of public confidence in accounting procedures. However, Alan Greenspan’s interpretation of these events is illuminating. He asks:

Why did corporate governance checks and balances that served us reasonably well in the past break down? At root was the rapid enlargement of stock market capitalizations in the latter part of the 1990s that arguably engendered an outsized increase in opportunities for avarice. An infectious greed seemed to grip much of our business community. Our historical guardians of financial information were overwhelmed. Too many corporate executives sought ways to “harvest” some of those stock market gains. (6).

Greenspan’s analysis brings us back to the impact of the Internet and emphasizes not differences in recent economic phenomena, but continuities. If we see the period from the spring of 2000 to the present as a whole, what we see is not two distinct crises, but one continuing one. It reflects a continued turmoil within an economy that has been increasingly affected by a little-understood force, the Internet. This has included a transition from being buffeted by largely local or isolated problems to problems that are inter-related and global in scope.

Clearly, it is to the advantage of political leaders to emphasize legal issues such as violations of accounting procedures, because not only can these be changed quickly with appropriate legislation, but emotionally satisfying scapegoats can also be selected and sentenced to appropriate terms in white-collar penitentiaries.

Economies, whether local or global, are complicated entities and difficult to understand. There is not even agreement among historians or economists as to what caused the 1929 crash, surely a

relatively simple phenomenon when compared to today's economic problems. Now we have forms of financial instruments and trading practices that are truly understood by only a few specialists, and there are many more ways of trading in equity than was the case in 1929.

We believe that the Internet also is connected in another critical way to the recent decline. Economic news, reports of related events or the words of influential individuals now travel with the speed of light. Electronic communications earlier reinforced self-fulfilling prophecies of profit and endless progress, driving up the market. Presently they draw attention to the failure of the economy to live up to those earlier promises. In the past, repeated rapid turns in the stock markets have often been taken as a sign of instability. We wonder, with Internet-enabled communications, if such events may come to be taken as normal.

.05 **SECURITIES AND SECURITY** ([return to index](#))

Here we must remind ourselves that not only are the dot.com bubble and current economic problems related to the Internet, but so also is the issue of homeland security. Since both problems of "security" and "securities" are indeed related via the Internet, an attempt to influence one side of the equation will affect the other. In seeking economic or physical security, we must constantly monitor the consequences of those ameliorative policies on the other form of security.

There is, for example, a rush to fund new means of enhancing security against terrorism. These inevitably affect other forms of investment. At present, public agencies such as the Pentagon, the National Security Agency, the National Institute of Standards and Technology are working with corporations such as Intel, Visa, and Allstate Insurance, among many others, to agree on technical standards to enhance homeland security in electronic transactions and communications. (7) At present many individuals and companies with which we are personally familiar are betting that their future profits will lie in addressing public and private concerns for security.

Programs such as these will be good for individual companies and thus good for at least some small section of the stock market, perhaps quite a large section when taken together. They will also, however, impact the Internet, and will divert Research and Development (R&D) funds from more basic sorts of research.

R&D has been hit hard by the sequential economic downturns in any event, and to see an increasingly large portion of surviving R&D funds diverted solely to "security" will have harmful effects on other important areas of R&D. Recently, for example, the Office of Management and Budget froze more than one billion dollars worth of Information Technology projects being planned at agencies slated to be included in the controversial Homeland Security Department. (8) In addition to government research funds, private projects, too, will be diverted to the security side on the assumption that these projects will secure government funds, and, if successful, find governmental purchasers.

A certain amount of shifting is desirable, and some projects will no doubt have wider commercial spin-offs. But to divert a substantial sector of R&D funding into such a narrow sector while overseas competitors continue to pursue more broadly commercial or scientific developments could prove devastating in the long run.

Recently, the Japanese supercomputing project, long a sort of whipping boy for what was felt to be ill conceived nationally planned R&D projects, came to fruition. The NEC “Earth Simulator” runs five times faster than its closest competition, IBM’s “Asci White”. In fact, the NEC machine provides more computing power than the 20 fastest computers in the United States and is more powerful than all the computers in the U.S. Departments of Energy and Defense taken together. Such a single example, of course, is not necessarily an indication of major changes in the balance of computing power. But it does show the results of a diversified R&D program. (9)

.06 **CONCLUSION** ([return to index](#))

Dealing with very complex and inter-related phenomenon is very difficult. It is our belief that policy responses to terrorism and to economic problems must be considered as a whole, because they are both impacted by common factors, most notably by the Internet itself. We agree with Alan Greenspan that if there was any positive economic impact of the development of the Internet during the “long boom” surely it was due to increases in productivity facilitated by the rapid growth in computing power and electronic communications. (10) We also agree that these developments were facilitated by entrepreneurs striving to maximize profit over a broad range of potential markets. Much of this activity rested on extensive research and development, both public and private.

Now the potential for funneling research and development into far fewer and much narrower channels is very high. Defense agencies are securing larger and larger portions of overall public spending. Private firms are being encouraged both by policy and by the search for profits to develop products for national-security related markets. Even those selling to private citizens and industries perceive that the concern for security will be a major selling point and will concentrate on developing hardware and applications for that market.

But we can no longer treat policy issues, whether political or economic, as though they exist in splendid isolation. This is particularly true where the Internet is a factor. It has created a web of ties between political and economic issues as surely as it connected many millions of computers to each other. Ill-considered responses to the problems of either homeland security or economic security could easily negatively impact the other. This is particularly true of R&D funding. To distort our public and private R&D funding in response to short-term issues could have very adverse long-term consequences for American productivity and competitiveness. We must not trade long-term financial security for short-term physical security to an unnecessary degree.

.07 **NOTES** ([return to index](#))

- (1) See “Netwar” in Interface IV, 3, <http://bcis.pacificu.edu/journal/2002/03/editorial.php>
- (2) See <http://www.wku.edu/~sullib/history.htm>
- (3) See <http://bcis.pacificu.edu/journal/2002/07/cassidy.php>
- (4) See <http://hotwired.lycos.com/special/ene/>
- (5) See “Testimony of Chairman Alan Greenspan” Committee on Banking, Housing, and Urban Affairs of July 16, 2002. <http://www.federalreserve.gov/boarddocs/hh/2002/july/testimony.htm>
- (6) See “Testimony of Chairman Alan Greenspan” <http://www.federalreserve.gov/boarddocs/hh/2002/july/testimony.htm> Committee on Banking, Housing, and Urban Affairs of July 16, 2002
- (7) See Shannon Henry, “Computer Security Standards Ready” *Washington Post*, July 17, 2002, page E05.
- (8) See Diana Frank, “OMB Puts Hold On Homeland IT” Federal Computer Week, July 22, 2002. <http://www.fcw.com/fcw/articles/2002/0722/news-omb-07-22-02.asp>
- (9) See *Ananova*, “Japanese supercomputer takes world’s fastest title from US” http://www.ananova.com/news/story/sm_571790.html
- (10) See “Testimony of Chairman Alan Greenspan” Committee on Banking, Housing, and Urban Affairs of July 16, 2002. <http://www.federalreserve.gov/boarddocs/hh/2002/july/testimony.htm>

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2 THOUGHTS ON “THE INTERNET, SECURITIES, AND SECURITY”

budget

on **January 29, 2014 at 5:45 PM** said:

hello there and thank you for your information – I have definitely picked up anything new from right here. I did however expertise a few technical issues using this website, as I experienced to reload the web site a lot of times previous to I could get it to load properly. I had been wondering

if your hosting is OK? Not that I am complaining, but slow loading instances times will often affect your placement in google and can damage your high quality score if advertising and marketing with Adwords.

Well I'm adding this RSS to my email and could look out for a lot more of your respective intriguing content. Make sure you update this again soon..

travelling

on **February 3, 2014 at 8:50 AM** said:

Who has traveled out of the country without their kids and how was it. Also, it is important to take a look at the graph of increasing growth in the travel and tourism industry, for example take the airplanes; the numbers of airplanes have increased 30 times since 1960. We went around the borobudur, we saw statoes, foreigners, etc.