



COMMONWEALTH OF VIRGINIA

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EDUCATION
CONSERVATION AND NATURAL RESOURCES
CLAIMS
INTERSTATE COOPERATION

March 31, 2000

PERSONAL STATEMENT OF THE HONORABLE PAUL C. HARRIS
Member, Virginia House of Delegates

My input on the policy deliberations on this Commission has been guided by an unwavering reverence for the dynamic principles preached by Adam Smith and Thomas Jefferson. Ironically, Smith wrote *The Wealth of Nations* – a handbook of economic development – in the same year Mr. Jefferson penned *The Declaration of Independence*. In my view, both Smith's and Jefferson's principles provide the crucial philosophical framework for formulating public policy for the new Information Age.

Smith admonished the great efficiency that comes from creativity and exchange of ideas. He stressed the need to remove the blundering hand of governments in order to unleash competition and maximize efficiency.

Jefferson moralized that as the human mind becomes more developed, more enlightened, as new discoveries are made, new truths are disclosed and manners and opinions change with the change of circumstances, institutions of government must advance and keep pace with the times. In Jefferson's words: "We might as well require a man to wear still the coat which fitted him when a boy, as civilized society to remain ever under the regimen of their ancestors."

These concepts are essential to any serious discussion on the subject of taxation of electronic commerce. After all, the challenge for tax policy in the Information Age will be how to maximize the potential efficiency gains of the Internet and at the same time protect revenue bases without hindering the development of these new technologies.

I am most excited about the possibilities the Internet affords to small and medium-sized companies, and start-up businesses, to find new markets and compete on a national and international scale. Their horizons are now limitless, and their role in the Internet economy has been spectacular. These resilient companies do not fear competition – as some pro-tax advocates and Commissioners suggest; they thrive on it.

What they fear is precisely what Adam Smith cautioned against: the heavy hand of government. They fear the blundering hand of government in the form of taxation and

regulation that would make the compliance burdens for Internet marketers, especially the small Internet merchants, almost impossible to meet.

On this point, those in the policy arena should be mindful of the admonition in the physician's oath: "First, do no harm." Expanded taxation of the Internet has become increasingly attractive to governments, both foreign and domestic. The Clinton-Gore appointees and the pro-tax state and local officials on this Commission have argued that the Internet is where the action is, that it's where the money is, and that it's where taxation should be directed. The business representatives on this Commission and the five anti-tax Commissioners – Gilmore, Harris, Sokul, Andal, and Norquist – have resisted this temptation.

The aggressive and complex taxation of the Internet – as advocated by Commissioners Leavitt, Locke, Kirk, Jones, Lebrun and the Clinton-Gore appointees – will only obstruct this new venue of commerce and limit access to the Electronic Highway only to those companies that are large enough to hire costly accounting and legal staffs to cope with compliance burdens.

In connection with my service on this Commission, I have met with Virginia companies, many of them small businesses, which have grown through exciting Internet marketing strategies. A couple of examples may facilitate your understanding of both my enthusiasm and concerns for the future of electronic commerce.

One of these small Virginia retailers started out as a family hardware store. The owner invented a unique type of wood screw that attracted great interest among craftsmen and makers of fine furniture. Initially, the market for this product was limited. The Internet, however, has helped change that. Today, this Lynchburg, Virginia-based company has customers in all 50 states and several foreign countries. Its web site describes the product, explains its applications, and takes customer orders.

A woman started another one of these companies on her kitchen table. She sells a line of gift items, some of which are of her own design. Initially, marketing was exclusively by catalogue. But catalogues are expensive to print and mail. As a result, circulation was limited. The Internet has removed antiquated circulation restraints. Today, this company's markets have expanded and its product lines have increased. It has more taxpaying employees and its sales are up.

Still, there is good news and bad news.

The good news is that the Internet helps small companies grow. In turn, these companies inject into the modern stream of commerce an unprecedented level of efficiency and creativity. Because of the Internet, these “click and mortar” companies are able to employ more people and pay taxes on their profits and prosperity – that is, taxes that help build roads, construct schools, and purchase fire trucks. These companies contribute substantially to the economic vitality and overall health of their local communities.

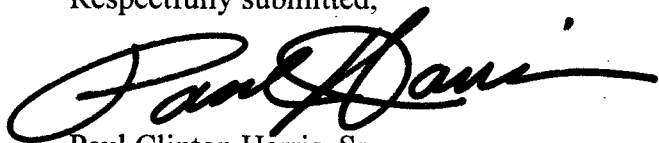
The bad news is that new tax collection burdens on these companies, as sought by the Clinton-Gore appointees and others on this Commission, would stop their Internet strategies dead in their tracks. The risks are real, and, if the Internet is to achieve its full potential, governments must curb their insatiable appetites for expanded tax authority.

The Internet has helped to sustain the largest and longest economic boom in America’s history. It not only makes good sense, but it is in the national interest, to keep the economy on a roll. To do so, it is imperative that we avoid Articles of Confederation-style tax policies that would allow each state to erect its own tollbooth on the Electronic Highway.

This Report embraces the Jeffersonian principle that, as new discoveries are made and the human mind becomes more developed and enlightened, institutions of government must advance and keep pace with the times. The tax-everything-that-moves model is simply out of date.

Finally, this Report is infused with well-settled American values of individual initiative, opportunity, privacy, and the freedom to maximize God-given talents. In short, this Report represents a victory for American taxpayers, and a reverberating set back for the proponents of unlimited government and expanded taxation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul Harris", written in a cursive style.

Paul Clinton Harris, Sr.

“Sic Semper Tyrannis”