THE PRICE OF PRIVACY

The current privacy debate in Washington and state capitals nationwide has focused almost exclusively on the desire for greater privacy protection. There has been comparatively little attention to the cost of privacy protection and the extent to which that protection interferes with the benefits resulting from the responsible use of personal information. This is a serious omission and one that this briefing seeks to begin to address.

Proponents of greater government privacy protection often characterize the debate in terms of consumers versus business. They argue that information flows harm consumers and so should be severely restricted by new legislation and regulation. This is not merely inaccurate, it misses the point entirely about the role of information and privacy in our modern economy.

Restricting information flows in an attempt to protect privacy inevitably interferes with consumer benefits and imposes demonstrable costs on businesses and the economy as a whole, to be sure, but primarily on individual consumers and citizens. The real tension in the current privacy debate isn't between consumers and businesses, but rather between consumers' desire for greater privacy and their desire for the many benefits that flow from readily available personal information.

While the Federal Reserve Board and other respected authorities have long argued that information is the "lifeblood" of our society and the "cornerstone" of a market economy, there is a growing body of research that demonstrates in specific and practical terms the real costs that laws and regulations intended to protect privacy impose on consumers — measured in higher prices, greater burdens and inconvenience, and less opportunity — and the serious drain that privacy enactments cause on the economy as a whole.

Consider the following findings from a few of the most recent studies:

CUSTOMER BENEFITS FROM CURRENT INFORMATION SHARING BY FINANCIAL SERVICES COMPANIES (December 2000)
Cynthia A. Glassman, Ernst & Young LLP for
The Financial Services Roundtable

Information sharing saves the customers of 90 financial services institutions (accounting for 30 percent of industry revenues) $17 billion a year ($195 per average customer household) and 320 million person hours annually (4 hours per average customer household). This figure does not include savings resulting from the use of information to reduce fraud, increase the availability and lower the cost of credit, provide co-branded credit cards and automated teller machine networks nationwide. It also does not include the lost benefits of future innovative services and products developed based on an understanding of consumer needs.

THE IMPACT OF DATA RESTRICTIONS ON CONSUMERS WHO BUY APPAREL FROM CATALOGS AND THE INTERNET (March 2001)
Michael Turner, Information Services Executive Council (ISEC) for
The Privacy Leadership Initiative and The Direct Marketing Association

Privacy restrictions would impose significant additional costs on people who buy through catalog retailers. These costs would range from an estimated 3.5 to 11 percent increase in the cost of apparel. Restrictions would require business to send significantly more catalogs to obtain the same response rates, and the resulting increase in cost would be passed along to consumer. The increases would disproportionately affect rural customers and those in less affluent inner city neighborhoods.

U.S. CREDIT REPORTING: PERCEIVED BENEFITS OUTWEIGH PRIVACY CONCERNS (1999)
Walter F. Kitchenman, The Tower Group

The "almost universal reporting" of personal credit histories is the "foundation" of consumer credit in the United States. Because of accurate data, financial institutions avoid making bad loans and the consolidation of loans based on similar risk scores creates securitized investments and secondary markets. Investors have confidence in U.S. consumers. Transparency of credit data is the foundation of consumer credit, which constitutes 60 percent of more of the U.S. GDP. Two-thirds of loans provide home ownership, 10 percent finance the purchase of automobiles and another 10 percent consist of credit cards that provide liquidity for the purchase of global goods and services. Securitization, largely driven by consumer loans, is not common outside the United States. The first euro-denominated mortgage bond issue took place in January 1999. Because of Fannie Mae and other U.S.-sponsored conduits to the secondary market, mortgages in the U.S. are estimated to save American consumers 200 basis points, or more than $80 billion a year on mortgages alone.

PUTTING PEOPLE FIRST: CONSUMER BENEFITS OF INFORMATION SHARING (1999)
Fred H. Cate, Information Law and Commerce Institute, Indiana University School of Law

Michael E. Staten, Credit Research Center, McDonough School of Business, Georgetown University for The National Retail Federation

Information sharing is essential to providing the services, products, convenience, safety, accessibility, recognition and low costs that consumers expect and demand. In the words of one Attorney General, it is consumers who ultimately pay the price for new privacy laws "in terms of either higher prices for what they buy, or in terms of a restricted set of choices offered them in the marketplace."

THE VALUE OF COMPREHENSIVE CREDIT REPORTS: LESSONS FROM THE U.S. EXPERIENCE (2000)
John M. Barron, Krannert Graduate School of Management, Purdue University

Michael Staten, Credit Research Center, McDonough School of Business, Georgetown University for The World Bank

Consumer credit will be less available and more expensive in countries that restrict the reporting of credit information by type of information or by parties with whom the information can be shared. The impact is especially great on those consumers who are financially more vulnerable, such as consumers who are young, have short time on the job or at their residence, or lower incomes. Consumer credit in restricted-reporting countries is more costly both in terms of finance charges, and in other features of the loan, including down payment, convenience of access, credit limits and fees. The long-term effect of restrictions of credit information includes impairing the growth of consumer spending and growth in consumer durable industries.