

The Economics of Spam

by Christopher Westley

What's the matter with the Internet? I used to love it, at least the part of it that brought e-mail. One of the highlights of my day used to be Outlook Express's friendly tone announcing that another e-mail had arrived in my inbox. Then I would stop what I was doing to see which friend or colleague was checking in, or what requested information had arrived.

Those were my glory days of e-mail. I miss them. Nowadays, it seems that for every ten e-mails I receive, eight are unsolicited sales pitches, also known as spam. And of those eight, half offer samples of crude and dehumanizing porn. As a result, I never check my e-mail when my children are nearby.

Though I once wrote in praise of e-mail, I now consider it a mixed bag. A couple of my friends have forsworn it entirely, having decided that the costs outweigh the benefits, and it is hard not to agree that they have a point. There have always been the good and the bad aspects of e-mail, but it seems that lately, based on my own inbox and my ever-growing list of filtered terms, the bad aspects seem to be trumping the good.

My experience reflects the national trend. According to the *Wall Street Journal*, the amount of spam as a proportion of all e-mail on the Internet increased by 350 percent between the summer of 2001 and the sum-

mer of 2002. It is now approaching 50 percent of all e-mail traffic. Spam makes up 70 to 80 percent of all incoming e-mail to America Online's servers and 40 percent to Earthlink's network.

The economics of spam explain its pervasiveness. Once a spamming system is set up, the marginal cost of sending an unsolicited e-mail is virtually zero. As a result, the smallest of response rates can make the process profitable. The rule of thumb is that while old-fashioned junk mail sent via the post office requires a response rate of 1 in 100 to be profitable, spam mail requires a response rate of 1 in 100,000. This greatly increases its appeal as a marketing tool.

For instance, a recent story in the *Fort Worth Star-Telegram* reported on an Internet marketer who mailed ten million e-mails a day offering eavesdropping software for \$40. His annoying efforts result in 50 orders a day, allowing him to earn \$700,000 a year. Not bad for a response rate of only 0.000005 percent. Following the law of supply, his success only signals other spammers to enter the industry, which is an extremely easy process. Anyone with a computer and an e-mail account can enter.

The result is a reduction in the appeal of an otherwise remarkable medium. After all, how many people would watch TV if the networks only showed commercials? The disgust is growing, and the politicians are listening, as evidenced by a recent "Spam Forum" conducted by the Federal Trade

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Commission and several bills working their way through both houses of Congress. This is a bad combination of events.

It is bad because solutions to problems such as these are ineffective, cannot be legislated, and will result in enriching offshore enterprises. In the aftermath of 9/11, the government has made clear its desire to regulate many forms of communication, particularly e-mail. The spam explosion provides a useful foil to justify such regulation on the basis that spam is simply another variant of market failure requiring state oversight.

Besides being incompatible with a free society, these responses are also incompatible with market theory that teaches us that the world in which we live is dynamic, not static, and that it takes time for resources to respond to problems that may hinder society. The market does not fail when the price of gasoline spikes, causing us to reallocate our gasoline usage until entrepreneurs respond to the change in price by redirecting resources to gasoline production. Indeed, it is the government that fails when it intervenes in this process, frequently causing the problems to persist needlessly.

For the same reason, we needn't assume that the current spam scourge must necessarily be the norm, thus overruling whatever advantages we otherwise might have from e-mail and justifying government intervention. In fact, there is no way anyone can know how the nature of e-mail will change over the next five years. But the assumption that today's bad conditions will persist indefinitely certainly does not square with practical experience in most every sphere of life. Although the modern state depends on such assumptions, they go beyond naiveté to enter the realm of the nonsensical.

Problems Create Solutions

Indeed, the problems themselves create the necessary conditions for entrepreneurs to offer various solutions. One can envision the problems resulting in the creation of private *intranets*, in which spammers pay for the

right to solicit their wares. In fact, their payment could result in zero-price e-mail and web access for the non-marketers who use the system, thus funding it much like broadcast television networks. The provider of such intranets could regulate who spams and how much. Such a solution is technologically feasible now, although not yet practical. But if the costs continue to increase, market conditions could easily change to allow such a system to come about.

There are also many unique and clever ways that markets are responding to spam problems today. One company, SpamArrest (<http://spamarrest.com>), intercepts all e-mail that is sent to its subscribers, requiring senders to visit a web page and click a box allowing the e-mail to be sent to its final destination. The genius of this process is that it requires senders to follow through on their e-mails by doing something only humans can do. Such efforts would place a serious crimp in the work of the e-mail marketer mentioned above.

Other companies offer free services such as SpamGourmet's (www.spamgourmet.com). They allow subscribers to submit faux e-mail addresses to companies that are likely to try to sell them to e-mail marketers. The users specify how many e-mails they wish to receive in response, after which they are "eaten." Since the firms never see users' real e-mail addresses, they never make it on e-mail marketing lists.

There are a myriad of other approaches too numerous to list here. The fact that no one will use e-mail if current trends continue is enough to guarantee that some solutions will be found. Just as markets provide sufficient regulation to maximize transactions, so will they provide tools necessary for e-mail services to maximize satisfied customers. As long as the state does not intervene in this corrective process, the glory days of e-mail will return. It will be as safe, effective, and beneficial as it was in years past.

Now excuse me while I clear out my inbox. □