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# A Tax That Could Fix Big Tech

Putting a levy on targeted ad revenue would give Facebook and Google a real incentive to change their dangerous business models.

By Paul Romer

Mr. Romer received a Nobel in economics in 2018.

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It is the job of government to prevent a tragedy of the commons. That includes the commons of shared values and norms on which democracy depends. The dominant digital platform companies, including Facebook and Google, make their profits using business models that erode this commons. They have created a haven for dangerous misinformation and hate speech that has undermined trust in democratic institutions. And it is troubling when so much information is controlled by so few companies.

What is the best way to protect and restore this public commons? Most of the proposals to change platform companies rely on either antitrust law or regulatory action. I propose a different solution. Instead of banning the current business model — in which platform companies harvest user information to sell targeted digital ads — new legislation could establish a tax that would encourage platform companies to shift toward a healthier, more traditional model.

The tax that I propose would be applied to revenue from sales of targeted digital ads, which are the key to the operation of Facebook, Google and the like. At the federal level, Congress could add it as a surcharge to the corporate income tax. At the state level, a legislature could adopt it as a type of sales tax on the revenue a company collects for displaying ads to residents of the state.

There are several advantages to using tax legislation, rather than antitrust law or regulation, as a strategy. [Senator Elizabeth Warren](#), for example, [has called for breaking up big tech companies](#). But the antitrust remedies that Ms. Warren [and other policy experts](#) are suggesting ask prosecutors and judges to make policy decisions best left to legislatures. Existing antitrust law in the United States addresses mainly the harm from price gouging, not the other kinds of harm caused by these platforms, such as stifling innovation and undermining the institutions of democracy.

Of course, companies are incredibly clever about avoiding taxes. But in this case, that's a good thing for all of us. This tax would spur their creativity. Ad-driven platform companies could avoid the tax entirely by switching to the business model that many digital companies already offer: an ad-free subscription. Under this model, consumers know what they give up, and the success of the business would not hinge on tracking customers with ever more sophisticated

surveillance techniques. A company could succeed the old-fashioned way: by delivering a service that is worth more than it costs.

Some corporations will persist with the targeted ad model if it yields more profit, even after paying the tax. To limit the size of those businesses, the tax could be progressive, with higher rates for larger companies. This would have the added benefit of creating a corporate version of a marriage penalty. When two companies combine, their total tax bill would go up.

A progressive digital ad revenue tax would also make sure that dominant social media platforms bear the brunt of the tax. That's important: It makes it easier for new companies to enter the market, so consumers will have more choices. A new entrant would also be less likely to be acquired if there's a tax penalty. A large company might reduce its tax bill by breaking itself into several smaller companies. It would be up to Congress or state legislatures to decide where to place the thresholds at which higher tax rates kick in.

If these measures aren't enough, Congress has the power to create new laws that address specific problems. It could follow the Wall Street reforms of Dodd-Frank and define "systemically important social media platforms" that would be required to meet stringent transparency standards or be subject to a "fairness doctrine" for balanced reporting, similar to what broadcasters once faced.

From the very beginning, Americans have refused to tolerate unchecked power. We must now press our legislators to protect us from the unchecked power of dominant digital platforms. The bigger they get and the more they know, the greater the threat to our social and political way of life.

Paul Romer, a recipient of the 2018 Nobel Memorial Prize in Economic Science, advised the Department of Justice in its antitrust case against Microsoft.

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