

January 29, 2020

Testimony from Paul Romer to Budget and Taxation Committee

No one is paying me or my father to be here today.

In the work we do, it is part of the job to give away what we have learned.

Here is the most important lesson we learned along our different separate paths: it was the investments in education by previous generations that gave us the high standard of living that we take for granted today. In the 19th century, the states of this nation committed to free primary education for all children -- with the tragic exception of children who were slaves. Then, no one fretted about whether they could afford that investment. In the early years of the 20th century, the states committed to free secondary education for all young people. Then too, no one fretted about whether states could afford to make that additional investment. Back then, people did what they had to do, without whining.

Today, Maryland has proposed such modest investments as offering free preschool access to only half of all 3 and 4 year olds.

There are voices who will not tell you who is paying them to say what they say. These voices will fret about whether the citizens of Maryland can afford to make this additional investment. But output per person today is roughly 10 times what it was at the beginning of the 20th century. So how can it be that with 10 times the income and resources, we can not afford a much more modest new investment?

Maryland can show that despite what the voices that fret are saying, every state can afford to make new investments in our children. And it can show that a large part of the cost of these investments can be covered by a tax that would be beneficial even if states didn't spend more and just put the money in the bank.

The voices that fret will say that taxes distort the market, discourage innovation, and slow growth. The truth is that the market for digital services is broken and that a tax on digital advertising can help restore the conditions needed for the market to work.

For markets to work, two things must be true:

- Buyers know what they give up to get something from sellers.
- Buyers can take their business elsewhere if the sellers do not live up to their promises.

Neither is present is true when there are dominant digital platforms that profit from tracking and targeting. Buyers have no idea what they give up when they use a digital service. They have no realistic option to take their business elsewhere.

But we can have a market for digital services that works the way markets are supposed to work. I started a business that let students do homework online. The students paid a subscription fee of \$35. My business never, ever revealed any information about these students to anyone other than the professor who assigned the homework.

Today, I am a consumer of a cloud service that charges me \$11 per year to save any link I find as I search the web. This firm works for me, not some hidden third party. It never reveals any information to anyone about what I'm reading.

A tax on digital advertising will encourage more digital service providers to rely on subscriptions and to be transparent about whose interests they promote. This model will undermine monopolies that rely on information about us and help restore competition.

The voices that fret will say that markets cannot work if people pay to get something. They will suggest that in the last 15 years, inequality has gone down because the poor do not pay for the services of such platforms as Facebook and Google. These voices will say that 15 years ago, no small businesses existed. How could they? Back then, small business did not have access to the targeted digital ads that these these platforms provide. These voices will say that no one could run for elective office. How could there even be an election? Candidates did not have access to targeted digital advertising. These voices will also say that this tax will hurt small digital service providers when in fact small firms will pay any tax at all. It is the platforms with monopoly control over information about our every move who will pay the vast majority of the tax.

I lived through the last 15 years. I've examined this tax. I can assure you that these claims are false; and that the pervasive dishonesty of the people who have made hundreds of billions from targeting and tracking is the final proof that something is terribly wrong with the market for digital services. When the market works, the firms that succeed are honest.

If every state followed Maryland's lead, our children will be better prepared and we will will have made a good start on the crucial task of getting back to a world where successful firms are open and honest; where we keep providing educational opportunity for all children; where no platform can be used to manipulate our electoral system.