

# Google's assessment of Google

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*This paper examines claims by Google and its consultants that the company generates massive economic benefits for Australia—\$39 billion for business and \$14 billion for consumers. These claims are massively overstated and, as might be expected, negative aspects of Google's practices are not acknowledged.*

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# Introduction

Google has effectively declared war on the Australian Government for introducing legislation that, if passed, would force Google and Facebook to pay for news content they currently use without payment. In the words of the Treasurer, Josh Frydenberg:

*This bill [Treasury Laws Amendment (News Media and Digital Platforms Mandatory Bargaining Code) Bill 2020] establishes a mandatory code to address the bargaining power imbalances that exist between digital platforms and Australian news media businesses. (Frydenberg 2021, p 11013)*

In response to the proposed code Google has threatened to go on strike and withdraw certain services from Australian users. That threat has been noticed in the world's media (The Economist 2021). To reinforce the impact of a strike in Australia Google has naturally drawn attention to its own importance in the Australian economy and society. Google presented a submission to the Senate Committee examining the legislation in which it outlined how it saw its own benefits to Australia (Google 2021). The Google submission draws on a consultancy report which was commissioned by Google and prepared by AlphaBeta (2021) entitled "Google's economic impact in Australia". This paper seeks to ask whether Google's assessment of itself, and the assessment of it by its commissioned consultants, are a reasonable.

Most of the present paper focuses on the consultant's report. That report makes a number of claims about the supposed economic benefits in Australia due to Google. Hence, we critically evaluate claims such as an estimated \$39 billion annual amount in business benefits and the \$14 billion benefit to consumers. Incidentally, Google's submission to the Senate Inquiry quoted the \$39 billion figure and suggested it was "roughly equivalent to the annual output of Australia's construction sector." Evidence by the Managing Director and Vice President of Google Australia and New Zealand, Melanie Silva, to the Senate Inquiry suggested Google generates revenues of \$4.8 billion (Silva 2021 p 4) but in the submission itself Google suggests its influence is equivalent to the vastly bigger construction sector. This is a blatant attempt to suggest Google's influence vastly exceeds its size by a factor of eight. As an aside we might point out that the construction industry could equally say it supports almost all industry in Australia.

We now turn to consider the consultant's report in more detail.

# Consultants to Google praise Google

We will show that there are major problems with the report, *Google's Economic Impact in Australia* by consultants AlphaBeta, in estimating the supposed benefits of Google. The report effectively assumes that in the absence of Google there would be nothing in its place. Hence it assumes that, for example, without Google those people who now advertise on Google would not advertise at all and so would not experience any of the benefits of the amount they now spend to advertise on Google. To suggest there are benefits from using Google we have to consider a reasonable counterfactual. People would use alternatives and so the impact of Google on Australia should pose the counterfactual question of what would exist in the absence of Google and how much better off Australia is as a result of Google. Modelling the counterfactual is not easy but at the very least the report should ask how business would manage if they had to rely solely on alternatives that are available now. To say that all the benefits of Google would disappear in its absence is to say the alternative to Google is nothing, and that the present alternatives to Google (both digital and non-digital) would not expand. That assumption is completely unrealistic.

If we were to ask what the net benefit to the Australian economy is of having Volkswagen in the market you would never dare to answer that the whole value of Volkswagen sales is the net benefit. Rather you would answer that question by pointing to a small benefit perceived by those who think Volkswagen gives a better product or better value for money and perhaps you might include some amount for the additional competition that Volkswagen brings to the Australian market. You would probably think it outrageous if Volkswagen said the net benefit to Australia is the total value of its sales in Australia. It would be even worse if Volkswagen pointed to all the business activity undertaken by people or companies who use Volkswagen vehicles. But this is what Google is effectively doing in its commissioned research.

The report should have asked what the net benefits to Australia are due to using Google rather than the alternatives. In the Methodology section the report actually says that when it estimates Google's benefits to Australia:

These benefits also do not account for activity that may have been displaced by Google, nor attempt to estimate the incremental impact of Google on the Australian economy beyond what would be the case if Google didn't exist but other companies like it did.

Other companies like Google did and do exist. The above quote is a very honest admission which, of course, means most of the report should be discarded.

## NOT “NET” BENEFITS

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Under the heading of helping Australian business increase revenues the main claim seems to be \$39 billion in benefits to Australian businesses and it explicitly says “Google supports AU\$39 billion in benefits to businesses in Australia.” The word “support” is very important in this context and we comment further on that below.

“Net advertising benefits for advertisers” is estimated at \$31.7 billion or almost two per cent of GDP. Some other benefits are also cited which brings to the total to \$39 billion. These include employee searches, Google Maps, Google Play, AdSense, and Ad Grants.

It is soon apparent that these are not net benefits at all. The text makes it clear that the “net” benefit as measured here is the additional revenue generated through advertising for the businesses concerned. The authors should know that any NET benefits would have to be calculated net of the opportunity costs of the resources (including a reasonable return on capital) used in producing the additional sales. For example, if I advertise and generate additional sales of \$100 but my costs of sales increases by \$50 for wages, \$30 for materials used in production, \$15 for rent, electricity, advertising etc and generates \$5 profit then there is no net benefit to society apart from that part of my profit that is over and above what I would expect to earn elsewhere on the funds I have employed. The consultant has not attempted anything like this. But even then the benefits accrue to a few businesses and not the bulk of us. The important thing is that the resources (labour, intermediate goods etc) all have alternative uses in which they contribute to the value produced by other businesses. Economists recognise that the use of resources involves opportunity costs being the value of those resources in the next best alternative.

From a purely commercial perspective it should be clear that the benefits to business will be the extra profit and not the extra costs, yet the consultant’s methodology includes the costs. What all this means is that if there are indeed benefits from an innovation such as Google those benefits will be manifest as increases in the value of Australia’s output due to the reorganisation of Australian resources; the capital, labour and other resources. These benefits were not estimated in the consultant’s report.

## 1,800 GOOGLE JOBS CREATE 116,200 DIRECT AND 162,700 INDIRECT JOBS!

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The consultant’s report says there are 1,800 people employed by Google in Australia. It is easy then to suggest that the total benefits estimated above at \$39 billion are due to those 1,800 people. If we calculate average employment per unit of output in Australia and apply that to the supposed \$39 billion in sales, as the consultants seem to have done, that means 116,200 direct jobs. Hence the consultants say “Google directly supports an estimated

116,200 jobs...” The working out is not provided so we have to assume some such procedure. But following that the consultants calculate another 162,700 indirect jobs. These apparently reflect the jobs created when a business buys inputs from another business. So instead of just the employment generated by the \$39 billion sales they add the indirect effects of the businesses supplying inputs to the new sales. All up AlphaBeta is suggesting Google’s 1,800 jobs leverage additional jobs at the incredible ratio of 155 to one. But of course, it would be laughable to suggest that if Google left Australia then some 280,000 jobs would disappear.

If AlphaBeta is illegitimate in claiming the net economic benefits for Google in the first place, then of course the employment impacts break down. Some businesses like to claim all the value added that goes on to their product. These claims can be quite ludicrous. The Australian leather producers could claim they support the full value of a new Mercedes Benz because of the leather seats. We estimated some time ago that if you do the arithmetic, Australian businesses can say they support output worth three times Australia's GDP. The steel producer can claim the output of the car industry and cars are essential to the steel industry (as virtually all other industries) so they can claim credit for each other and so on. Google’s claim to support \$39 billion in Australian benefits falls into this type of confusion.

At June 2019 the Reserve Bank of Australia employed 69 people in its note printing facility. It is the work of those people that allow the cash transactions to be made and so support the 12.9 million people working in Australia. The Reserve Bank has not made that claim, but it could if it followed the Google example. In a sense all such claims contain some plausible element but taken to extreme we can see how ludicrous they really are.

There is another example in the body of the report (but not in the executive summary) when Google refers to additions to GDP and higher employment in Australia because of its investment in international network cables and the like. The footnote refers to another consultant’s report to Google which suggests investment of \$2 billion since 2010 “which support 1.1 million additional jobs and USD430 billion in additional GDP for the [APEC] region” (Analysys Mason 2020). Apparently Australia’s share of that is US\$30 billion per annum.

These are basically shameless claims that do not hold any real credibility.

## GOOGLE “SUPPORTS”

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The consultant’s report is trying to give the impression that Google is responsible for \$39 billion in business benefits, 116,200 jobs and so on. But the wording is actually “Google supports...” and then there is a reference to jobs or a dollar amount as the case may be. The language seems to be carefully chosen to give the impression of a direct link between Google and any estimated benefits, but the link can be very tenuous. It would seem the



word “support” can vary from referring to the essential support a girder might give to a bridge or, at the other extreme, to the support a barracker may give to a football team. In that latter sense Google or anyone else might well say they support all Australian business which happens to be worth almost \$2,000 billion.

## MAYBE GOOGLE IS MARGINALLY BETTER

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We have already made the point that when the report presents the evidence it assumes that without Google there would be no alternative as we already noted. However, even if we concede Google is the best alternative it does not follow that all the benefits of Google would disappear in its absence. There are and have been alternatives to Google.

Let us concede Google is far superior on various technical grounds. Google may present as a marvel of modern technology and, as we understand it, there has been an enormous investment of resources to produce the current versions of Google.

Technology presents many difficult issues. Years ago, the Commonwealth Statistician would have had to put computers into the consumer price index and various national accounts data series. It would have to adjust for quality changes over time. Moore’s Law says that “we can expect the speed and capability of our computers to increase every couple of years, and we will pay less for them”(Investopedia no date).<sup>1</sup> So a computer today can work some 8,192 times quicker (better?) than a 1995 computer. But the important issue is whether people value the additional prowess of their computers. For quite a while people have been happy with the performance of computers and dramatic improvements in technical performance seem to have been given little weight by users. It may be that while Google is generally the default option it is not that much more valued than the alternatives, including the alternatives that might have existed in the absence of Google.

The important point here is that there may be enormous technical strides behind Google which may be vastly superior to the next best technology. When we do a search on Google it lets us know how long it took to obtain so many results. That may be vastly quicker than the alternative but if both occur in a fraction of a second it is doubtful most consumers would care about the difference in speed. It is easy to over-estimate the importance of technical improvements compared with consumer perceptions.

All of this takes it for granted that Google is indeed better than the alternative scenarios. The video cassette wars should be a warning. Originally there were two main contenders for video cassettes: VHS and Beta. Beta was judged superior, but VHS won out because of poor business decisions by the owners of Beta. Once a universal standard was adopted by the market other contenders faced impossible barriers to entry. VHS was effectively on its own until the compact disk. We do not want to suggest that Google became dominant with

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<sup>1</sup> Investopedia at <https://www.investopedia.com/terms/m/mooreslaw.asp>

inferior technology, but incumbency has given Google very significant advantages. Incumbency has also allowed Google to improve its service as a result of its experience.

## GOOGLE MAPS

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The report also attributes large business benefits to Google Maps. We can laugh about the idea of a truck driver going to and fro between Melbourne and Sydney on the Hume Highway every day and who allegedly saves many days a year because of Google Maps.

Again, the counterfactual seems to be the absence of any similar search engine. It is also unclear how the figures were obtained although, given the description it is clear these are not the figures you would estimate by comparing Google with the next best alternative. Indeed, were it to be established that Google has caused searchers to stray towards its own rather than equivalent or better alternatives then we would have to put a negative against this. The negative mark would reflect the effect of anti-competitive conduct on the Australian market. Our impression is that alternatives existed and may have been squeezed out by apparently free products by Google and Apple.

In its methodology section the report does say it also works out the benefits of using GPS devices as an alternative to Google Maps. But it does not explain just how or if it values the difference in the performance of Google Maps relative to the alternative. We just do not know how the value of the GPS alternatives is used in estimating the final value of Google Maps. This is important since AlphaBeta claims benefits of \$1.7 billion to business and \$6.1 billion to consumers. Did they really work out the benefits to the average GPS user and compare that with the similar figure for Google Maps and claim just the difference? We are not given sufficient information to answer that.

## BENEFITS GO TO NON-TECHNOLOGY SECTORS

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The report seems to think it is important that 97 per cent of its benefits (read customer usage) comes from outside the industry. It is unclear what to make of this. If we found out that 97 of purchases of fish and chips came from outside the fish and chip sector what would we make of that?

Likewise, it finds that 60 per cent of business benefits go to small and medium businesses. That figure is roughly what we get when we measure small and medium sized businesses as a share of the economy. If we do that, we find that small and medium business accounts for 66 per cent of all business using their workforce as an indication of their size.<sup>2</sup>

There is also a state by state breakdown but again we can ask “so what?”.

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<sup>2</sup> This calculation used ABS (2020).

## CONSUMERS

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The report suggests consumer benefits in Australia are worth some \$14 billion. Included in those are the finding that “The average Australian user is estimated to save 4.9 days per year through the use of Google Search to find information.” In the appendix we find that the counterfactual is the time taken to conduct “a search at the library”. We must ask whether we have really saved 4.9 days per year at the library!

Before the internet the average Australian would have spent much less than 4.9 days at the library. In 1981, well before the internet and other innovations, Australia’s population was only 15 million. On the report’s figures those people would have spent 4.9 days per year at the library because they did not have Google. On that figure it would mean that in 1981 there were 200,000 people in the nation’s libraries at any one time, a figure we have difficulty with. In the absence of Google, we certainly would not expect to see some 330,000 people in the nation’s libraries based on present population figures.

In any event, the report falls into the trap of comparing Google with the absence of any realistic alternative at all. The same can be said of the willingness-to-pay study that asks people to put a price on the value of Google. This quite different to asking how much people value Google’s offerings relative to other specific searches, applications, maps and so on. Again, asking Volkswagen owners to put a value on their Volkswagen is different to asking how much extra they value Volkswagen compared with their next preferred option.

Clearly we do a lot of things today because we can and because it is cheap. The marginal cost of a search is nearly trivial so we do many things with a marginal benefit that is not much more than trivial. Certainly there are many things we do today that are not important enough to look up in a library, but the report assumes they all are just as important as the tasks we undertook in libraries.

None of this is to deny the undoubted benefits of Google but once again the report is guilty of overstating the benefits.

## SOME COSTS AS WELL

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For eons people have complained about the advertisements that have to be endured in order to watch a program on free-to-air television. Similarly the Google experience is hindered by unwanted advertisements that often appear as genuine search results. The revealed preference of consumers suggests such annoyances are not enough to outweigh the positives. However, in any overall assessment these annoyances should be at least acknowledged. Google’s business model means users lose control over personal information which must also count as a large personal cost.

While speaking of advertising and such matters on Google we might ask what are the costs to Australia due to the monopoly rents we pay, the costs to businesses when they are put

way down on the list of search results, the lost tax revenue, the lack of competition when Google buys up competitors, the shrinkage of the news gathering services who cannot compete against free-riders such as Google.

While the report sells the idea of benefits to business it is not clear that advertising generally provides net benefits to society. Advertising works by creating new desires for goods and services. It is certainly not clear that individuals with new desires, even if those desires are sated, are better off than they would have been in the absence of the new desires. And if many individuals are not in a position to satisfy the new desires then perhaps most of us would judge that society is in fact worse off.

Years ago JK Galbraith, writing in *The Affluent Society* (Galbraith 1958), asked us to reflect on what had happened to our values and our environment as the ad-men (they were predominantly men) from Maddison Avenue perverted our choices towards privately produced goods and services and away from those provided by the public sector. We should not lose sight of the fact that Google makes its money out of its advertising business. Google becomes the vehicle for advertisements warts and all.

# Conclusion

Google's consultancy report attempts to present the estimates of the benefits to Australia as a result of hosting Google. When we look critically at the report very little of it can be supported. Most of the claims are fanciful and are easily dismissed. What is more, there is a sentence tucked away in the methodology section that undermines the whole report when it admits that it has not really examined the benefits of Google itself but what Australia would look like if Google was not there and nothing replaced it. Hence for example, Google on one occasion is compared to manual searches in a library, not to using the next best alternative to Google. Indeed, if you seek assistance in a modern library they will assist with an electronic search, sometimes with Google and sometimes with alternatives such as the National Library's search engine.

Just the very dominance of Google suggests it may be vastly superior to the alternatives and highly valued by its users. But it may equally be the luck of incumbency. However, the present attempt to estimate the benefit to Australia vastly overstates Google's importance.

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