



Beware the Perils of Corporate Welfare: An Open Letter to Jeff Bezos

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By: Andrew B. Wilson

Amazon is amazing. Just amazing.

In just 20 years as a public company, it has experienced a thousand-fold growth in sales – going from \$148 *million* in 1997 to \$138 *billion* in 2016 and a projected \$160 billion in the current year. Adjusted for splits, the price of the stock has gone up 200-fold – from a high of \$5 a share in 1997 to \$1004 a share today.

To paraphrase the bard, Amazon doth bestride the narrow world of retailing like a colossus. Others quake at its every movement. Back in June, when the company announced the acquisition of Whole Foods, the stocks of other grocery chains plummeted – with Kroger falling 26 percent in the two days following the announcement and SuperValu down 16 percent. Wal-Mart fell 5 percent. Within days, Amazon’s market cap went up nearly as much as the \$13.7 billion it agreed to pay for Whole Foods.

In many years of writing about business and economics, I can think of no other enterprise that has come so far so fast. Even so, waxing biblical in your 2016 letter to shareholders, you said it is *still* “Day 1” (the first day of creation) in the company’s evolution. When someone asked you at a recent “all-hands meeting” what Day 2 would look like, you answered:

Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed

by death. And *that* is why it is *always* Day 1.

Your words prompt me to warn you that Day 2 may be approaching much more quickly than you think. Surely you don't want to turn Amazon into a subsidy junkie. If that happens, Day 1 will turn into Day 2 in the blink of an eye.

Right now, cities and states across the country are competing with one another to throw big money – taxpayer money – at Amazon in the hope of being chosen as the site for Amazon's proposed second headquarters. With one hand, you dangle the promise of up to 50,000 jobs paying an annual average of more than \$100,000 per employee. With the other, you rattle a tin cup, stating in your request for proposals:

Incentives offered by the state/province and local communities to offset the initial capital outlay and ongoing operational cost will be significant factors in the decision-making process Outline the type of incentive (*i.e.*, land, site preparation, tax credits/exemptions, relocation grants, utility incentives/grants, permitting, and fee reductions) and the amount. *The initial cost and ongoing cost of doing business are critical decision drivers* (emphasis added).

A few years ago, Boeing Commercial Airplanes, your cross-town neighbor in Seattle, initiated a similar nationwide bidding war for production of its latest big new wide-body – the 777X. In the end, Boeing decided to keep production at its massive facility in Everett, Washington – but only after winning nearly \$9 billion in tax breaks and subsidies from the state legislature. That worked out to more than \$1 million per promised job, or about \$50,000 per year per job over a 20-year period (the tax breaks do run out eventually).

Maybe that sounds great to you. From your perspective, it may seem like the equivalent of having local and state governments pick up half of the anticipated HQ 2 payroll for a long time.

But think of the downside of making Amazon and its people deeply dependent upon corporate welfare. Think of the gross unfairness of huge tax carve-outs for Amazon that are denied to other smaller businesses (which have to pay for their *initial costs and ongoing costs* out of their own hard-earned dollars). How do you want your company and its people to succeed – by winning in the marketplace . . . or by securing a fatter portion of government largesse?

Last but not least, think of the hypocrisy of preaching a gospel of “obsessive customer focus” as the key to maintaining “Day 1 vitality,” while gouging money out of taxpayers. According to Consumer Intelligence Research Partners, there are now about 85 million Amazon Prime members – that's 68 percent of all U.S. households! As Amazon becomes increasingly ubiquitous, most of every dollar that Amazon takes out of taxpayer pockets will be money stolen (or *lifted*) from its own customers.

As one of your customers told me, “I am never in favor of using my tax money to build someone else's business so that it can sell products to me and profit off me a second time.”

About the Author



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