
Amazon HQ2: Pain tomorrow?

The best run businesses think long term. While it's easy for management to roll out a few platitudes each quarter, talk is talk. The acid test is whether management embraces activities that hurt in the short run in order to reap in the long run. I've always thought of this as pain today, gain tomorrow behaviour. Good management aggressively runs towards such opportunities.

Investors also need to be on the lookout for its all-too-common inverse—gain today, pain tomorrow behaviour.

In Killing Competitive Advantage from [Forager's March 2018 quarterly letter](#), Steve discussed the case of Gillette. Over the past decade, the shaving company made the decision to maximise short term profits through rapacious pricing. But Gillette killed the golden goose in the process, by encouraging competition.

In contrast, **Amazon's** founder Jeff Bezos is the poster boy for the right kind of thinking. He's prepared to sacrifice decades profitability for the right kind of long term opportunity. But I suspect he's currently making an error in one facet of the business. If he's capable of it, so is everyone else.

Amazon HQ2

Amazon is based in Seattle. It is looking to set up a second headquarters elsewhere in North America, the so-called Amazon HQ2. It's an idea with common sense roots.

Seattle has a greater metro area about the same size as Melbourne or Sydney. And Amazon is rapidly outgrowing the capacity of its host city, which it shares with **Microsoft**. Rather than try and drag more computer engineers to the Pacific Northwest, why not divert some of the growth to another city—one with a highly educated workforce, good public transport, airport links and more affordable housing than what's available in Seattle? These are all worthwhile aims for the rapidly growing company and its staff.

But of course, it's also very much about moolah. Amazon is holding what amounts to a competitive tender among cities to attract its business. Bezos is offering a very big carrot—50,000 highly paid jobs and \$5bn in new construction coming to your town soon. Understandably, he's using that to extract some hefty concessions for Amazon.

By late 2017, the company had received more than 200 proposals from cities in just about every state in the US and Canada. By January 2018, a shortlist of [20 candidate cities](#) had been released.

Your tax revenue is my opportunity

Accurate details are scant, because naturally Amazon is making cities sign non-disclosure agreements. But the numbers are undoubtedly huge.

Chicago, which is on the shortlist, is reportedly [offering more than \\$2bn of subsidies](#), including property tax cuts and sales tax exemptions. But the biggest and hardest to stomach part of its package is \$1.3bn of EDGE tax credits. Nearly every employee in Illinois pays some state taxes—to fund schools, hospitals and the like. But the tax credit being offered means that Illinois will take some or all of the state taxes paid by Amazon's new employees and refund it—to the company that is, not the employee.

[Newark, New Jersey, is making Chicago look tight-fisted](#). It claims its package is worth \$7bn. That's the equivalent of US\$140,000-230,000 for every job to be created at the new HQ2 by Amazon.

Montgomery County, Maryland is one of three areas within the Washington DC metropolis to make the shortlist. Its [original package claimed \\$5bn of savings](#), including state income tax credits, state and local property tax credits and sales tax exemptions. Perhaps envious of Newark (an original phrase, if ever I have written one), the city decided to [sharpen its offer to \\$6.5bn](#), not counting an additional \$2bn in committed transit improvements around the potential Amazon site.

Tech giants gone wild

[Facebook](#), Google and Amazon are businesses with enormous market share and power. They wield it on customers, employees and, increasingly, governments, even democracy itself. An economist might say they operate in industries displaying monopolistic tendencies. That's an understatement. They've been able to grow so big, so fast for numerous reasons. A crucial one is that America in recent decades has offered the most benign antitrust environment since the [Robber Baron](#) era.

That acceptance isn't limitless. As with Microsoft two decades ago, Europe has lead the charge against extreme market power of the new tech giants. But the zeitgeist in [America also seems to be turning](#).

The big tech companies are increasingly aware of the changing environment. Mark Zuckerberg is working hard to soften the perception (if not the reality) of his more megalomaniacal edges. [Amazon employed 3 registered in-house lobbyists](#) at the start of 2014. It now employs more than 30.

But the HQ2 beauty pageant lays bare that power. There are a few hundred cities that have made some effort to accommodate Amazon but have missed out. And there will be 19 cities that have put in a tremendous amount of time, effort and offered massive financial concessions, with nothing to show for it. American workers and smaller business in those places will increasingly take notice of the tax cuts and subsidies offered to Amazon that weren't offered to them or their employer.

I understand why Bezos has put HQ2 out to competitive tender rather than just picking a place based on its established merits. And I also understand why mayors are falling over themselves to attract Amazon's expansion.

<https://twitter.com/DanielMKishi/status/981158931069308928>

But I also suspect Americans will look at the hypocrisy of it all and laugh. To a point. Then one day, they'll pick up pitchforks and give these companies the [Standard Oil treatment](#). The Amazon HQ2 process may help bring forward that point in time. It will save Amazon billions in the near term. But it might cost them real money in the long run.