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Hightower Lowdown – AAN collaboration re: Amazon

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**Credit:**

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***It’s time to look closer at Jeff Bezos and his online retail colossus***

**At Amazon, “cheap” comes at a *very* hefty price**

**IN HIS CLASSIC 1936 COMEDY, *Modern Times*,** silent filmmaker Charlie Chaplin depicts the trials and tribulations of a harried factory worker trying to cope with the sprockets, cogs, conveyor belts, and “efficiencies” of the new industrial culture. The poor fellow finds himself caught up (almost literally) in the grinding tyranny of the machine. The movie *is* hilarious, but it’s also a damning portrayal of the dehumanizing consequences of mass industrialization.

The ultimate indignity for Chaplin’s everyman character comes when he is put on an assembly line that includes a mechanized contraption that force-feeds workers as they work. Not only does this “innovation” eliminate the need for the  factory owner to provide a  lunch break, but it also transforms  human workers into automatous components of the machine itself.

Of course, worker-feeding  machines were a comedic exagger ation by the filmmaker, not anything  that actually existed, nothing that would even be considered in our mod ern times, right? Well... if you work  for Amazon.com, you’d swear  that Chaplin’s masterpiece depicts Amazon CEO Jeff Bezos’ idea of a properly run workplace.

**Brave new paradigm**

Why pick on Amazon? After all, isn’t it a model of tech wizardry, having totally reinvented retail marketing for our smart-phone, globally linked age? Doesn’t it peddle a cornucopia of goods through a convenient “1-click” ordering system, rapidly delivering them right to your doorstep? And doesn’t it offer steep discounts on nearly everything it sells (which is nearly everything)? Yes, yes, and yes.

However, as an old saying puts it: The higher the monkey climbs the more you see of its ugly side. Amazon certainly has climbed high in a hurry. Not yet 20 years old, it is already a household brand name and America’s 10th largest retailer. The establishment press marvels that Bezos’ obsession with electronic streamlining and systems management that allow Amazon to sell everything from books to bicycles, barbeques to Barbies, at cheap-cheap-cheap prices, undercutting all competitors—even Walmart.

But what is the source of those efficiencies and the low prices so greatly admired by Wall Street and so gratefully accepted by customers? Are they achieved strictly by being a virtual store, saving the costs of building, staffing, and maintaining brick-and-mortar outlets? Or is Amazon achieving market dominance the old-fashioned way—by squeezing the life out of its workers and suppliers, by crushing its competitors with monopolistic muscle, and by manipulating our national and state tax laws?

Voilà! There’s the ugly side.

Amazon and Bezos scream for more scrutiny because Amazon, more than any other single entity, has had the infinite hubris to envision a brave new computer-driven order for our society. Bezos isn’t merely remaking commerce with his algorithms, metrics, and vast network, he’s rebooting America itself, including our concept of a job, the definition of community, and even basic values of fairness and justice. It amounts to a breathtaking aspiration to transform our culture’s democratic paradigm into a corporate imperium led by Amazon.

Wal-Mart, the “Beast of Bentonville,” is now yesterday’s model of how far-reaching and destructive corporate power can be. Amazon is the new model,  not just of tomorrow’s corporate beast, but the day after tomorrow’s. Only it’s already here.

**Inside Amazon**

Bezos has been crowned with numer ous laurels, from “Person of the Year” to world’s best living CEO. This May, however, the reigning God of TechWorld was awarded a less-coveted prize by the International Trade Union Confederation: “World’s Worst Boss.”

Even high-rankers in the corporation’s hierarchy describe him as a cold, controlling, often vengeful gnome of a man with little empathy for the people who work for him. But to witness the full Bezonian disregard for workers, one must look beyond the relative comfort of Amazon’s expansive headquarters and visit any of its 40-some “fulfillment centers” spread across the country. These are gated, guarded, and secretive warehouses where most of the corporation’s 100,000 employees work. The warehouses are dehumanizing hives in which Bezos has produced his own sequel to *Modern Times*.

Consider the job of “picker.” In each warehouse, hundreds of them are simultaneously scrambling throughout a maze of shelves, grabbing products. Pickers must speed-walk on concrete an average of a dozen miles a day, for an Amazon warehouse is shockingly big -- more than 16 football fields big, or eight city blocks—and pickers must constantly crisscross the expanse. There are miles of seven-foot-high shelves running along narrow aisles on each floor of three-story buildings, requiring pickers continuously to stoop down, crawl along, and stretch up. They are directed by handheld computers to each target. Then they must scan the pick and put it on the right track of the seven miles of conveyor belts running through the facility. Immediately after, they’re dispatched by computer to find the next product.

The computers don’t just dictate where to go next, they also relay how many seconds Amazon’s time-motion experts have calculated it should take to get there. The scanners also record the time each worker actually takes—information that is fed directly into a central, all-knowing computer. Everything workers do is monitored, timed, scored and reviewed by managers who have a mandate to fire those exceeding their allotted seconds.

This, and many other indignities, brings $10-$12 an hour, which is less than $25,000 a year, gross, for full-time work. But few get year-round work. Rather, Amazon’s warehouse employees are “contingent” hires, meaning they are temporary, seasonal, part-time laborers entirely subject to the employer’s whim. Worker advocates refer to these jobs as “precarious”: when sales slack off, you’re let go; when sales perk up and managers demand you do a 12-hour shift with no notice (which might let you find a babysitter), you do it or you’re fired.

Of course, technically, you don’t actually work for Amazon. You’re hired by temp agencies and warehouse operators with Orwellian names like “Amalgamated Giant Shipping.” This lets Amazon deny responsibility for your treatment—and it means you have no labor rights for you are an “independent contractor.” No health care, no vacation time, no scheduled raises, no route to a full-time or permanent job, no regular schedule, no job protection, and—of course—no union. Bezos would rather get Ebola than be infected with a union in his realm, and he has gone all out with intimidation tactics and hired a notorious union- busting firm to crush any whisper of worker organization.

If you asked workers in Amazon’s swarming hives why they put up with the corporation’s demeaning treatment, most would look at you incredulously and say something like: “Rent, food, clothing—the basics.” Bezos & Co. fully understand that millions of today’s workers are stuck in a jobless Depression with no way out.

As one of the worker bees in Amazon’s Lehigh Valley, PA, center told a reporter for the local paper, “I never felt treated like a piece of crap in any other warehouse but this one. They can do that because there aren’t any jobs in the area.” By paying just one notch above McDonald’s, Amazon draws tens of thousands of people willing to get in line for exploitation.

**The predator**

Amazon is by far the largest online marketer in the world, with more sales than the next nine US online retailers combined. That has given Bezos the monopoly power to stalk, weaken, and even kill off retail competitors—threatening such giants as Barnes & Noble and Wal-Mart and draining the lifeblood from hundreds of small Main Street shops.

Lest you think that “predator” is too harsh a term, consider the metaphor that Bezos himself chose when explaining how to get small book publishers to cough up deep discounts as the price of getting their titles listed on the Amazon website. As related by *Businessweek* reporter Brad Stone, Bezos  instructed his negotiators to stalk them “the way a cheetah would pursue a sickly gazelle.” Bezos’ PR machine tried to claim that this sneering comment was just a little “Jeff joke,” but they couldn’t laugh it off, for a unit dubbed the “Gazelle Project” had  actually been set up inside Amazon.

This top-level team focused on doing  exactly what Bezos’ metaphor  instructed: Pursue vulnerable small  publishers and squeeze their wholesale  prices to Amazon down to the point of no profit, thus allowing the online retailer to underprice every other book peddler. When Stone exposed Gazelle last year in his book, *The Everything Store*, the project was suddenly rebranded with a bloodless name—“Small Publisher Negotiation Program”—but its mission remains the same.

Today, Amazon sells a stunning 40 percent of all new books, up from 12 percent five years ago. It is even more dominant in the digital book market, which is fast catching up to the sales level of physical books and is widely perceived as the future of publishing. Electronic book sales were non-existent just seven years ago; today about a third of all books sold are e-books, and Amazon sells two-thirds of those. Of course, Amazon also owns Kindle, the largest-selling device for reading digital books.

With his market clout, deep-pocket financing, and ferocious  price-cutting, Bezos has forced hundreds of America’s independ ent bookstores to close and has humbled the superstore  book chains that once preyed on the independents and dominated the market. Borders, the second-largest chain,  succumbed to bankruptcy in 2011. Now Barnes & Noble, the largest brick-and-mortar bookstore, is stumbling. It has lost millions of dollars, closed dozens of stores, shrunk most others, and suffered the embarrassment of its own board chairman frantically dumping big chunks of Barnes & Noble stock.

Bezos’ online empire not only stands alone as the paramount bookseller, but is also the dominant price setter, the arbiter of which titles get the best access (or none) to the biggest number of buyers, the most powerful reviewer of books, the publisher of its own line of books, the keeper of an in-house stable of writers—and even the sponsor of a major book prize.

He achieved this the old-fashioned way: Brute force. While it’s true that Amazon is innovative, efficient, and focused on customer satisfaction, such factors alone did not elevate Amazon to its commanding level of market control. To reach that pinnacle, Bezos followed the path mapped by Rockefeller and other 19th-century robber barons: (1) ruthlessly exploit a vast and vulnerable low-wage workforce; (2) extract billions of dollars in government subsidies; and (3) wield every anti-competitive weapon you can find or invent to get what you want from other businesses.

**What’s the matter with Main Street?**

Through doing all of the above, Bezos has applied his cheetah business model to nearly everything retail. Amazon’s massive book dominion is now dwarfed by its annexation of dozens of other markets -- book sales now make up a mere seven percent of Amazon’s total business. Amazon has already captured more than a third of all online sales with a website that’s a phantasmagoric mall of unimaginable size, containing what amounts to hundreds of virtual superstores.

In the process, and with the same deeply discounted prices they used to conquer the book business, Amazon has poached millions of customers from neighborhood shops and suburban malls. The chase for cheap has been great for Amazon, but it is proving intolerably expensive for your and my hometowns. Our local businesses lose customers and have to close, local workers lose jobs, and local economies lose millions of consumer dollars that Amazon siphons into its faraway coffers. What makes that even more intolerable is that much of Amazon’s competitive advantage has been ill gotten, obtained by dirty deeds.

**THE AMAZON SUBSIDY.** Bezos would not have grabbed such market dominance if government had not been subsidizing his sales with special tax breaks for 20 years. In all but a handful of states, merchants are obliged by law to collect city and state sales taxes from everyone who buys stuff from them. But Amazon, as an online merchant, has avoided adding these taxes to the price that its customers pay.

Bezos has emphatically insisted from the start that Amazon’s only facility is its headquarters in Washington state, claiming therefore that Amazon’s sales in the other 49 states are exempt from sales taxes -- even though he racks up billions of dollars in sales in those states and even though Amazon has massive warehouses in about half of them. With legalistic hocus-pocus, Bezos asserts that the warehouses are independent con- tractors, not part of Amazon.

In Texas, where I live, the sales tax rate is 8.15 percent, so by claiming to be exempt, Amazon gets a price subsidy of more than eight cents on every dollar of its sales—that’s more than the entire profit margin of most independent shops. The tax subsidy ranges from about four to more than ten percent across the country, handing Bezos an advantage of several billion dollars a year that has underwritten his fast and vast expansion.

Amazon’s tax ploy has been key to its ability to undercut the prices of local retailers, forcing many of them out of business. And the tax dodge has also shortchanged our communities by eliminating billions in tax revenues that cities and states desperately need for schools, infrastructure, parks, and other public services.

During the past couple of years, 21 states have stopped playing the fool, finally requiring Amazon to collect sales taxes like its competitors do. In a study released earlier this year, the National Bureau of Economic Research analyzed retail data of five of these states and found that Amazon’s sales plummeted by nearly 10 percent after they started charging sales tax. It was saving the cost of sales tax—not any Bezos “magic”—that kept many customers buying from his online mall. Of course, that’s cold comfort to the retailers driven out of business during two decades of Amazon’s government-backed assault.

“But wait,” as they say on late-night TV infomercials, “there’s more!” Amazon’s amazing slice & dice tax machine not only avoids paying state taxes, but it also extracts tax money from states to expand its warehouse network. This supremely rich company says that states wanting the (low-wage, no-benefit, temporary, and dehumanizing) jobs that come with its warehouses must show Amazon the money, i.e., offer “incentive grants” or tax breaks.

In short, flimflammery and government favoritism help Amazon overwhelm honest competition and extend its monopoly reach.

**THE AMAZON CRUSH.** Having overweening market power means never having to say you’re sorry -- even to your owners. Beyond taxpayer subsidies, Bezos can afford to be a voracious predator because his Wall Street investors have allowed him to keep operating without returning a profit. On paper, his revenue-generating machine has lost billions of dollars, yet his major investors, enamored with Amazon’s takeover of one consumer market after another, haven’t pulled the plug. Amazon uses their capital to buy its competitors and/or to market its own version of competitors’ products, which it then sells at a loss in order to squeeze hapless competitors out of business. That’s the very definition of predatory pricing.

Brad Stone’s book gives a chilling example of one such predation. Amazon has its own corporate espionage team called Competitive Intelligence that tracks rivals. In 2009, CIAmazon spotted a fast-rising online seller of one particular baby product: Diapers.com. A Bezos lieutenant was dispatched to inform the diaper honchos that the cheetah was going into that business, so they should just sell their firm to it. No thanks, replied the upstart.

Amazon promptly responded to the rebuff by marketing another line of diapers—with a price discount of 30 percent. It kept dropping the price even lower (plus free shipping) when the smaller firm tried to fight back. Diapers.com’s investors grew antsy, and in September 2010, the two founders of the company met with Bezos himself and surrendered. The final blow was their discovery that Bezos, in his campaign to crush them and control the market of online diaper sales, was on track to lose $100 million in just three months.

**SHOWROOMING.** Such ruthlessness is standard operating procedure at Amazon, which exerts it against any gazelle it chooses to eliminate. This likely includes some of your town’s Main Street stores. Small retailers everywhere are experiencing an ugly practice dubbed “showrooming.” For example, John Crandall, owner of Old Town Bike Shop in Colorado Springs, has seen a surge of shoppers who come in, check out the bikes he sells, ask a lot of questions, try out some bikes—and leave without buying anything. Then, some days later, they’ll show up at the store with the parts for a new bike and ask Old Town to assemble it for them! These shoppers have used their smartphones in Crandall’s store to scan the barcode of a product they like and then gone online to buy it from Amazon at a discounted price—lower than Crandall’s wholesale price.

Amazon’s new smartphone, called Fire (apparently meant in the sense of “shoot to kill”), is specifically designed to make showrooming fast and easy. Amazon has even offered $5 rebates to shoppers who scan items at stores, then buy them from the online brute. This is corporate murder. After 38 years in business, Old Town is hanging on, but it’s endangered. Crandall employs 11 people, pays rent and local taxes, supports all sorts of community events, and is fully involved in Colorado Springs—a place Bezos couldn’t care less about.

**MONOPOLY, FOR REAL.** Producers need the marketplace, the marketplace needs products. You’d think this would be a felicitous, symbiotic relationship, but when the market grows into a virtual monopoly, the monopolist can turn on suppliers with a vengeance. Amazon has done precisely that to book publishers. While Amazon’s fight with international publishing giant Hachette has been well publicized, it's medium-sized and small publishers who are especially vulnerable. They don’t have splashy marketing budgets, so they’re largely dependent on access to the buyers coming to Amazon’s online market.

“I offered them a 30 percent discount,” the head of a small academic publishing house told the *New York Times* this year. “They demanded 40,” she said. After she acquiesced to that, the cheetah soon came back, demanding 45. “Where do I find that five percent?” she asks. “Amazon may be able to operate at a loss, but I’m not in a position to do that.” She can’t leave, but staying could crush her company: “I wake up every single day knowing Amazon might make new, impossible demands.”

**It’s Time to Tell Amazon: No More**

Rather than examine the far-reaching social destructiveness in Amazon’s business model, the Powers That Be blithely hail Bezos as an exemplary corporate leader and point to his company as a model for the New Economy. They smile cluelessly when he says that it’s not Amazon killing off local businesses and turning work into  a low-wage, roboticized nightmare— rather it’s “the future” that is producing these changes.

Bezos has gotten away with this hornswoggle up to now by endlessly reciting his mantra that EVERYTHING Amazon does is to benefit consumers by relentlessly lowering prices. But I don’t want a price that’s stained with gross worker exploitation, the crushing of local enterprise, and the creation of a corporate oligarch. It’s up to us to reject this way of business.

Stacy Mitchell, an intrepid researcher with the Institute for Local Self-Reliance (www.ilsr.org ), has been studying Amazon’s impact and rightly says that to avoid a sterile Amazonian future, we must force “a public conversation about their power.” Unlike Wal-Mart, Amazon is largely invisible to most people. As Mitchell puts it: “All you really see is the website and then the FedEx guy is there.”

More people need to know what’s going on between that jazzy website and “the FedEx guy,” for Amazon is insidious, far more dangerous and destructive to our culture’s essential values than Wal-Mart ever dreamed of being. Remember: price is not value. Exchanging value -- and our society’s values -- for Amazon’s low prices is a raw deal.

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Sidebar 1:

**The birth of Amazon**

**LEGEND** has itthat the founding of Amazon is a classic story of a guy pulling himself up by his own bootstraps. In 1994, a bright, young fellow named Bezos heads off to the Seattle suburb of Bellevue, with not much going for him but old-fashioned pluck and a unique idea: Selling books on this new thing called the internet. Some called him crazy, but the bold entrepreneur got his online “bookstore” started in his garage in 1995. And lo, 19 years later, it has sales of nearly $100 billion a year and has made Bezos the 13th-richest American.

**REALITY.** Amazon did open for business in a Seattle garage, but guess where it was conceived? Wall Street! For the eight years between graduating from Princeton and landing in Bellevue, Bezos was a very well paid Wall Street investment banker. In 1994, while working at D.E. Shaw, a powerhouse hedge fund, he came across a report showing that internet marketing was about to boom, expected to grow by 2,300 percent a year. That’s when— click! —the Amazon light bulb lit up in Jeff’s head.

By the way, Amazon’s now-iconic brand name was not Bezos’ first choice. It was initially incorporated as “Cadabra,” as in abracadabra. But that sounded too much like "cadaver." Then came a suggestion he really, really, connected with: “Relentless.” How perfect that would’ve been! But wiser heads prevailed. So Bezos finally settled on Amazon, noting with typical modesty that the mighty Amazon River is the largest, most powerful river in the world—literally a force of nature.

Sidebar 2:

**Those pesky humans**

Reducing workers to automatons is not the end of Bezos’ reprograming of work and workers: It looks as though he wants to replace us pesky humans altogether.

Last year, he announced that “Amazon Prime Air” is in the works—a fleet of drones to deliver goods, gizmos, and gadgets to premium customers within 30 minutes after placing their must-have-now orders. And that’s only phase one of his grand automation machination. Phase two is to take advantage of recent advances in artificial intelligence and ultimately replace all floor workers with robots.

Far-fetched? In 2012, Amazon bought Kiva Systems, Inc., a leading developer and installer of robotic warehouse systems. Guided by the central computer, hundreds of Kiva robots can glide seamlessly through the aisles to pluck the items. And they don’t do lunch or take breaks (though they do require air conditioning). For Bezos, robots would eliminate the inconvenient need for any human touch. Last November, Amazon placed 1,382 Kiva robots on the floors of three of its warehouses. In addition, Amazon/Kiva is developing automated fulfillment systems for such other retail giants as The Gap, Staples, and Walgreens.

You could say that since there’s no humanity in Amazon warehouse jobs anyway, who cares? Well, those who have nowhere else to go *do* care. It’s a barren and wretched social vision that posits a choice of abusive jobs or no jobs at all.

Sidebar 3:

**Mr. Bezos comes to Washington**

Through much of its storied history, *The Washington Post* has been a proud truth-telling newspaper of national importance. From exposing consumer rip-offs and environmental horrors to the Watergate scandal that consumed Dick Nixon's presidency, the *Post* has practiced Journalism with a capital J.

In recent years, though, jammed by changes in the newspaper business, the *Post* had been focusing more on cutting newsroom costs than on a watchdog role. Then, late last year, the Graham family sold the legendary *Post* to the avatar of Amazon, Jeff Bezos.

Why would the master of digital marketing metrics want a newspaper? Was it just a lark?

Let’s stay real – Jeff Bezos doesn’t do larks. The *Post,* of course*,* is the paper of record at the epicenter of our government, read by practically every congress critter, agency head, lobbyist, and anyone else with an interest in Washington doings. And Amazon's doings are increasingly tied to the Capitol city – including possible anti-trust probes of its practices, its secret push to get a $600 million contract to build the CIA's cloud, the funneling of global income through Luxembourg, and its treatment of low-wage warehouse workers.

And now Mr. Amazon owns a newspaper that helps shape the debate on virtually every topic of public importance -- including those that affect his grand ambitions. Bezos didn't buy a newspaper. He bought power.