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In this article, Good Jobs First's Greg LeRoy discusses how Amazon has gained market share through the receipt of tax incentives. He argues that state and local governments shouldn't be paying Amazon to ''undermine other retailers.''

Memo to Politicians: Bargaining for an Amazon Warehouse? Turn the Tables!

BY GREG LEROY

In the latest glaring example of how governments pay corporations to do what they would have done anyway, state and local governments are showering economic development subsidies on Amazon.com as it builds out its distribution network nationwide.

Why Amazon Should Pay to Arrive

Instead of paying the retail giant to help it undermine other retailers, I recommend that public officials turn the table: when negotiating with Amazon, you should expect *the company* to pay for its arrival, *not taxpayers*.

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I know that's counter-intuitive, but it's based on cold, hard market logic. My argument boils down to this: Amazon is coming because it must; Amazon is driving the convulsion in retailing that is harming local retail economies; and governments should not pay to accelerate that harm.

How Amazon's Evolving Business Plan Changed Its Tax-Favor Strategy

First: Amazon.com is on a warehouse-building tear—it calls them ''fulfillment'' or ''sortation'' centers—in or near major markets with Amazon Prime subscribers *because it has to*. Amazon originally had a small number of warehouses in states with no sales tax, and avoided collecting sales tax by not having a physical presence that would have created ''nexus'' in the other states. It used the resulting price advantage to gain market share and grow its base of Amazon Prime subscribers, now estimated at between 65 and 85 million.

However with that growth, Amazon's business-plan emphasis evolved from price to convenience. As of May 2017, Amazon collects sales tax in every state with a sales tax while also shifting to same-day delivery. To achieve that, it must have lots of close-in delivery hubs, and so can no longer avoid nexus. (To be sure, many Amazon transactions still fail to collect sales tax, especially those involving third-party sellers.)

Transition to Tax Break-Seeking

Having gained market share by avoiding the collection of sales taxes (costing state and local governments many billions), Amazon is now on a tax break-seeking jag. As we documented last December at Good Jobs First, the retail giant received almost a quarter-billion dollars in economic development incentives in 2015 through late 2016 alone, in two dozen communities (Will Amazon Fool Us Twice?). Since our study, the company has been awarded at least five more subsidy packages totaling more than $115 million—plus four more deals whose costs remain hidden.

This transition from sales tax collection avoidance to economic development tax-break seeking first became evident in 2012, as Amazon faced tax claims from some states like Texas where it had facilities but wasn't collecting sales tax. Amazon began to concede on nexus and the collection of sales taxes, but now it wanted instead to get subsidized for opening new warehouses.

Amazon's ''Director of Economic Development'' position (unusual if not unique within retailing) was first held by Mike Grella, starting in March of 2012. Grella was an experienced tax-incentive consultant who had worked more than a decade at PricewaterhouseCoopers (now PwC) and then at Grant Thornton, where his job title was ''Director-Economic Development, Credits & Incentives.''

As Grella recounts in his LinkedIn autobiography:

> ''The Director of Economic Development role was created within Amazon's Legal Public Policy Department in March 2012 to raise the bar in government negotiations, earn trust and develop lasting relationships with public officials and partners. As Amazon ramped up expansion of its physical footprint globally. . . the need arose for consistency in messaging and direct line of communication to public sector executives about Amazon's expansion projects. . .''

Building In-House Tax Incentive Capacity

In other words, like some other firms, Amazon decided to house tax-break expertise in-house rather than outsource it to site location consultants. A recent scan of job postings made it clear that Amazon was still staffing up in this function, seeking lawyers, accountants and others with experience negotiating tax break deals, for positions entitled: ''Senior Manager, Economic Development'' (two); ''Compliance Manager, Economic Development;'' and ''Sales Tax Incentives Manager.''

Among the listed basic qualifications for the Senior Manager jobs: ''8+ years of recent multistate economic development direct transactional experience and subject matter expertise within a corporate organization, law firm, site selection firm, real estate firm, legal department, accounting firm, consultancy or government agency with a primary focus on economic development and economic incentives.''

(It is also had two positions for ''Principal, AWS Economic Development.'' That would be Amazon Web Services, with the data centers—a.k.a. ''server farms'' —where Amazon has also won economic development subsidies, and where Grella now holds the job title ''Director of Economic Development, Infrastructure Global Expansion @Amazon Web Services.'')

Retail Layoffs: Widespread and Costly

While governments shower favors on Amazon, its competitors continue to close stores and lay off workers: Sears, K-Mart, The Limited, Macy's, Walmart, American Apparel, Lowe's, Fossil, A & P and other local and regional retailers (not to mention chain closures or deep retrenchments such as Sports Authority, Circuit City, Radio Shack, Best Buy and Toys R Us). Look up any state government's listing of Worker Adjustment and Retraining Notification (WARN) Act notices, and you'll find numerous retail layoffs and closures.

The consulting firm Challenger, Gray & Christmas, Inc. reports 60,127 announced retail job cuts for the first six months of 2017 alone, and ''over 5,000 announced store closings'' in the same period.

The rampant retail layoffs make it clear: When Amazon.com's CEO Jeff Bezos touted the projected ''creation'' of 100,000 jobs, he was actually describing retail *job churn*, not net job growth. Indeed, the Institute for Local Self-Reliance estimates Amazon had caused a net loss of about 149,000 American jobs by the end of 2015.

Another cumulative effect: downward pressure on retail occupancy rates, rent rates, property values, property tax assessments and property tax revenues in many communities. The consulting firm Civic Economics seeks to compile these effects in its ''Empty Storefronts'' report. It puts Amazon's 2015 sales at the equivalent of 39,000 retail storefronts that would have paid $528 million in property taxes (even beyond its sales tax collection avoidance, which was still occurring in many states in 2015).

Suggested Amazon Community Benefits

So if Amazon's arrival (driven by its evolving business plan) means fewer jobs and lower tax revenues, why should government pay the company to arrive? Instead, why shouldn't Amazon pay an entry fee to help cushion the blow? How about a retail real estate tax-base impact fee up front, and a real estate re-use/adaptation fee, triggered when local stores close? And a Community Benefits Agreement that includes great, family-supporting wages and benefits? Local hiring targets for disadvantaged workers such as veterans, women, and citizens returning from incarceration? Environmental footprint calculations and air-quality monitoring?

That's my cold, hard advice to public officials. Turn the table around and look at the transaction from Amazon's point of view. The prize on the table isn't a warehouse: the prize is Amazon gaining ever-more access to market share currently held by your existing retailers, employing your incumbent workforce.

Why on earth should taxpayers subsidize that? Why shouldn't Amazon pay instead?

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