How Amazon.com made me an Amazon

AMITY SHLAES

One of the challenges of being a working mother is the questions people ask you. My least favourite is “How do you do it?” For a decade now I have evaded it and the types who pose it.

This week, however, I found a response I could live with. My epiphany came as I was working on today’s column. The plan was to write on the 19th-century British campaign to suppress the slave trade on the high seas and its similarities to the current Middle East challenge. The research began on Jeff Bezos with a hunt for material about William Wilberforce, an abolitionist leader. But before I bagged Wilberforce, I came across an announcement by Jeff Bezos, the chief executive, about Amazon’s new feature, “Search Inside the Book”.

Here was my answer to the Big Question. Neither feminist nor sociological, but economic. The answer was Amazon. Because of technological innovations by Amazon and other companies such as Google, information sector people become more efficient. The effect does not exclude the employed female.

This may sound like so much bubble hype, but I have evidence.

My life with Amazon began in the 1990s when I was working, writing a book and having my third child. One day, on a dedicated “internet” terminal shared by 10 staff, I came upon Amazon. Buying online saved trips to the specialty bookstore for tracts on unit labour costs. It took me to corners of the economics world I had found in no shop. It also enabled me to skip trips around town for the right Playmobil knight figure.

Overall, I was not such a tech maniac. I dozed off at the phrase “broadband”. But in the case of Amazon, I became a veritable George Gilder. I even corralled Mr Bezos into a private lunch with me and my paper’s books editor so we could grill him on his views about inventory theory. This was a bit cruel, as Mr Bezos, who was taking his company public around then, was arguably more time-challenged than I was.

Next came the crash and, September 11 2001. The received wisdom was now that high-tech was a bubble event. Amazon stock dropped below $15. I had less disposable income, and so did my employers. Still, I found myself spending more on Amazon. Soon, my heaviest outlays had to do with research projects. It was cheaper to buy books than to photocopy them – not to mention more respectful of copyright law. Buying a book could also spare business travel. My outlays increased, but my output was increasing faster. The little shopping habit suggested that productivity gains can offset time shortages, and that

Over seven years, I have made 482 purchases — about equivalent to the number of business lunches I have skipped in the same period

Amazon might be a recession-resistant product. It also suggested that the usual argument against Amazon — that it was vulnerable because anyone could replicate it — might be weak.

At that point a sane person would have gone long on Amazon. Alas for me, the ethics culture of financial journalism prohibits such wealth-maximising behaviour. So all I did was order books appropriate to the sort of column I had to produce during that period. (That meant acquiring several editions of Sir Norman Angell’s The Great Illusion.) Amazon stock moved up in 2002 and has jumped dramatically this year. Meanwhile, I discovered that Amazon also sells out-of-print books, and began to pour embarrassing amounts of cash into purchases for my next project, a history of the Great Depression.

The Depression is a vast topic. I started in January 2003 buying 1933 Was a Bad Year and by March had moved on to thrillers such as The American Catholic Experience and Takings: Private Property and Eminent Domain. I am currently awaiting delivery of The Story of the Hoover Dam, which I ordered in September.

Last Friday, I asked Amazon to violate its own privacy rules and tot up the total number of purchases I have made for myself and on behalf of my family in the past seven years. That figure was 482. A high number, but still just about equivalent to the number of business lunches I have skipped in the same period.

A wiser journalist would have something nasty to say about Amazon round about now, just to demonstrate independence. OK, I relent — I hate its sentimental “share the love” campaign. But I also have to mention that new search feature. The news is that the engine now indexes not only books’ titles and authors but also their content. Some 35m pages from 120,000 books that, heretofore, languished in library stacks are now accessible to all via the e-world. On Friday I found not only books about or by the saintly Wilberforce but also ones in which he is merely mentioned (with page numbers). Thus large productivity gains for scholars, stock analysts and so on. This may seem a small change, LexisNexis for books, but the truth is that it widens access to knowledge from an elite to an entire country.

Amazon is moving beyond supplanting a book shop to supplanting a library. You do not have to suffer from Amazon fever to take the point. The same experience has given Google the confidence to plot an initial public offering without investment bankers. I shall leave it to my colleagues on the Lex column to tell us whether we have to choose between Amazon and Google, or eschew tech altogether. The reality, however, is that though we may have doubted her lately, innovation is a goddess who outlasts boom and bust. She endowed her Errors in the 1990s but also generated genuine growth. And technological progress, ladies and gentlemen, is how she did it.
America is high on drug delusion
Consumer choice is a wonderful idea, and as American as they come. But by “choice” we tend to mean different things and sometimes that causes a problem.

Consider the economic policy craze of summer 2003: legalising reimportation of drugs produced in the US. Prescription drugs in the US are expensive. Prices elsewhere, especially in Canada, are lower. Let shoppers exercise choice and get the bargain. The Senate will soon consider an amendment already passed by Congress to allow Americans to order drugs from Canada and the European Union.

This legislation has considerable cultural appeal. After all, shoppers reason, ordering the antidepressant Zoloft from abroad is like ordering a pair of Teva sandals from LL Bean. The rush to find new fun in Internet shopping. The local shops in turn no longer dare to charge what they once did. “The same sort of competitive pressure can now be brought to bear on greedy, unpatriotic pharmaceutical companies.”

Jo Ann Emerson, a Republican congresswoman from Missouri, declared: “I will not stand here and see American seniors take a back seat to the pharmaceuticals industry. A bottle of tamoxifen...”

US lawmakers may fantasise about lifting their collective finger to push back the price of drugs. But this just means a greater gap between global supply and demand. If all US citizens start buying drugs at lower prices from Canada, pharmaceuticals companies will have less incentive to sell the products to Canada or to invest in developing new treatments.

It is welcome news that American seniors will receive their medicines at a lower cost. But if enough of them do so the bargains will disappear. In the longer run, the laws of economics still trump the laws of legislatures, as Canada indeed already demonstrates. Its provinces offer low prices for drugs... low nominal prices. But they also ration what is available to Canadians via an official list of approved drugs. Provinces will pay for a drug only if it is included on the list. To spare costs, they delay adding it.

In short, Canadians have less choice. They, like Britons, have been forced to become national health stoics. When Americans buy up Canada’s small supply of drugs, things will be worse for Canadians. It will be granary versus granary, fighting over the pill bottle.

That Americans do not instantly recognise this problem is a sort of perverse tribute to the US system; over the decades the nation’s relatively free market has functioned so well that many citizens have forgotten the pitfalls of price controls on goods. This brings us back to the danger of misunderstanding “choice.”
Inside America's economic machine
Financial Times

AMITY SHAES

The US economy: what a mystery. Its growth rates seem too high. Its unemployment rate bounces about suspiciously. Its two famous polls, the Household Survey and the Establishment Survey, contradict one another like siblings. Perhaps the problem is political bias. After all, Friday's news that unemployment has at last made it down into the 6 per cent range after a scary period in the sixes seems too convenient for the Bush team.

Sceptics charge that government data are imprecise and that they obscure the true economic pain that comes as manufacturing jobs disappear.

The sceptics are correct – the data are not perfect. The problem, however, is not one of right versus left but of old versus new. The methods Washington uses to collect these numbers were determined in a calmer economy where people worked for one company all their lives. Let us label it a Ford economy, after its big component, the car. America is not a Ford economy any more.

When someone does not answer at home, the pollster simply dials another number. And in the era of two-parent employment, houses where no one is at home are more – not less – likely to be houses where the adults work.

The analysts try to compensate for this but the study has a bias that causes it to miss employment, not exaggerate it.

Then there is the Establishment Survey, a measure that focuses on collecting employment data from workplaces. Its lower numbers have made it a favourite of Bush opponents.

But the Establishment Survey, too, reflects too much of the old world. The survey sometimes fails to capture individual self-employed contractors and entrepreneurs – a ubiquitous type in the Staples economy. We'll have to make do with such problems, officials have created a meter to measure "births" and "deaths" of companies but have not yet perfected that measure.

David Malpass of Bear Stearns thinks that the federal data fail to take into account the degree to which companies are now contracting out work. The reasons for that contracting are often negative – screamingly high healthcare costs for employees, the pressures of post-crash and post-Enron government regulation. But the consequence is that workers may be under-recorded.

Mr Malpass points to other data that indicate hidden growth or hidden growth potential. Non-farm proprietors' income, a measure that looks at the profitability of unincorporated business, is up strongly; the growth outpaces late-1990s rates. The number of self-employed in the Household Survey has risen sharply as well. This suggests a strong recovery, since new businesses are an engine of US growth. The National Federation of Independent Business's Small Business Optimism Index is likewise up sharply, Mr Malpass notes.

Now we come to another big measure: productivity, which was at a disconcerting high of 9.4 per cent last quarter. The formula for determining productivity is output divided by labour and other inputs, more or less. So if the statisticians are under-counting labour, productivity may be less impressive than advertised.

Still, US productivity remains higher than developed nations usually can manage. And productivity, because it looks at what companies achieve rather than whether workers show up, comes closest to capturing the potential of the Staples economy. That 9.4 per cent figure – or say it's 7.4 per cent and be conservative – is a promise of future work and higher wages that will hold as long as the government doesn't load too many costs on to employers. And the Bush administration is not loading on costs.

In other words, when we evaluate the administration's overall economic direction in these challenging years we see that it has been wise, growth-oriented and – yes – accurate.
COMMENT

We are the champions . . . errr . . . aren’t we?

AMITY SHLAES

Now comes news that Richard Grasso was not the only executive at the New York Stock Exchange to be promised a fancy retirement. Catherine R. Kinney and Robert Britz, two of his colleagues, are set to receive $22m each. It would not be surprising if the news triggered scrutiny from various New York watchdogs. One thinks of Elliot Spitzer, New York’s attorney general, who stirred up NYSE’s life in the first place.

But no matter where the NYSE saga goes, it reminds us of something. The city may be a global financial capital, but it is also home to a special crowd that includes Richard Grasso and Elliot Spitzer both.

Call it the “Because We’re New York” crowd. Its members will cross swords, even march one another off a trading floor to a federal court house. But they all hold true to the credo: “Because We’re New York.”

The phrase is based on a sophism: New York will thrive because New York is a thriver. It is also rooted in a provincialism that can come from spending a lot of time in the Big Apple. Still, a number of New York natives and transplants both place deep faith in the credo. And it is that faith, not corruption or potential corruption, that most threatens New York’s future as a financial capital.

Consider the figures who gave us the NYSE debate. Mr Grasso is from Queens; he attended Pace, a local university. He spent decades at the Exchange. His colleagues attended Iona and Manhattan colleges, and together also put in decades at the NYSE.

The point is not that they would have been paid less had they gone to Harvard – in fact, two of these three did. It is that the NYSE culture is made up of people who spent their formative years in the New York area. Such people tend to believe that New York’s financial dominance is an eternal fixture, not to say, the cliffs that rise up as you head north on Riverside Drive. If you believe Wall Street is forever and you work on Wall Street, you tend to develop an inflated view of your importance. Mr Grasso did not spend half of his career in London and Singapore, where he might have acquired a reasonable sense of the appropriate price for his work. He spent it within walking distance of the Staten Island Ferry Terminal. So his conviction that he deserved his near-$200m grew undisturbed.

NYSE’s watchdogs are not so different. Mr Spitzer comes from Riverdale, above the Bronx. Senator Charles Schumer, who oversees Wall Street from a Senate committee, attended James Madison High in Brooklyn. Both men also went to Harvard, by the way. These are not self-selected markets people who gravitated to a strange city because of its growth potential. They are politicians who are involved in markets because markets are part of their hometown’s identity.

Mr Spitzer believes that in conducting unprecedented investigations and prosecutions he is doing good. So did another New Yorker, Rudolph Giuliani, the former mayor who was a federal prosecutor in the 1980s. Mr Schumer, one gets the feeling, believes the same thing.

This reflects another characteristic of the “Because We’re New York” crowd: the provincial arrogance that overlooks the fact that cities compete for capital. Over-regulation, such as high taxes, scares off that capital. Every day, US and foreign companies make decisions about whether to list on New York-based exchanges. And every day, some decide “no.” Unpredictable actions – Mr Spitzer’s use of an obscure New York state law, the Martin Act, as a cudgel – drive such companies away.

The “because” crowd would argue that any number of financial troublemakers hail from California. They might also argue that they, loyalists, do a better job of keeping New York clean because they have more to lose.

These arguments have merit. A good share of New York’s financial leaders and regulators – wags and heroes – are from out of town. What is more, natives’ work can be world class. Mr Grasso shepherded markets through the fall of September 11. Mr Schumer was zealous in his oversight of New York banks.

As for Mr Spitzer, his very New Yorkishness helps him identify targets.

Who but a New Yorker would take seriously the idea that slots at East Side nursery schools are so hot as to be traded for changes in stock recommendations from the world’s largest financial institution? Thus, Mr Spitzer netted Citigroup.

Nonetheless, the “Because We’re New York” credo is so seductive it often wins over non-natives. Michael Bloomberg, the mayor, a product of Medford, Massachusetts, is one. He has developed a Bloomberg corollary. New York is forever, he thinks, “Because I made my fortune here.”

A study by the Center for an Urban Future reveals that New York can ill afford such smugness. Authors Jonathan Bowles and Joel Kotkin found that the number of New York-based Fortune 500 companies – the sort whose chief executives sup with NYSE executives – keeps dropping. In 2002 there were 39, down from 43 in 1999 and 149 in 1965. Not one of America’s top 20 retailers has its headquarters in New York; the old retail capital.

The point is not to bash a specific group. Rather that a city that assures itself it is an absolute victor instead of a relative competitor will, eventually, fall – because it is New York.

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Hypocrites have hijacked the deficit debate

Amity Shlaes

Every economic drama in Washington features a stock character or two. The budget debate of summer 2003 brings back a familiar one: the deficit hypocrite. I am speaking of that person whose motive appears to be virtuous parsimony but is in fact base politics. If I sound cynical, consider how the summer has gone. The Office of Management and Budget releases its July mid-session review of the US household. The deficits for this year and 2004 will be 4.2 per cent of gross domestic product, wider than earlier estimates.

What is next? National alarm. Citizens pronounce themselves disturbed – especially the oldest ones, who know the value of pinching a penny. Lawmakers rush to plan corrective legislation. Democratic presidential hopefuls foam at the mouth.

Finally, a domestic issue to batter the incumbent with. Senator Joe Lieberman, Democratic frontrunner, announces that the Bush administration has squandered American families so that they are “swimming against a current of red ink”. Another candidate, Senator Bob Graham of Florida, says that “it is inconceivable that in just two years, President George W. Bush has taken the nation from historic budget surpluses to the deepest deficits in history”.

To close the deficit gap, all these souls argue, the nation needs tax increases. Mr Graham wants both to raise income tax rates and create a new “millionaire’s” tax bracket of 40 per cent (higher than anything since the 1980s). Another presidential hopeful, Howard Dean of Vermont, wants to reverse all three of the Bush tax cuts. Senator Olympia Snowe, a Republican from Maine, advocates increasing customs user fees to offset the deficit.

But the first part of this argument is correct. The deficit is wider than it has been for a while. Even discounting for the uncertainty following September 11 2001 and for the Iraq war, both parties in Washington have been bingeing. And it is true that in the short term Mr Bush’s tax cuts, all three rounds of them, have caused a quarter of the deficit increase.

But in the same weeks the same people who are fussing about the 2003 deficit are talking in a different tone about the other big issue before Congress: the future of Medicare, the health programme for the elderly. As it happens, Medicare and Social Security, America’s public pension programme, have enormous unfunded obligations in the hundreds of billions. The scale of these obligations does not show up in a GDP in 2075 from 2.5 per cent currently. In short, these entitlements are programmed to become a problem so enormous that they will make the wartime recession deficit of 2003 seem a tiny pimple. Like France, Germany and Italy, the US will need to reform and cut entitlements. To expand them would be budget insanity.

Yet Medicare expansion is, of course, exactly what many American voters, lawmakers and presidential candidates are fighting for. The goal is to widen the programme to cover prescription drugs for all pensioners. The Senate version of the legislation would increase the overall public debt by 40 per cent over the long term, according to Tom Saving, a Medicare trustee. The Congressional Budget Office has estimated that the Senate version of the bill would yield a law that costs the Treasury $600bn over 10 years. That is greater than the cost of the tax cut passed this spring.

And where are the solicitous defenders of budgetary virtue on Medicare expansion? All for it. Mr Lieberman voted along with a majority in the Senate for the drug benefit. Mr Graham is campaigning for a drug plan for the elderly that is “affordable, comprehensive and universal” – an impossibility. Most hypocritical of all are the judicious elderly. Their greedy lobby, AARP, is insisting on a drug benefit that is even more costly than what Congress plans.

You could argue that Mr Bush is two-faced, having talked surpluses and delivered deficits via costly tax cuts. But this view neglects the truth that a revenue shortfall generated by a public-sector entitlement, such as Medicare, is worse than one generated by a tax cut. An expansion of the public sector cannot contribute to longer-term growth the way a tax cut can. The latter allows the private sector to keep its money and grow, thereby reducing the deficit.

Now the politics. The Democrats are pushing drug benefits to win votes; they also want to reverse tax cuts to take away votes from the Republicans. The Republicans said all along that they would cut taxes and are doing it. They are also betraying their own small government culture to go along with Medicare expansion. This, they posit, will enable them to steal thunder from the Democrats so they can win in 2004 and then, perhaps, save the free world via more tax cuts and entitlement reform. The latter formula has the better chance of reducing budget problems. Pick your hypocrite.
Mayor Mike’s SimCity blunder

By now many of us have, beyond our day jobs, a greater responsibility. We are mayor of a SimCity. One of the most popular computer games of all time, SimCity is based on a simple concept. You supply your green field with raw materials, waterworks and a few apartment houses and pretty soon your screen fills up with your own bustling metropolis of “Sims”.

Except it doesn’t, not every time. For to be a good guardian to your SimCity, you have to manage a subtle thing. You have to make it want to grow.

This involves thousands of continuous real-time fiscal and regulatory decisions taken by you, the mayor. The key to success is making such calls not from the point of view of City Hall but from the vantage point of your charges. For, as the SimCity 4 handbook notes, “ Sims come first”, and Sims are moody creatures. Incentives inspire them to invest. Disincentives make them sad. Small alterations in the tax law yield big changes in their behaviour. Even the most apparently inconsequential steps may send your city into irreversible decline.

Of course, such tragedy is not instantly visible. All may look fine when you walk away from your chair. But while you are off telephoning or dabbing goat’s cheese on your cracker, your city is beginning, quietly, to die.

This is the point that Michael Bloomberg has reached with the SimCity he acquired recently. New York. The city may look, to him and others, like a permanent fixture on the national and international screen. But it does not have to be permanent.

Every day, tiny decisions are determining whether New York has a future. And the decisions Mayor Mike is making are the wrong ones.

The main problem is taxes, which are also one of the vital SimCity variables. The handbook warns against “soaking the rich with exorbitant tax rates”. It also lays out its own general theory of taxes: “Typically, when you lower tax rates for any sector, demand for that sector will increase... If the tax cut attracts a lot of new Sims to your city, income may increase, even though each taxpayer pays a small amount.”

The “soaking the rich” end of this argument describes New York today. New Yorkers currently shoulder the second heaviest burden of combined state and local taxes in the US, a fact that drives jobs to Connecticut, New Jersey or even income-tax-free Florida.

Yet Mr Bloomberg and his partners at the city council are not thinking like Sim mayors. Instead of lowering rates they are raising them.

Until now, New York City has had a classic graduated rate structure for its income tax, with the first share of income being subject to low rates and the next few dollars earned to a higher rate. And up the staircase it goes. Under the 2003 plan, households will face rate increases. So far, so bad.

But as Mr McMahon notes, if the same couple make $160,000, they face a tax increase of hundreds of dollars. As they move towards $200,000 in earnings, they will find that an even higher flat tax kicks in.

And the same trick happens again at the $500,000 point. If our couple earn $500,000 in taxable income, they will pay a flat rate of 4.25 per cent, or $21,250 to New York City. If they make $600,001, however, they will pay $1,000 more, for suddenly all their income will be subject to that threshold’s 4.45 per cent rate. The effective marginal tax rate on that last dollar has too many zeros for the FT to print.

Rate changes are moving up property taxes, too. The idea that New York’s most productive will “just live with” all this is hard to accept. The point here, though, is not that low taxes are the sole factor promoting urban growth; tight budgets and good schools are also in the SimCity primer. It is that, as cities become more dynamic, the errors caused by a static model become ever greater. New York’s current fiscal crisis has been likened to the crisis of the 1970s but in one way it is worse. In those days there were no digital trading platforms to compete with New York’s stock exchanges. Today New York’s economy is virtual enough to vanish. That ought to be easy to understand, especially for someone who built a virtual empire by putting a screen on a box.

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