

New York Gives Up Its Prime Membership



The 14-month race for “Amazon HQ2” exposed the creativity and wallets of 238 different states, cities and territories in the U.S. and Canada. To lure Amazon, government officials offered perks such as renaming their city, giving away “concierge services” in public offices, offering to build an “Amazon University,” adding Amazon designated private transportation and even installing solar panels in the shape of the company’s logo. In a matter of months, the race for the world’s wealthiest man (i.e. Jeff Bezos) turned into a charade that was even referred to as “Amazon’s Bachelor for Business Reality Show.”¹

After narrowing the search to 20 cities, Amazon chose to split its headquarters between Long Island, NY and Arlington, VA. However, in the end it was the overwhelming voice of a small group of naysayers that spoiled the dreams that nearly 70% of New Yorkers had for the Anable Basin in Long Island. After social media served as a venue to promote the beliefs of a minority of anti-corporate politicians and skeptical community groups, Amazon exercised the beauty of capitalism and simply walked away from the deal. No negotiations and no game of political chicken for the ecommerce giant.

Unfriended on Valentine’s Day: What New Yorkers Lost

As the small group of resounding critics celebrated the news, most New Yorkers saw their hearts broken on Valentine’s Day in what they believe, and we agree, was a, in Andrew Cuomo’s words, “lost economic opportunity.” This deal did not start as a political game. In fact, it was negotiated by two politicians (Andrew Cuomo and Bill de Blasio) who have a history of different political opinions and whose rivalry resembles that of the Boston Red Sox and New York Yankees. Instead, the officials that put politics aside to better New York City were left saddened and even furious.

The socialist, anti-corporate voices that triumphed bellowed that Amazon was “robbing over \$1 billion from state funding for schools, transit and housing.”² This short-sighted opinion rang like an echo chamber on social media and drowned out facts and reason. The reality is that a subsidy is not a hand out. It is not removing money from one area of the budget and then writing a check to Amazon. Think of it as financial aid with strings, where the strings are the promise to use incentives to promote economic growth and ultimately support the development of a

community. Ironically, subsidies are sometimes considered a socialist way of promoting economic growth, but the subsidies for Amazon were what eventually outraged the socialist crowd and led to the deal’s destruction.

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The subsidies and tax credits New York offered Amazon were estimated to generate \$27.5 billion in tax revenue for New York over the next 25 years. For every \$1 New York spent, it was estimated to generate \$9 in revenue for the state. A 9:1 revenue ratio was called the “highest rate of return for an economic incentive program the state has ever offered.”³ What some critics may not have realized was that New York was not even offering the highest incentives to Amazon. Maryland and New Jersey offered more (\$8.5 billion and \$7 billion, respectively) and, despite the media circus, it was not the biggest corporate/government subsidy program of all time. The \$3.4 billion Amazon was offered from New York is more than \$5 billion below what Washington state offered Boeing in 2013.

Amazon was committing to build an entire city within a city for New Yorkers, with four to eight million square feet of office space, community facilities, public parks and even plans for a new public school. The hopes of 25K new jobs, with the potential for another 15K jobs, vanished. The corporation was even offering to pay for projects that would otherwise need to be sourced by public revenue. The build out of the Anable Basin included “flood resiliency measures and plans to preserve the neighborhood’s industrial character.”⁴ Those that attacked the deal focused on the building of a “helipad” next to one of the poorest areas of New York City but failed to consider that Amazon was also agreeing to host regular events such as “job fairs and resume workshops to promote employment opportunities to public housing tenants.”

New Yorkers also lost the chance to take their communities into the future. For a state that is heavily reliant on real estate and Wall Street, this would have diversified their economy by adding revenue from the ecommerce giant and its distribution partners. As Governor Andrew Cuomo noted, “bringing Amazon to New York diversified our economy...further cementing our status as an emerging center for tech.”

Learning Lessons from the Amazon/New York Break Up

Politicians, community groups and tax paying citizens can all learn from the failed Amazon/New York deal.

1 Amazon is not a government entity, it is a corporation. Amazon has a duty to its shareholders, not the citizens or community groups of an individual area. As the ecommerce sector grows, we may see more expansion and similar campaigns to lure giants to specific communities. Ecommerce companies (e.g. eBay, Shopify, Wayfair and even Walmart) are not dependent on a retail storefront and can concentrate on geographical areas that serve the best long-term interest for their shareholders.

2 With deficits still high at all levels of government, Americans will benefit by embracing corporate America to help build economies. The Amazon HQ2 is a good example of public/private partnerships that are gaining attention as ways to build our crumbling infrastructure, bolster growth in individual economies and ultimately aid the cash strapped U.S. government.

3 The circus that surrounded the winning and losing of Amazon HQ2 highlights the precarious environment we are in as a society. In a society that offers a venue (i.e. social media) to promote emotional, often misunderstood and populist opinions, it is important as an individual, and especially as an investor, to not jump to unwarranted conclusions without diligence and knowledge on a specific topic. Social media has many advantages in our ever-growing technological society, but individuals need to be able to take the time to educate themselves on the facts instead of relying on the 280 characters allowed on Twitter as CliffsNotes to a novel.

1. *Seattle Times* article written on November 13, 2018.

2. A protest ad that included Jimmy Van Bramer and Michael Gianaris

3. *Curbed New York* article written on February 14, 2019. Quoted from Andrew Cuomo.

4. *Business Insider* article written on February 14, 2019.

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