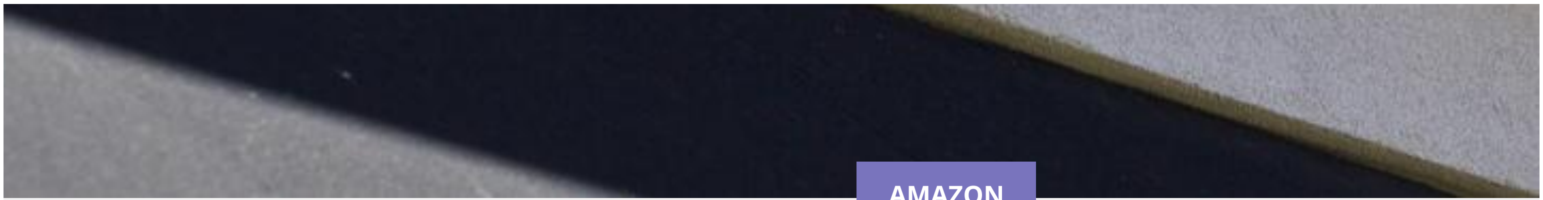

AMAZON

Amazon Is Trying to Control the Underlying Infrastructure of Our Economy

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We often talk about Amazon as though it were a retailer. It's an understandable mistake. After all, Amazon sells more clothing, electronics, toys, and books than any other company. Last year, Amazon captured nearly $1 of every $2 Americans spent online. As recently as 2015, most people looking to buy something online started at a search engine. Today, a majority go straight to Amazon.

But to describe Amazon as a retailer is to misunderstand what the company actually is, and to miss the depth of the threat that it poses to our liberty and the very idea of an open, competitive market.

It's not just that Amazon does many things besides sell stuff—that it manufactures thousands of products, from dress shirts to baby wipes, produces hit movies and television shows, delivers restaurant orders, offers loans, and may soon dispense prescription drugs. Jeff Bezos is after something so much bigger than any of this. His vision is for Amazon to control the underlying infrastructure of the economy. Amazon's website is already the dominant platform for digital commerce. Its Web Services division controls 44 percent of the world's cloud computing capacity and is relied on by everyone from Netflix to the Central Intelligence Agency. And the company has recently built out a vast network of distribution infrastructure to handle package delivery for itself and others.

Companies that want to reach the market increasingly have no choice but to ride Amazon's rails. With Prime and digital assistant Alexa, from GE appliances to Ford cars, Bezos has lured a majority of households into making Amazon the default provider of everything they order online. Most Prime members no longer comparison shop. This has forced competitors of all sizes—from major brands like Levi's and KitchenAid to small-scale producers, e-commerce innovators, and independent brick-and-mortar stores—to abandon the idea of reaching consumers directly. Instead, they have to rely on Amazon's platform to sell their goods.

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Amazon exploits this dependence to dictate terms and prices to suppliers, and it uses the data it gathers from companies selling on its platform to weaken them as competitors. A company that designs a popular product and builds a market for it on Amazon's site can suddenly find that Amazon has introduced a nearly identical version and given it top billing in search results. One study found that, after a retailer becomes a seller on Amazon, it's only a matter of weeks before Amazon brings the merchant's most popular items into its own inventory.

Being both a direct retailer and a platform for other sellers gives Amazon novel weapons for shaking down suppliers. Last week, Amazon offered to police the many counterfeiters that sell fake Nike shoes on its site as a bargaining chip to get Nike to agree, for the first time, to offer a full line of its products to Amazon. Similarly, when the publisher Hachette resisted Amazon's demands in negotiations over book pricing, it found the buy-buttons removed from all of its titles, putting thousands of books off-limits to both buyers and sellers.

With commerce rapidly moving online, Amazon has positioned itself as lord of the realm, which means that online commerce is no longer a market in any meaningful sense of the word. It's now a privately controlled arena where a single company sets the terms by which we may exchange goods with one another and decides which products—which new authors, which new innovations—get to find an audience.

Investors are fully aware of the implications of this. As Silicon Valley venture capitalist Chamath Palihapitiya put it last year, Amazon is "a multi-trillion-dollar monopoly hiding in plain sight." That assessment explains why Wall Street has bid up Amazon's stock value to a level that bears little relationship to its current profits. Investors are eyeing a future of spectacular, monopoly-style returns.

Last week, investors got to see this future taking firmer shape when Amazon announced its intention to buy Whole Foods. In the hours after the news broke, Amazon's stock did the opposite of what usually happens in such deals: It surged by almost as much as the $13.4 billion purchase price, which means the acquisition essentially paid for itself.

What investors see in Amazon, though, federal antitrust regulators have so far failed to grasp. The Whole Foods deal, which requires federal approval, will be a fresh test. If regulators look at the deal in conventional terms, they may decide that it should go ahead on the grounds that brick-and-mortar grocery is a separate market from online shopping, and that the transaction would give Amazon only a modest share of the supermarket industry.

But that's an analog notion of how commerce works. We're rapidly moving toward a world in which the boundaries between online and offline shopping become fluid, and much of commerce will be, in one way or another, digitally driven.

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Buying Whole Foods would help Amazon expand its control of commerce. It would provide a new stream of exploitable data by enabling Amazon to surveil customers offline as well as online. Indeed, the company recently filed patents for technologies that would keep digital tabs on us and block our phones from visiting competitors' websites while we're in its stores.

Amazon would also gain a network of fresh-food warehouses that it could use to quickly leapfrog into being the only viable online grocer. The 460 Whole Foods stores offer prime locations, too, for making last-mile deliveries. This is critical because controlling the infrastructure needed to quickly deliver packages to doorsteps is a key component of sustaining a monopoly in online commerce. Should Amazon succeed in weakening UPS and FedEx, it would harm other online sellers and leave them dependent on their biggest competitor, Amazon, to deliver their goods.

Jeff Bezos's big bet is that he can make buying from Amazon so effortless that we won't notice the company's creeping grip on commerce and its underlying infrastructure, and that we won't notice what that dominance costs us. Amazon has unprecedented power to steer our choices. Ask Alexa to send you batteries and you won't get the option of Duracell or Energizer; you'll be shipped Amazon-branded batteries. Browse the Kindle bestseller list and you'll see many books published by Amazon. Peruse the "customers also bought" carousel and Amazon's algorithms will favor displaying its own products, even when they're not the best match.

Amazon's bid to buy Whole Foods should be a wake-up call. Our anti-monopoly policies have fallen into disuse and today's big tech monopolies have used that opening to seize too much power. As Senator John Sherman, co-author of the Sherman Antitrust Act, declared as his bill came up for a vote in 1890, "If we will not endure a king as a political power, we should not endure a king over the production, transportation, and sale of any of the necessaries of life."