



Daily Comment

# What Trump's Fight with Amazon Signals for American Business



By Adam Davidson

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*President Trump's attack on Amazon shows that he's willing to experiment with the tools at his disposal to reshape the economy around his preferences and resentments.*

*Photograph by Andrew Harrer / Bloomberg via Getty*

Jean Palème Mathurin has the stocky, muscular build of a farmer, but he's not one anymore. He is one of the leading economic voices in Haiti. He's also something of a miracle. He was born into a family of *peyizan* (Creole for "peasants") in a small village several hours southwest of Port-au-Prince. A group of Baptist missionaries started a school there for the area's poorest children, who would otherwise never learn to read or write. Clearly brilliant, Mathurin eventually scored among the highest in the nation on a college-admissions test and attended a Haitian university on a scholarship. He went on to earn a Ph.D. in economics at the University of Paris-Sud, and he became Haiti's chief negotiator on trade and investment issues and, during and after the earthquake of 2010, the primary economic adviser to Haiti's Prime Minister. There are few people like Mathurin in Haiti. *Peyizan*, even brilliant ones, don't go to college, they don't get Ph.Ds., and they don't become powerful advisers. They remain *peyizan*. Mathurin has devoted his life to understanding why that is. Why, in poor and corrupt nations, does merit mean so little, and how does a tiny and often mediocre elite maintain its wealth?

At Paris-Sud, Mathurin built an economic model of Haiti and other similarly weak states. A few years ago, he explained it to me, as we walked through a tent city in front of the Prime Minister's office, on a mountain overlooking the capital. Mathurin said that, in nations with some degree of broadly shared prosperity, one can think of the economy as standing on top of several supports. The base is provided by a government that uses its power to create clear and fair rules for economic activity. This means that industries will be regulated fairly, courts will rule impartially, and, perhaps most important, power will be transferred democratically and peacefully.

The next platform of support comes from a host of widely available shared resources that insure that people feel confident investing in the future. These include physical things, like electricity and phone lines, and also something known to economists as "institutional infrastructure," which includes the expectation that parties will adhere to contracts, and that property rights will be respected. It is only in nations with stable governance, rule of law, and reliable infrastructure that one can see the flourishing of entrepreneurial, growth-oriented business.

Mathurin's model was partly inspired by the important work of the economists Joel Hellman and Daniel Kaufmann in the nineteen-nineties, when they tried to understand the nature of the kleptocracy in the former Soviet Union. They called the model "state capture." Previously, many economists assumed that economies tended toward stability and growth, and that corruption was a correctable aberration. But state-capture theory showed that economies can enter a long-term state of stable instability.

When the base layer, where government resides, is thoroughly corrupted, businesspeople learn that the easiest way to get rich is to bribe politicians and support their grab for power. The politicians, in turn, will allow that élite to profit from the second layer, that of infrastructure. In these nations, the wealthiest typically operate in basic industries: concrete, road construction, electricity, phone service. That's because these are industries in which profit comes more from government regulation and expenditure than from competitive excellence.

All nations, of course, suffer some degree of corruption. Mathurin told me a simple test to determine if a country's corruption level is at risk of reaching a point of state capture: just see if there is a class of entrepreneurs and small-business people with enough confidence in the government and the infrastructure to invest in businesses that can only succeed in a market that allows for the unconnected to thrive, based on their merit. In another chat a few years ago, this time in a crowded deli in New York City, Mathurin pointed out the window at the many shops nearby as proof that this country, for its many flaws, has not been captured. Without even thinking about it, those store owners trusted that their vendors and bankers and electricity provider would honor their contracts, that the roads and the phone service would be reliable enough to allow businesses to function, and that, every few years, the turnover of leadership, in either the city or the nation, would not have any dramatic impact on their ability to conduct business.

I thought of Mathurin's model when President Trump recently took to Twitter to express his rage at Amazon. In several tweets, he accused Amazon of "costing the United States Post Office massive amounts of money for being their Delivery Boy." He has asked, "Is Fake News Washington Post being used as a lobbyist weapon against Congress to keep Politicians from looking into Amazon no-tax monopoly?" It seems clear that his pique came not from a careful review of postal-service rates or of the laws governing lobbying but from his anger at a steady stream of devastating (and, it need not be said, not-at-all fake) reports about him and his Administration published by the *Post*, which is owned by Amazon's C.E.O., Jeff Bezos.

At the same time, Trump tweeted his delight with the conservative Sinclair Broadcast Group, and seemed to encourage the company to launch a rival nationwide cable channel. He proclaimed, "The Fake News Networks, those that knowingly have a sick and biased AGENDA, are worried about the competition and quality of Sinclair Broadcast. The 'Fakers' at CNN, NBC, ABC & CBS have done so much dishonest reporting that they should only be allowed to get awards for fiction!" Currently, the Department of Justice is suing to prevent a merger of A.T. & T. and Time Warner, the

parent company of CNN. At the same time, Sinclair is in the process of merging with Tribune Media, a move that would strengthen Sinclair's network of television stations. The Justice Department seems likely to approve that marriage. There are legitimate legal reasons for the Justice Department to treat the two mergers differently, but when the President makes his self-interest so plain it is impossible to fully trust the process. It's easy to dismiss these tweets as part of the stream of confused emotional outbursts that have come to characterize Trump's Presidency. However, looked at through the framework of state capture, they are more troubling. Trump is explicit: he will use the power of his office to reward allies and punish truth-tellers who oppose him. The President of the United States is signalling to the entire administrative apparatus—to all the lawyers and bureaucrats at all the agencies—which outcomes he prefers and which he will meet with his wrath. He has also expressed contempt for the normal checks on administrative power, as he has made clear in his open effort to erase the traditional separation between the White House and the Justice Department.

Another thing to consider is that, throughout history, many reasonably well-functioning economies have been eventually captured by a corrupt élite. Daron Acemoglu and James Robinson described this process in their marvellous book, "Why Nations Fail." They show it occurring in ancient Rome, medieval Venice, and modern-day Mexico. In the first half of the twentieth century, Haiti itself was a poor but functioning nation, on a par with Korea and Singapore, when François (Papa Doc) Duvalier took power in a populist election, in 1957, and implemented a textbook state-capture plan, which destroyed the economy. Acemoglu, an economist at M.I.T., has watched the country of his birth, Turkey, fall into deep corruption and tyranny. He points to other nations that have followed a similar path, such as Venezuela and the Philippines. "Charismatic autocratic leaders are cunning," he told me. "They have very good instincts for politics, though I don't know if they strategize in a planned manner or if it's instinctive."

Acemoglu does not see Trump's tweets as frivolous. They cost Amazon more than fifty billion dollars in valuation in a few days. That is a significant economic act, in which the President effectively transferred wealth away from his perceived detractors. Acemoglu is now worried about how businesspeople will respond to Trump's behavior. They might see that praising Trump or, at least, not challenging him will improve their chances at profit. In captured nations, the next logical step would be to seek closer ties to the President through secret ownership. As Vox's Matt Yglesias wrote, "It will not take very long for venture capitalists to realize that one good way to maximize the 'upside' possibilities for the companies they own in the age of Trump would be to sell an equity share at a discount rate to a partnership controlled by the Trump family. Nobody except Eric, Ivanka, and Don Jr. would need to know that the

Trump's are now silent partners in Startup X, Y, or Z. But it would be an easy and relatively cheap way to ensure favorable regulatory treatment.”

Trump obviously isn't the only threat to a well-functioning, merit-based economy. Many economists, including Acemoglu, think that, among other things, Amazon itself needs to be carefully regulated, to prevent abuse of its market power. But such sensible oversight is impossible in a captured state, where regulation is just a tool to transfer wealth to the leader and his cronies. (Disclosure: I am a producer of a television program that will air on Amazon next year.)

In the Amazon tweets, the market response to them, and the resounding silence of normally market-defending Republicans, Trump got a valuable lesson in the power of the tools available to him. It would be surprising if he didn't continue to experiment with them to reshape the economy around his preferences and resentments. Savvy businesspeople are watching for clear guidelines on how to profit under his leadership and for warnings about the kind of behavior that will cost them. Trump has not restructured the economy, but he has taken the first few steps in the rulebook of state capture, and so far he has faced minimal resistance from business and political leaders. (Even Tim Cook, the C.E.O. of Apple, in response to Trump's signing of the new tax code, suggested that it would allow the company to create twenty thousand jobs in the United States—a connection that struck some observers as, at best, dubious.) But consumers, and voters, still have the power to exact the cost of embracing Trumpism.



*Adam Davidson is a staff writer at **The New Yorker**.*

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