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## Amazon and Apple: Wall Street's Trillion Dollar Babies



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Last month Amazon joined Apple, becoming the second company in the world to have a \$1 trillion market capitalization. Amazon's accomplishment didn't cause quite as much celebration as Apple's – it pays to be number one – nonetheless this was treated as a milestone that all of us should view as good news.

Actually, the celebratory coverage of both events demonstrated the incredibly ill-informed nature of much economic reporting in the United States. A big run-up in share prices is

good news for the people who own lots of stock in the company; it is not especially good news for anyone else.

In principle, the value of a stock is supposed to represent the expected future earnings of the company. I said “supposed” because stock prices fluctuate wildly in response to all sorts of things that are not obviously connected to future earnings, but in the textbook definition, it is the discounted value of future earnings that determine stock prices. To be clear, this is not the socialist textbook, this is the capitalist textbook that is taught in business schools.

What does it mean that Amazon and Apple have market valuations of more \$1 trillion? Presumably, it means that investors are now more optimistic about the companies’ future profit potential. It’s difficult to see why the rest of us should celebrate this outcome.

Apple obviously makes products that consumers value, and in that sense, it is contributing to the economy and generating wealth. But, suppose instead of one huge company we had 10 little (or littler) Apples that sold iPhones, computers, and the other items that comprise Apple’s product line? Would we be any poorer as a society in that case, even if the market cap of our leading tech company was just \$100 billion?

Or, even with Apple as our dominant tech company, suppose the surge over the \$1 trillion barrier was due to a victory in an antitrust case, which would allow Apple to charge higher prices going forward. That’s great for Apple’s stockholders, but what exactly would the rest of us be celebrating? Paying more money for our iPhones?

In the same vein, in the past, Apple has been caught conspiring with other Silicon Valley companies, agreeing not to compete for workers. Apple, along with its co-conspirators, ended up paying a substantial settlement as a result.

Suppose Apple found a legal way to fix wages or bought a judge to make it legal. The prospect of a lower wage bill would also be good for Apple’s stock price, but not especially good news for those of us who are more likely to make our living from working than owning Apple stock. Again, there is not much in this story for most of us to celebrate. The celebration for Amazon is even more peculiar. Amazon is clearly an innovative company that has sped the development of Internet retailing. It also has specialized in tax avoidance, eliciting investment incentives from state and local governments, and abusive labor practices.

Perhaps the crossing of the \$1 trillion threshold was associated with investors’ confidence that Amazon’s CEO had developed a new and more effective tax avoidance scheme.

Again, great news for Amazon stockholders, but pretty bad news for the folks who will have to make up the revenue shortfall.

What is notably different about Amazon is that, unlike Apple, the company does not have huge profits. While Apple earned \$48.4 billion in after-tax profits in 2017, Amazon's profit was just over \$3 billion. That gives the company an incredible price-to-earnings ratio of more than 300-to-1.

There are two stories we can tell here. One is that investors expect Amazon's profits to increase enormously. This would be a case where it takes advantage of its market power to increase its profit margins hugely. Ordinarily, this would be the basis for antitrust action, but given the corruption of the political system, it is certainly possible the company could get away with it. Again, is a future of higher prices something the rest of us should really be celebrating?

The other possibility is that Amazon's stock price is driven by fantasy, like the Internet stocks of the late 1990s or Bitcoin today. Presumably, at some point reality will reassert itself, but should the rest of us celebrate ill-informed investors being taken for ride?

It is striking that so many would see economic or social progress as being in some way captured by stock valuations. In 1953 Jonas Salk developed the polio vaccine. This eventually led to the near eradication of a disease that had killed or crippled tens of millions of people.

Salk didn't try to patent his invention. A private charity funded the research. But, what if there had been a Salk Inc. that had the patent on a vaccine that could save tens of millions of lives? Surely the market cap would be an order of magnitude larger than either Apple's or Amazon's. Was it a loss to society that the vaccine was made available for pennies rather than tens of thousands of dollars a shot?

If we want to talk about value to society, the anti-smoking crusaders of the last four decades have saved tens of thousands of lives and improved the health of millions more by reducing smoking in the United States and around the world. The people who led this fight, most of whom were women, won't be featured on the covers of business magazines, but they did much more to enhance society's wealth than Jeff Bezos.

Anyhow, congratulations to Apple and Amazon's stockholders on their stock gains. They have been fortunate. The rest of us, not so much.

*This column originally appeared in [The Hankyoreh](#) (Korea).*