

## Why Silicon Valley is Getting Political

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In a recent column in the November 8 issue of *Fortune*, the venture capitalist Stewart Alsop purports to explain why Silicon Valley has suddenly become so interested in politics. He gives four reasons. First, he says, there is a lot of money in Silicon Valley. Second, the presidential campaigners know there's a lot of money in Silicon Valley. Third, the campaigners are close to the age of the CEOs of established high-tech corporations. And fourth, technology has changed our lives.

But this is like attributing a food company's stock price to the fact that everybody has to eat: everybody had to eat last year, too, so why did the stock price go up this year? The flaw in Mr. Alsop's reasoning is that he is trying to explain a change by pointing to four factors that, with one exception, have changed very little.

(1) There was a lot of money in Silicon Valley (albeit less than there is now) a few years ago, when political interest and political contributions were low. (2) Campaigners knew -- you can count on it -- that there was a lot of money in Silicon Valley then. (3) The average age of this year's presidential candidates is younger than it was in the last election, but the difference is slight and can be explained primarily by Bob Dole's absence. (And since when has politicians' age been important in affecting whether busy Silicon Valley entrepreneurs and executives pay attention to politics?) (4) Technology has been changing our lives for decades, including the years in which Silicon Valley was not politically active. So what did change in the technology and political arenas? The federal government has increasingly been intervening in the IT industries. Until recently, most technology entrepreneurs and executives felt that the government was irrelevant. But it never was. Courts made some important decisions -- probably good ones -- applying copyright laws to software. And federal and state governments often took more than 50 percent of technology workers' incremental incomes. As one technology executive said to the *New York Times* columnist Thomas Friedman in early 1998, "Money is extracted from Silicon

Valley and then wasted by government." However, the government didn't get very involved in regulating the IT industries.

That is changing. Case in point: the legal actions that the Federal Trade Commission and the Department of Justice have brought against MSFT. Whatever the merits of the various lawsuits against Microsoft, the fact is that when the government starts to have a lot of say over an industry, companies begin shifting their focus away from competing in the marketplace and more toward competing for government favors.

### OFF THE OFFENSIVE

Not all lobbying is bad. Defensive lobbying -- persuading the government to quit violating your rights -- is good even though you shouldn't have to resort to it. For example, if lobbied to change the absurd liability laws that recently forced it to hand over almost a billion dollars for a trivial laptop problem, I would applaud. But offensive lobbying -- lobbying to put legal barriers in the way of foreign or domestic competitors, for example -- is, well, offensive. The fundamental bad cause of both types of lobbying is that the government has so much say over industries.

Not all observers see this government power as bad. Mr. Friedman, for example, wrote in a recent column, "It is the fact that a bunch of Justice Department lawyers making \$75,000 a year can take on the biggest company in America that is the real source of our strength."

But if the ability of petty government officials to take on big companies is a source of strength, then India ought to be thriving: India's lower-paid officials can stop small and big companies dead in their tracks.

### DON'T ANTITRUST THEM

Mr. Friedman claims to be defending the rule of law. He's not. Under the rule of law, you can know in advance whether what you're doing violates the law. U.S. antitrust laws strike out on this score, which is why one informed observer titled his book on antitrust Ten Thousand Commandments. The government has sued

companies for charging more than their competitors ("monopoly"), for charging the same as their competitors ("collusion"), and for charging less than their competitors ("predatory pricing to obtain a monopoly").

In that same column, Mr. Friedman writes, "I visited Microsoft four years ago to interview some of its top managers. I asked them how big their Washington office was. They proudly answered that they had no Washington office. Underlying their answer was a contempt for Washington, D.C., and for government in general -- a contempt that runs right through the high-tech community." Notice how Mr. Friedman's mask slipped. He starts by defending the rule of law and ends up saying that someone who wants to avoid playing the Washington power game is showing contempt for government.

#### SERF-EIT OF GOVERNMENT

In his 1944 book, *The Road to Serfdom*, Friedrich Hayek -- who later won the Nobel Prize in economics -- laid out what happens in the extreme case of government control. To paraphrase, when the state decides to plan the whole economic life of the country, the balance of individual wealth inevitably becomes the central political problem. "As the coercive power of the state will alone decide who is to have what," he writes, "the only power worth having will be a share in the exercise of this directing power" -- that is, lobbying will be the only activity that matters.

Fortunately, the U.S. government doesn't plan the whole of economic life. But to the extent that it decides, say, who gets to install which software how and what the standards are for exporting encryption software, expect companies in the industry to be "interested" in politics. And if your attitude, like mine, is one of live and let live, do three things. Cheer those like T.J. Rodgers, the CEO of CY, who lobby consistently to limit government. Boo companies like Microsoft, which gave money to the Washington state campaign to keep taxes high and then was shocked, shocked, that the federal government went after it. And mourn the loss of innocence.