WHY SILICON VALLEY SHOULD NOT NORMALIZE RELATIONS WITH WASHINGTON D.C.

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The media and political pundits want Silicon Valley to become more engaged in the politics of Washington, D.C. We CEOs are constantly told to stop sitting on the political sidelines; recognize the value of "industry-government partnerships"; and become donors, lobbyists, and recipients of subsidies.

We could make no bigger mistake than to "normalize relations with Congress and the White House." The political scene in Washington is antithetical to the core values that drive our success in the international marketplace and risks converting entrepreneurs into statist businessmen. The collectivist notion that drives policymaking in Washington is the irrevocable enemy of high-technology capitalism and the wealth creation process. Silicon Valley CEOs should withdraw from Technet, the high-tech lobbying association; oppose corporate welfare programs; and stand together to vigorously defend companies like Microsoft, Intel, and other high-tech firms when they are under assault by the government.

T. J. Rodgers is president and CEO of Cypress Semiconductor. This is an edited version of his remarks at the Annual Cato Institute–Forbes ASAP *Conference on Technology and Society, "Washington, D. C., versus Silicon Valley," November 19, 1998.*

The politics-as-usual that we ignore is antithetical to—and highly destructive of—our core values.

Introduction

Silicon Valley went political for the first time in 1996 to stop Proposition 211, the California ballot initiative that would have subjected Silicon Valley companies to a blizzard of shareholder lawsuits. Of course, real shareholders almost never bring shareholder lawsuits. Rather, those suits are brought by securities litigation specialists such as Bill Lerach, the market share leader in suing high-tech companies. Lerach was the author of Proposition 211.

During my 28 years in Silicon Valley, I saw Intel's chairman emeritus, Gordon Moore, only about once a year. Our conversations were almost exclusively about the chip business. During one extraordinary three-month period in 1995, however, I met four times, not only with Moore but with a large group of other Silicon Valley CEOs, to talk politics: how to defeat Proposition 211. That Silicon Valley leaders would convene and contribute $30 million to a political activity was unprecedented. We did it because Proposition 211 threatened the core of how we do business. For example, one of the provisions of Proposition 211 would have made it illegal for companies to indemnify their boards of directors against lawsuits. How could any Silicon Valley company assemble a board of directors if the directors' personal property were subject to the vagaries of class action lawsuits?

We defeated Proposition 211 by a three-to-one margin, but our activism on the issue triggered the ongoing media reports on the "political greening of Silicon Valley." The media badly want us in the action: Silicon Valley should stop sitting on the sidelines, stop being political isolationist technonerds, recognize the value of government-industry partnerships, become part of the process, and help lead the country.

I believe we could make no bigger mistake. Silicon Valley is what it is because of the values that drive our success. The politics-as-usual that we ignore is antithetical to—and highly destructive of—our core values. I will build the framework for that conclusion, starting with the basic American freedoms that allow for the existence of Silicon Valley:

- Freedom and free markets (that is, capitalism) are built into the Constitution and the Bill of Rights.
- Freedom creates prosperity.
- Silicon Valley is an island of freedom and free markets, more in line with 1776 America and its laissez faire government than with 1999 America and its interventionist government.
- Many CEOs practice, not free-market capitalism, but collectivism in one of its forms.
- Collectivism is the irrevocable enemy of capitalism.
- The collectivism that big government espouses undermines capitalism and therefore the fundamental wealth-producing process of Silicon Valley.
- A normalized relationship between Washington and Silicon Valley, through organizations such as Technet, offers only disadvantages to Silicon Valley.

Freedom in America

The basic premise of freedom is this: I own myself. Therefore, I do what I want and go where I want—subject, of course, to the responsibility of respecting the freedom of others.

Our freedoms beyond self-ownership are enumerated in the Bill of Rights, constitutional amendments one through ten. (I recommend the Cato Institute's pocket-sized edition of the Declaration of Independence, the Constitution, and the Bill of Rights.)

The First Amendment calls for freedom of religion, speech, press, and assembly. The form of those rights is particularly important: "Congress shall make no law prohibiting the freedom of. . . ." I call this form a "protective right," because it tells us what the government cannot do to us, not what the government promises to do for us. I contrast it to the so-called right to a decent wage, for example, which I refer to as an "entitlement right," one that is not part of our basic freedoms—and that should not be.

Furthermore, the Bill of Rights finishes with the Tenth Amendment, which imposes a limit on government: "The powers not delegated to the United States by the Constitution . . . are reserved to the states respectively, or to the people." In other words, the government is specifically forbidden to meddle in areas where no powers are expressly granted.

The Bill of Rights takes the form of protective rights to protect us from government, because our Founders did not trust unfettered democracy. John Adams, our first vice president and second president, had this to say:

> We may appeal to every page of history we have hitherto turned over, for proofs irrefragable, that the people, when they have been unchecked, have been as unjust, tyrannical, brutal, barbarous, and cruel, as any king or senate possessed of uncontrollable power. The majority has eternally, and without one exception, usurped over the rights of the minority.

A contemporary example of what John Adams warned of was California's Proposition 10, an initiative to tax smokers 50 cents on each pack of cigarettes and earmark the money to "help children" through a new, ill-defined, statewide bureaucracy. Even if we dislike smoking and believe in helping children, we should never support any government action that confiscates the property of a minority group at the whim of a 50.1 percent majority. High-tech leaders Microsoft and Intel are currently learning that they, too, can be victims of government witch-hunts, just as the tobacco companies have been.

The Constitution also allows individuals to own their own thoughts—that is, their intellectual property—thanks to our patent system. With the right to own real and intellectual property comes the right to freely trade property with others. That's the basic mechanism of capitalism: free trade between consenting adults.

But consider the so-called living-wage measure adopted by the city of San Jose. One advocate of the new $10.75 per hour mandated wage said that "we should find it in our hearts" to pass the measure. Unfortunately, he had to reach into someone else's pocket to pay for his own compassion. That's what is wrong with minimum wage laws: they strip away the basic right of consenting parties to freely trade their goods and services in the noncoercive marketplace. Minimum wage laws are not about compassion; they are about the exercise of power by the state.

Capitalists often defend free markets by resorting to economic rather than moral terms. The president of the San Jose Chamber of Commerce argued against the new living-wage law because it will cause economic harm. That is surely true, and most of the harm will be to the poor, many of whom will face the prospect of being fired from their jobs under the new law because they cannot provide the value to warrant their new nonmarket salary. Again, minimum wage laws are wrong because they immorally strip away our freedom to trade our labor services freely.

Minimum wage laws are one example of entitlement rights. Other examples include a government guarantee to health care, child care, or a job. Although we all want a world with good wages, universal health care, and low unemployment, we must realize that those goals are not rights at all in the sense of our constitutional rights. *They are nothing more than a government demand that Americans surrender their property and wages to achieve government-mandated objectives*. If we believe in the protective rights outlined in the Constitution, we cannot consistently believe in any entitlement right that negates those basic rights.

We should never support any government action that confiscates the property of a minority group at the whim of a 50.1 percent majority.

America, The First Free Nation

America was founded on principles so radical and breathtaking that they shocked the world—and the world has stayed shocked. Our Constitution defines a government built from the bottom up (the people own the government that is created to serve them) rather than from the top down (the king, dictator, tribe leader, or politburo owns people and their property). America's government was clearly distinguished from the systems of "enlightened despotism" that were at the time (and in some circles still are) all the rage. As King James I of England (then James VI of Scotland) wrote, "The King is above the law, as both the author and giver of strength thereto" and "as to dispute what God may do is blasphemy . . . so it is sedition in subjects to dispute what a king may do in the height of his power." People came to this country to escape the world of the absolutist monarchs and establish a new nation "conceived in liberty, and dedicated to the proposition that all men are created equal." In our bottom-up system, the first 10 amendments are protective rights, covering most daily activities—speaking, praying, owning things, defending one's self—over which government control is

The corporation has always been an important part of our economic freedom, even in colonial times.

explicitly forbidden. The mindset was truly revolutionary: "We are the people; we own the government—and it will not be allowed to interfere with us in the following ways."

I wonder what the Founding Fathers would say about the federal government's current micromanagement of our daily lives, such as in the case of the meat-packing plant in Cincinnati, Ohio, that was penalized one week by the Food and Drug Administration for unsanitary plant conditions and by the Occupational Safety and Health Administration the following week for unsafe working conditions caused by floors frequently wet from washing.

In addition to providing the personal and economic freedoms outlined in the Bill of Rights, our original Constitution did not allow a federal tax to be imposed on individuals; no revenue stream was to be created to feed a potential monster. Americans paid no federal taxes until 1913, when we mistakenly passed the Sixteenth Amendment to allow the federal income tax. The passing of that amendment planted the seeds of the duplicity that is common in tax legislation today. The Sixteenth Amendment was passed with a promise that there would be a top-bracket tax of only 7 percent levied on only the richest 1 percent of Americans. The promise lasted three years. By 1918 the average American was taxed, and the top-bracket rate reached 77 percent. Because no one would ever really pay a 77 percent income tax, we instituted some destructive systems: complex tax laws to aid in tax dodging, congressional micromanagement of the economy using tax breaks, and the practice of giving political contributions in return for tax breaks and subsidies.

The corporation has always been an important part of our economic freedom, even in colonial times. Corporations enable people to work together with joint limited liability. That means that if the company we work for becomes liable to another company or individual, our personal property cannot be confiscated, only that of our company. One reason Proposition 211 was so abhorrent to Silicon Valley was that it would have made it illegal for the directors of a company to have the same individual liability protection enjoyed by all other company employees. Without corporations, individuals would not organize to perform tasks greater than they could achieve alone. Americans did not invent corporations, but we embraced them. By 1800 there were more corporations in America than in all of the great countries of Europe combined.

Freedom Creates Prosperity

Novelist and philosopher Ayn Rand once asked the rhetorical question: "Where did the extra come from?" She was referring to the wealth created by capitalism. She noted that after the development of capitalism, wealth creation reached the rate of 300 percent per century, whereas before capitalism, the world had achieved a rate of only 3 percent per century. My most accurate estimate of wealth creation since 1776 is 458 percent per century (Figure 1).

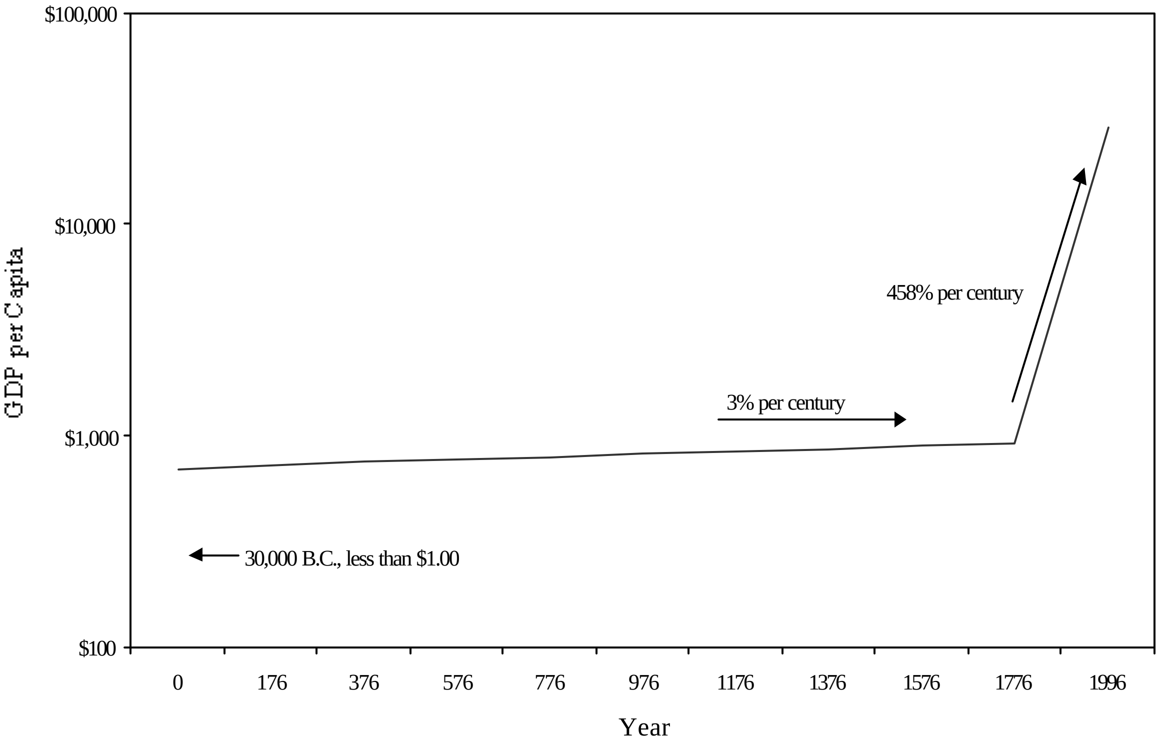
Rand was right—something big did happen around 1776 and the common man became much more prosperous, much faster, than ever before in history. The real growth rate per capita for the past 200 years has exceeded 400 percent per century.

A contemporary look at the relationship between freedom and prosperity is produced yearly by Canada's Fraser Institute, whose Economic Freedom Index ranks countries according to complex measures that include

- the size of government as a percentage of the economy,
- government investment relative to the private sector,
- the use of price controls,
- the top marginal tax rate,
- the right of citizens to own foreign currency,
- the right of citizens to hold foreign bank accounts,
- the protection of property rights,
- the freedom to trade with foreigners,
- taxes on international trade,
- private versus public bank ownership,
- the use of interest rate controls, and
- the use of conscripts as military personnel.

It is interesting to note that the military draft is considered in an economic context, separate from its impact on human rights. However, if you think back to the basic rights of owning yourself and of trading your services to others at a mutually agreed-on price, there is a big difference between forcing people to join the military under the threat of jail and obtaining a voluntary agreement with people to serve in the military for compensation. I doubt that the Vietnam War would

Figure 1
Per Capita Gross Domestic Product



Sources: Ayn Rand, *Philosophy: Who Needs It* (Indianapolis: Bobbs-MerrilL, 1982), p. 80; U.S. Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington: Government Printing Office, 1975); *Budget of the U.S. Government 2000, Historical Tables* (Washington: Government Printing Office, 1999), pp. 21–22; and author's calculations.

have happened if Americans had had to pay for it at free-market prices.

The factors in the Fraser index are weighted and condensed into a single scale that ranges from 0 to 10, the best score. All of the world's prosperous, large economies—the United States, the United Kingdom, Canada, Japan, Germany, and France—have freedom indices in the top 20 percent of the index. Conversely, Fraser's bottom 20 percent is populated exclusively by economic train wrecks (Table 1).

A comparison of the five quintiles of the Fraser Economic Freedom Index shows that countries in the top 20 percent of the index have a per capita income more than five times that of countries in the bottom 20 percent (Figure 2).

In addition to earning a higher yearly income, people in freer countries see their income growing at a faster rate than do people in countries with less freedom. In the least-free countries, per capita income is actually shrinking (Figure 3). The adage that the rich get richer and the poor get poorer is a fact. The rich get richer, not because of some unfair advantage, but because they have freedom and free enterprise. Again, we should remember our priorities. We are free because that is morally right—and we are prosperous because we are free.

Silicon Valley: Basic American Values at Work

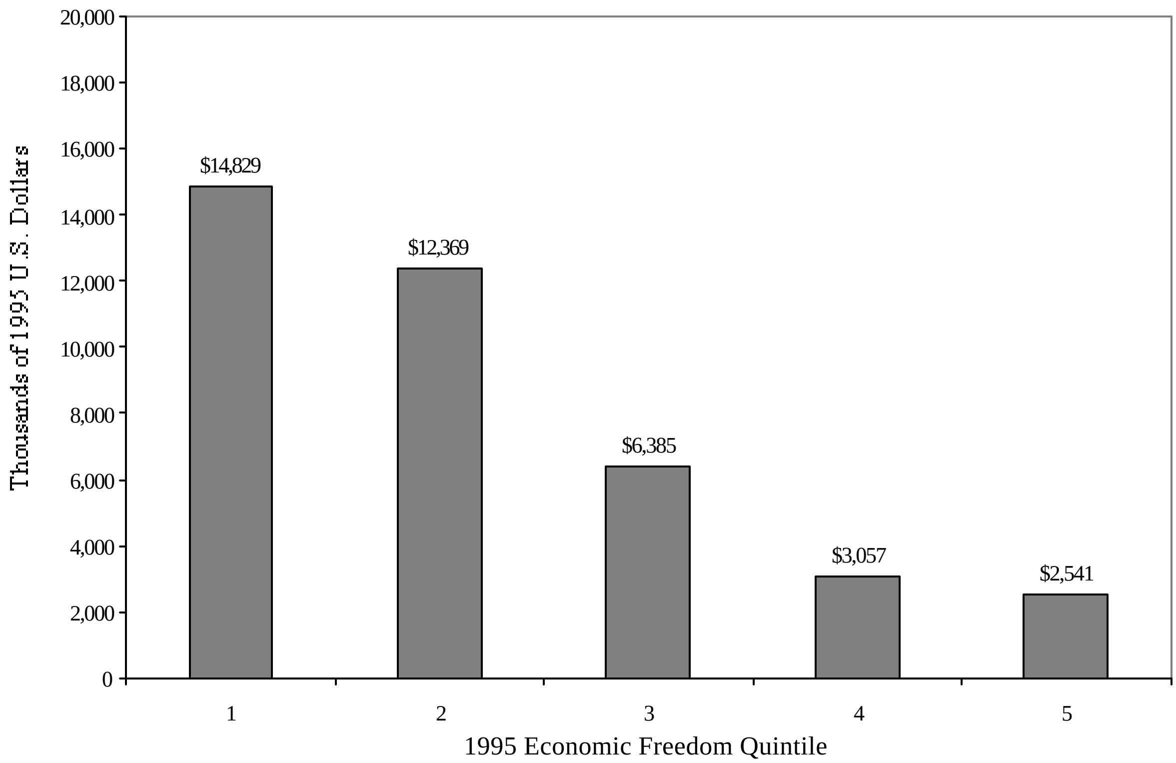
The free market in Silicon Valley is not well ordered or even predictable. People are free to quit, to start up their own companies, and they often do. Yet, more often than not, start-ups end in failure. Three of four do not make it. That tolerance for failure is an important factor that distinguishes the Silicon Valley economy. When a start-up company fails in Silicon Valley, no one wails about the unfairness of foreign competition or the need for government interven-

Table 1
Economic Freedom Index, 1997

Rank	Country	Weighted Index
	Top Quintile	
1	Hong Kong	9.6
2	Singapore	9.4
3	New Zealand	9.2
4	United States	9.1
5	United Kingdom	9.0
6	Canada	8.8
7	Argentina	8.7
8	Netherlands	8.6
9	Panama	8.6
10	Australia	8.6
11	Luxembourg	8.6
12	Ireland	8.6
13	Switzerland	8.5
14	Japan	8.3
15	Denmark	8.3
16	Norway	8.3
17	Belgium	8.2
18	El Salvador	8.2
19	Finland	8.2
20	Germany	8.2
21	France	8.1
22	Sweden	8.0
23	Bahrain	8.0
24	Oman	7.9
	Bottom Quintile	
95	Pakistan	5.0
96	Niger	5.0
97	Mali	5.0
98	Senegal	5.0
99	Chad	4.8
100	Burundi	4.8
101	Nepal	4.8
102	Benin	4.7
103	Syria	4.7
104	Nigeria	4.6
105	Congo, Rep.	4.5
106	Bangladesh	4.4
107	Togo	4.4
108	Ukraine	4.2
109	Central African Rep.	4.2
110	Algeria	4.2
111	Madagascar	4.2
112	Romania	4.2
113	Malawi	4.1
114	Sierra Leone	4.1
115	Albania	4.1
116	Rwanda	3.5
117	Congo, Dem.	3.2
118	Guin.-Bissau	3.1
119	Myanmar	2.5

Source: James D. Gwartney and Robert L. Lawson, *Economic Freedom of the World: 1998–1999 Interim Report* (Vancouver: Fraser Institute, 1997).

Figure 2
GDP per Capita versus Economic Freedom



Source: James D. Gwartney and Robert L. Lawson, *Economic Freedom of the World: 1997 Annual Report* (Vancouver: Fraser Institute, 1997), p. 34.

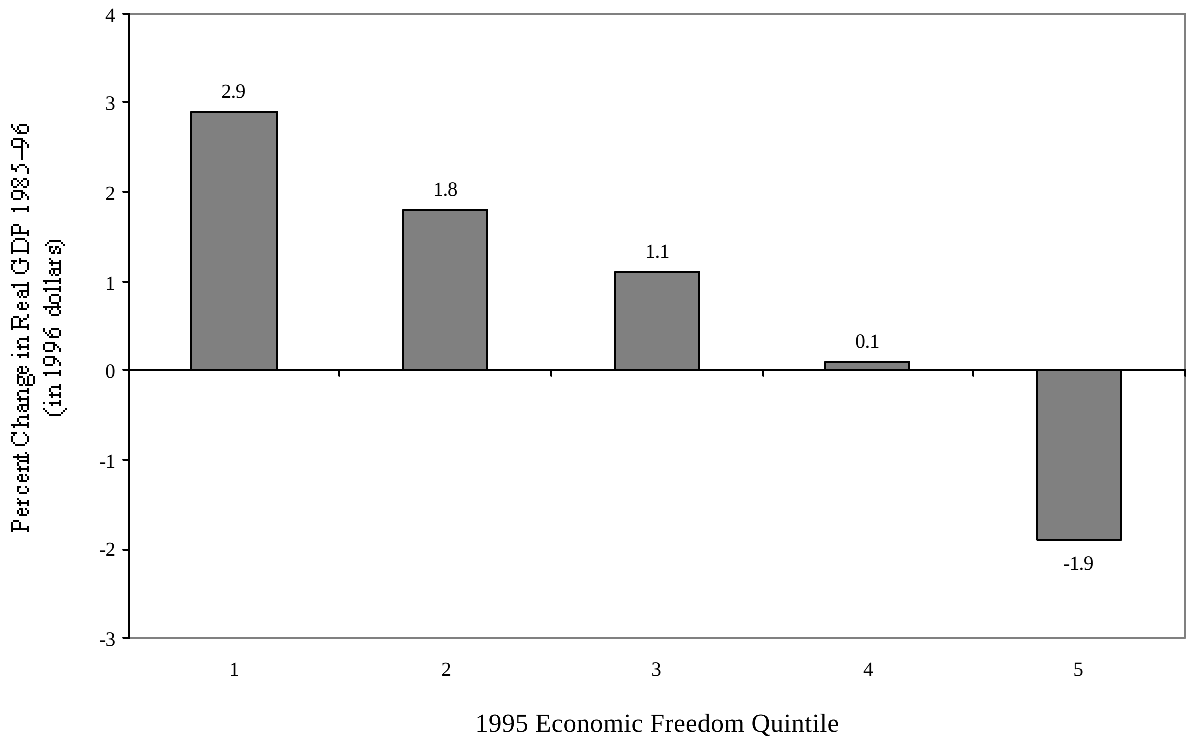
tion. We simply say something like, "Did you hear that Schlock Tech cratered?" And then we get on with making sure we do not suffer the same fate. Failure is OK in Silicon Valley because we truly believe that people are the key asset of any company and that the newly defeated will be quickly reemployed to try again.

When one of our competitors had a large layoff, Cypress hired an airplane to fly over its headquarters, hauling a banner with our name and Web address. Although the right to fail is a key attribute of a truly capitalistic economy, it is alien to the security-seeking old economy. When Chrysler got into trouble, it successfully pleaded for a government bailout to save jobs. In 1998, when the steel industry faced competition from abroad, it turned to Congress and the administration for protection. When Intel got into such deep trouble in 1985 and 1986 that it laid off one-third of its workforce, it never asked for a bailout, and there was no surge in unemployment. The rest of Silicon Valley simply hired the windfall of exceptional talent.

When a Silicon Valley company can no longer afford to support its employees and shareholders, it is natural and right that the process Joseph Schumpeter described as "creative destruction" be allowed to move employees from low-productivity jobs in a troubled company to higher-productivity jobs elsewhere. It is not only wrong to coerce people into supporting a failing company; it is also economically disastrous for our government to save old, low-productivity jobs just because a company has developed a skillful lobbying department.

The basic right of individuals to own their ideas takes on particular importance in Silicon Valley. Most ventures are funded expressly for their intellectual property. Cypress's original intellectual property consisted of a way to make transistors faster than our competitors could as well as a business plan to bring that technical capability to the market. Our 15-page business plan—and the six founders to pull it off—sold to a consortium of six venture firms for $3.5 million. Today, Cypress's market capitalization has grown to approximately $1 billion—a typical, even modest, story of wealth creation in

Figure 3
Growth of Real GDP per Capita 1985–96



Source: James D. Gwartney and Robert L. Lawson, *Economic Freedom of the World: 1997 Annual Report* (Vancouver: Fraser Institute, 1997), p. 34.

Silicon Valley.

Silicon Valley is an economic meritocracy where people know that salary is not the path to prosperity. They know that owning a piece of the action—and then making the action worth a lot of money—is the only way to prosper. Here, the greatest wealth goes to those who create the greatest value. Intel became rich because it sells 80 million computer chips a year for about $200 each, a great value because each of those computer chips has about 50,000 times the power of a 1950s vintage mainframe computer that costs $5 million.

Silicon Valley knows that the adage money makes money is false. We know that people make money, and money makes money only when it is invested in the right people. Thus Silicon Valley considers people an asset, not a liability—the way government views them. So when we see an immigrant we see, not a potential welfare case, but someone with an intellect, someone with the potential to help one of our companies. The chairman of our board of directors and four of Cypress's 10 executive vice presidents are immigrants.

Silicon Valley is a successful and dynamic example of the prosperous basic American values, outlined earlier, at work: private property, intellectual property ownership, free trade, and free markets. Just as Americans are more prosperous than people in other countries because our economy is freer, the people of Silicon Valley are better off than the average American because the Silicon Valley economy is even freer from and less dependent on government.

I view Silicon Valley as a place of "free minds and free markets," to use the trademarked phrase of the Reason Foundation. Capitalism is not just an economic system here; it is a way of life. I always remember a bumper sticker that read "Capitalism: What people do when they're left alone."

Free-market capitalism has made the whole of Silicon Valley rich, not only its CEOs. The 4.2 million factory workers employed by the high-tech industry earn almost twice the yearly wage of workers in other industries. And our markets have enabled us to become strategically important to America, as we have invented or commercialized revolutionary innovations such as the silicon chip, the computer, genetic engineering, and the Internet.

I do not want more government in Silicon Valley. Government can do only two things here: take our money, limiting our economic resources; or pass laws, limiting our other freedoms. Even in Washington, alluring subsidies come at a high cost to our industry. Washington's money is never free.

Many CEOs Are Not Capitalists

The question then arises: Why does Silicon Valley seem to be going political? Why do we see some of our CEOs actively embrace Washington and the rhetoric of industrial politics? The counterintuitive answer is that many businessmen are not capitalists, as I have defined that term. Indeed, in many corporations, there are better capitalists in the stockroom than in the boardroom.

I used to naively assume that a CEO, by the nature of his or her job, was a free-market capitalist. That view became problematic when I noted that some CEOs did very noncapitalistic things, such as lobby for corporate welfare. I wondered: Was there some sort of new capitalism, embodying concepts such as government-industry partnerships, which transcended my traditionalist version? The Cato Institute essay "The Paradox of the Statist Businessman," by Theodore J. Forstmann, addresses the apparent contradiction.

Forstmann points out that just as the basic values of many ministers have been undermined by the TV evangelist Jimmy Swaggart, so are the values of capitalist CEOs undermined by what Forstmann calls the statist CEOs, those CEOs who compete using the power of the state.

The prototype capitalist CEO lives right here in Silicon Valley. He or she is an entrepreneur with a position earned on merit, often the head of a start-up company that has created wealth not only for the CEO but also broadly for employees and shareholders.

Let's contrast a hypothetical Silicon Valley capitalist businesswoman with a hypothetical statist businessman. To visualize the statist businessman, think about the behemoth company you dislike most—the one that is arrogant, treats its customers poorly, has lost market share, is always downsizing, and fights a protracted battle with hostile, unionized employees. Its CEO is almost undoubtedly a statist businessman.

While the entrepreneur earned or created her position, the statist businessman achieved his position by climbing the corporate ladder, much the same way a politician climbs the political ladder—by currying favor with the right people, by not stepping on the wrong toes, and by building a power base. And like the politician who has clawed his way to the top, holding power is the statist businessman's top priority, even above the interests of his company. Meanwhile, the entrepreneurial businesswoman has no time for corporate power struggles. She has to concentrate on the tumultuous world of Silicon Valley, where a new start-up or well-staffed big company might take a devastating toll on the competition in only a few quarters.

The statist businessman draws a huge salary and bonus, as negotiated by his agents. His perks—corporate jets, limos, lavish expense-account dinners—are the reward for climbing the ladder. The corporate jet is a Silicon Valley joke. Gil Amelio's short tenures as CEO of National Semiconductor and then Apple Computer were punctuated by derisive reports on how he insisted that each company pay for his private airplane. Once, as I flew in a middle seat in coach class into Beaufort, South Carolina, to speak to a Fortune 500 conference, I counted 52 corporate jets that flew in people for golf—and a little conferencing.

By contrast, the entrepreneurial CEO keeps her salary and bonus very modest by Fortune 500 standards. That is not to say Silicon Valley entrepreneurs cannot get rich; Intel's founders have earned hundreds of millions of dollars in capital gains. It is easy to make $100 million in Silicon Valley. All you have to do is own 1 percent of your company and then spend 20 years making that company worth $100 billion. Intel's current $160 billion market capitalization was created from nothing. Intel's employees and shareholders benefited with more than $99 of capital gain for every $1 collected by its founders.

The statist businessman wins by using the state to gain competitive advantage. His large and effective lobbying organization is skilled at reducing taxes on his company, increasing

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the taxes and regulations on competing import products, creating quotas to block the imports he cannot tax away, and lobbying for pork—those government-industry partnerships that allow him to continue in businesses that would not otherwise be economically justified. Archer Daniels Midland Corporation's chairman, Dwayne Andreas, is one of the most effective statist CEOs, dubbed the "prince of political influence" by the *Wall Street Journal*. About half of ADM's agricultural products are subsidized or protected by the federal government. The company rakes in $400 million a year from the government, gives lavishly to both major political parties, and advertises heavily on Sunday morning TV political talk shows. ADM gets my vote for the most unreasonable subsidy: a tax break on each gallon of corn-ethanol that exceeds the production cost of the gallon of gasoline it replaces.

While the statist CEO has a well-staffed Washington office and a government action agenda, most Silicon Valley companies do not have any presence in Washington at all. Even large Silicon Valley companies, such as Intel, have only a modest presence in Washington. And even then, Intel's six full-time lobbyists do only defensive work—to protect the company from inappropriate, top-down government mandates—rather than lobby for corporate welfare. Unfortunately, that situation is changing. Silicon Valley is building a Washington presence and getting in the game.

The differences between the capitalist entrepreneur and the statist businessman could not be greater: It is the difference between free-market capitalism and the collectivism inherent when government distorts free-market activity. The statist businessman is no friend of Silicon Valley. He could not be more different from Silicon Valley leaders, even though his title may be CEO.

Collectivism, Enemy of Capitalism

There are many forms of collectivism, some mislabeled "capitalism." The former Soviet Union is a straightforward example, where collectivism took the form of socialism, an unmitigated economic disaster. Collectivism in North Korea is leading to the systematic starvation of the citizens. Consider the Japanese *keiretsus* and Korean *chaebols*. They are labeled "crony capitalism" by the media but are really nothing more than mutations of collectivism.

The freedom of Americans to invest their money in a diverse, international money market free of capital controls gives Americans financial freedom and contributes to our high score on the Fraser Economic Freedom Index. The Japanese money market is not free. Japanese people cannot choose among 500 different mutual funds. Free-market competition for Japanese investment by American financial institutions is banned by the cronies that run crony capitalism. In the United States, it is the venture capitalists who pick winners and losers. In Japan, it is the central government. In the past seven years, the Japanese stock market has lost more than half its value. Over the same time period, the Dow Jones has tripled.

With limited investment choices, Japanese workers put their money into post office accounts, which currently pay 0.25 percent interest—yes, you heard me correctly. Of course, any American financial institution would be overjoyed to give the Japanese people 2.5 percent interest, 10 times the going rate, but that is not allowed. Having used the government to block free-market choice for savings, the *keiretsus* then exploit their government-industry partnerships to use the cheap money as they want, usually as below-market loans to subsidize manufacturing companies.

Although the men who run the *keiretsus* are much more competent than those who ran the Soviet Politburo, no elite power structure can make decisions in the dynamic world economy as well as the free marketplace can. The *keiretsus* seemed unstoppable in the 1980s, when they effectively attacked our semiconductor industry. But the strategy of the Japanese *keiretsus* and Korean *chaebols*—to use nearly free money to gain market share without regard to profitability—has no more economic integrity than a Ponzi scheme. It just takes longer to collapse.

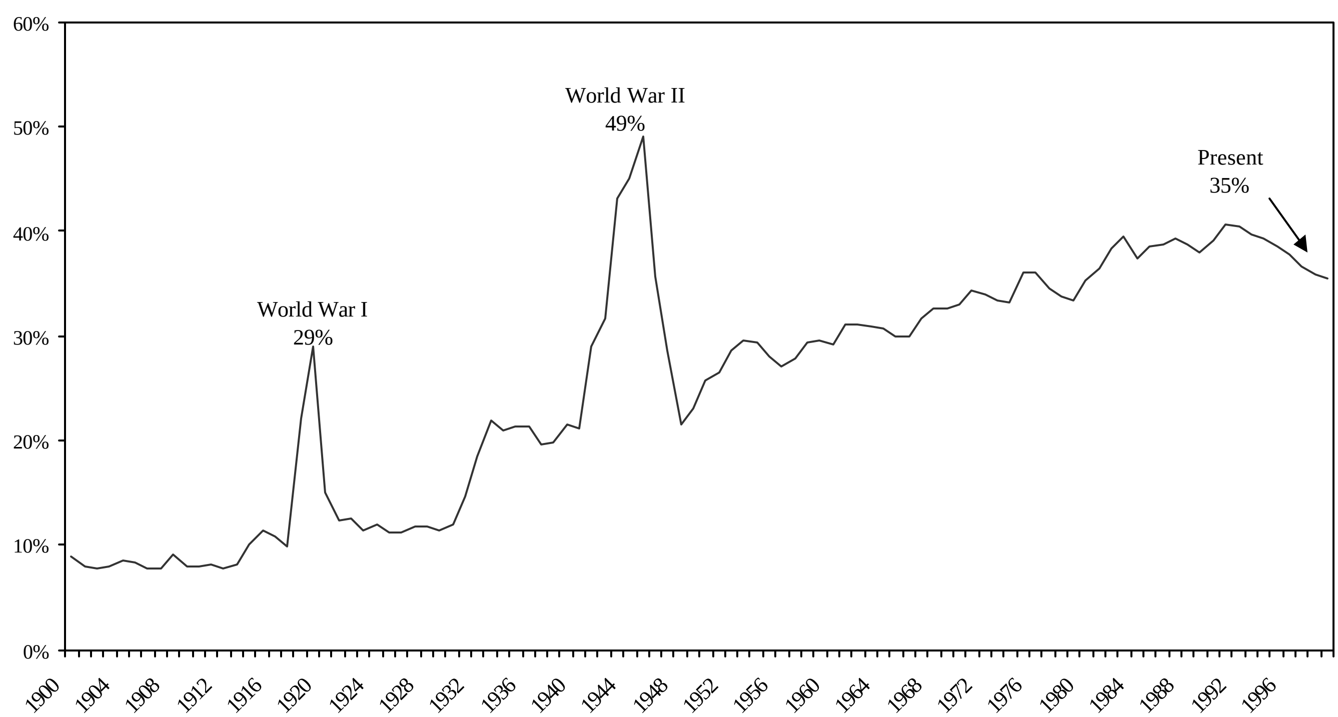
Meanwhile, in Silicon Valley, American investors, represented by their tough and aggressive mutual fund managers, demanded fair returns on their money, forcing our companies into a pay-as-you-go mode. With 6 percent money, our industry had a tough time competing against Japanese competitors with 0.25 percent money, but the free-market capitalism of Silicon Valley prevailed over Japan's collectivist misallocation of resources. After a brief period of market-share leadership, the Japanese semiconductor industry has collapsed far into second place with a 32.5 percent market share, compared with America's 49.2 percent, according to Dataquest, the semiconductor research organization.

Clyde Prestowitz declared the demise of the American semiconductor industry in his naive book *Trading Places*, a work that became the mantra for every collectivist in Washington who wanted more control of Silicon Valley. The Japanese semiconductor scare produced Silicon Valley's only non-capitalist aberration, the successful lobbying effort to gain $1 billion in corporate welfare to support Sematech, a semiconductor industry consortium. Fortunately, our leaders woke up quickly and dumped the subsidy while hundreds of millions of dollars were still available. The current charter of our Semiconductor Industry Association calls for "free and open markets," and the SIA board of directors is on record as saying that it will not lobby for government subsidies. What Washington lobbying group do you know that stands for free and open markets with no subsidies?

In 1997 I testified before Congress in support of the elimination of the Department of Commerce, a primary delivery vehicle for corporate pork. By circulating a statement denouncing corporate welfare only 48 hours before my departure, I was able to get signatures of 79 Silicon Valley CEOs, who agreed to sign a declaration of independence from corporate pork, even if it meant that their companies lost government funding. Do you think I could convince Archer Daniels Midland's chairman to sign that document? I even tested one of my icons, Jack Welch, the CEO of General Electric, a big recipient of corporate welfare. Jack said no in a letter written in "bafflegab" by one of his government relations people.

What Jack and others do not seem to understand is that the price of corporate pork is less freedom and higher taxes. Currently, our state, local, and federal governments control about 35 percent of our gross domestic product—that is, 35 percent of the com-

Figure 4
Total Government Outlays as a Percentage of GDP



Sources: U.S. Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington: Government Printing Office, 1975), Series F 1-5, Y 522–532; *Budget of the U.S. Government 2000, Historical Tables* (Washington: Government Printing Office, 1999), pp. 21–22 ; and U.S. Bureau of the Census, *Statistical Abstract of the United States* (Washington: Government Printing Office, various editions) .

bined output of every American (Figure 4).

Before the federal income tax was enacted in 1913, only 10 percent of America's then-small GDP was required to run the government. During periods of war, the amount spiked up, but it later returned close to previous levels. There are two noticeable periods of American economic socialization: in the 1933s, when President Franklin Roosevelt took a second 10 percent of America's output for the Great Depression, and in the post–World War II period, when America and other democracies began a process of economic socialization. President Ronald Reagan mitigated that trend in the 1980s, but he did not reverse it.

Although you may think that 35 percent of GDP is an excessive cost for government, most of the socialized democracies of Europe spend close to 50 percent—and have stagnant economies to show for it.

To fund all of this government, we now have a federal tax of 39.6 percent levied on Silicon Valley CEOs and a 36 percent tax levied on their companies. The standard argument for higher taxes is that they fund a greater good, such as curing cancer. Of course, it is not at all clear that cancer could not be cured more quickly and cheaply with private funds, or that the greater good espoused is always as noble as fighting cancer. My favorite line item in the fiscal year 1998 omnibus budget—pork-barrel legislation of cosmic proportion—is $500,000 for horse manure management. I am not joking. It is really in there. While you laugh, let me add that there is another $500,000 line item for pig manure management. Two congressmen, two states, two campaign promises kept—it is the American government way.

Let me attack the tax-for-greater-good argument as it applies to us in Silicon Valley. Consider the effect when the Clinton-Gore administration raised the tax on Silicon Valley companies from 35 percent to 36 percent. Vice President Gore basks in the technology image that a few Silicon Valley leaders have given him. But that extra 1 percent tax Gore levied on Silicon Valley takes away billions of dollars from Silicon Valley—more than $400 million a year from Intel alone. From Washington we hear the preposterous claim that high-tech V.P. Gore can do better by investing the $400 million than could Intel's CEO Barrett. I state the obvious: Every American would be better off if Craig Barrett invested the $400 million.

An equally absurd situation arises when the government taxes Silicon Valley CEOs at a rate of 39.6 percent. By raising the tax on top-bracket individuals from 36 percent to 39.6 percent, the Clinton-Gore administration will have extracted in the neighborhood of $1 million in extra taxes from the average Silicon Valley CEO by the time that administration ends in January 2001. In my case, I have paid those extra taxes by selling off some of my investments, most of which are in electronics, biotech, and Internet-related companies right here in the valley. Many of those companies are funded by venture capitalists with whom I work. I often evaluate companies, people, and business plans for venture capitalists. Sometimes I even join the boards of start-up companies to help them succeed. Who would best invest the last $1 million that I earned and gave to the government, Gore or I?

Silicon Valley is an island of capitalism in a sea of collectivism. We are surrounded by big governments, big unions, big media, and big, statist corporations. We are an island of meritocracy in a sea of power struggles. In Silicon Valley, the phrase "what you know is more important than whom you know" is a fact of life, not an unrealized ideal.

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Do Not Normalize Silicon Valley's Relationship with Washington

By the very way it works, Washington undermines the free minds and free markets that are the cornerstone of Silicon Valley's success. Republicans claim that their party stands for free markets, but they have proven over the past five years to be as big spenders as are the Democrats. The Democrats claim that their party stands for individual freedom, but they have always been the party of the free lunch, the party willing to tax and spend because they arrogantly believe they have a better idea of what to do with your money than you do.

The metric that differentiates Silicon Valley from Washington does not fall along conventional political lines: Republican versus Democrat, conservative versus liberal, right versus left. It falls between freedom and control. It is a metric that separates individual freedom to speak from tap-ready telephones; local reinvestment of profit from taxes that go to Washington; encryption to protect privacy from government eavesdropping; success in the marketplace from government subsidies; and a free, untaxed Internet from a regulated, overtaxed Internet.

Once you understand that the left-right or liberal-conservative dichotomy fails to characterize the difference between Silicon Valley and Washington, you will begin to see that the Washington politicians who argue vehemently about their supposedly profound differences are really cut from the same cloth. Democrats raised taxes in 1993. Republicans have done virtually nothing to cut those taxes.

The political parties are not even delivering on their half promises of freedom. The Republicans are not delivering on economic freedom, and the Democrats are not delivering on individual freedom. Newt Gingrich, the self-proclaimed champion of small government, managed the passage of a bill to purchase hundreds of millions of dollars worth of C-130 cargo aircraft that the Pentagon stated publicly it did not want. The Pentagon has complained that it receives unneeded C-130s every year, which it quickly passes along to Reserve units. Quite by coincidence, those C-130s are made in Georgia, Gingrich's home state. And Ted Kennedy, the champion of personal freedom who protects individuals from big corporations, authored a health care bill that, for no discernible reason whatsoever, allows the American government to confiscate your assets—yes, to violate the Constitution and take away your property—if you obtain foreign citizenship.

Who goes to Washington? Those who have chosen governing—that is, ruling—for a profession. Washington is in the business of restricting freedom and, therefore, in the business of undermining the foundation of Silicon Valley. On the economic side, what does Washington really offer Silicon Valley? Consider the pork-barrel process by which Washington works: It extracts 20 percent of the yearly output of Americans in federal taxes, consumes much of it to run a grotesquely inefficient organization, and then allows us to fight to recover in the form of grants and subsidies the rest of what we first earned. Silicon Valley is not very good at the pork-barrel game. Statist companies have refined their lobbying skills for decades. We cannot and do not want to win at their game. Famous bank robber Willie Sutton, when asked why he robbed banks, said, "Because that's where the money is." Today, Silicon Valley is where the money is. Anyone who believes that money will flow uphill from Washington to Silicon Valley is naive.

Simon Cameron, three-time U.S. senator from Pennsylvania from 1847 to 1877, said, "An honest politician is one who, when he is bought, stays bought." In 1996 Silicon Valley invested in Bill Clinton's campaign because we thought he would be good for high tech. One of the few political issues of interest to Silicon Valley is shareholder litigation reform, an effort to protect our businesses from continuous barrages by the shareholder lawsuit industry. More than half of the member companies of the American Electronics Association have been sued for shareholder fraud by a small group of law firms specializing in that lucrative endeavor. We must believe that either half of AEA member companies are crooked or that a group of lawyers is running amok. In 1995 Silicon Valley lobbied for the Securities Litigation Reform Act, an act that puts a higher burden of proof on plaintiffs in shareholder lawsuits before they are allowed to initiate the extraordinarily expensive discovery phase of litigation.

The 1995 SLRA was carefully crafted by the Senate to balance the opposing objectives of limiting frivolous lawsuits and preserving for those truly defrauded the right to sue. Even though Clinton wooed Silicon Valley by telling us he supported litigation reform, he had also taken political contributions from plaintiff lawyers. He chose them over us and vetoed our litigation reform bill. Fortunately for us, the SLRA was so well crafted that a Democratic Congress overrode Clinton's veto. Shortly after that fiasco, Clinton returned to Silicon Valley for some more public relations and to raise money at a prominent CEO's house at a $50,000-per-plate dinner. One dinner topic was litigation reform. Clinton then accepted several hundred thousand dollars to perform a back flip. He turned on the securities lawyers and denounced Proposition 211, which would have effectively overridden the newly enacted SLRA in California.

Politicians know that playing both sides of an issue often brings in money from both sides. Clinton repeated the performance in 1998 when he flew to Silicon Valley for one fundraiser and then flew to San Diego the next day for another fundraiser hosted by Silicon Valley's legal nemesis, Bill Lerach.

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Providing political funding to the Clinton administration may give Silicon Valley a temporary advantage on some issues, but in the long haul, this administration undermines our basic values. Republican Bob Dole was the patron saint of ADM's billions of dollars in taxpayer subsidies. Dole flew on ADM's plane numerous times at submarket rates and purchased a Florida condominium from ADM, also at a submarket price.

Pork-barrel politics is not only wrong; it is also highly inefficient. Often the grants that come back to Silicon Valley are politicized into worthlessness. For example, several years ago, *Electronic News* published a report about making gallium arsenide—a semiconductor several times faster than silicon—aboard the space shuttle. Despite my own graduate-level training in transistor physics, and the fact that I was a member of the board of directors of Vitesse Semiconductor, the largest commercial manufacturer of gallium arsenide chips, I could see no economic benefit whatsoever in the space chips. Neither did Lou Tomasetta, Vitesse's CEO, who called the space chips "a solution looking for a problem." In this case, an industry-government partnership launched several $150 million shuttle flights without consulting with the industry partners, who would have predicted correctly that the chips in space program was useless. That is a classic and apparently contagious example of collectivist science. When I visited Zelenograd, Russia's version of Silicon Valley, near Moscow, I found that the Politburo had funded the same project. Stacked neatly in the corner of a museum were space-grown crystals, not only of gallium arsenide, but also of indium antimonide and lithium niobate.

On the personal side of freedom, Washington is in the control business but faces an obstacle described by Ayn Rand in *Atlas Shrugged*: There's no way to rule an innocent man. The only power government has is to crack down on criminals. When there aren't enough criminals, one makes them: one declares so many things crimes that it becomes impossible for men to live without breaking laws. One example is the law that makes it a federal offense to carry your prescription drugs apart from their original container across state lines—in a pill box on an airplane, for example.

The War against Microsoft

Nothing is more dangerous to the ethic of success and innovation in Silicon Valley than the antitrust laws. Antiquated, dating back to the so-called trustbusting era at the beginning of the 20th century, the laws in effect make it illegal for a company to be conspicuously successful. The ambiguity of the laws grants the Department of Justice huge powers to define on an ad hoc basis what is legal and illegal, thus giving it control over companies' operations. Often the government uses another oxymoronic device, the "consent decree," to enforce its will on businesses seeking to avoid protracted litigation against a foe with unlimited resources.

Illogic comes from illogical laws. Consider the 1945 antitrust case of *United States v. Alcoa Aluminum*. Federal Judge Learned Hand was both judge and jury in that case, as is typical in antitrust cases. He broke Alcoa apart with a judgment that contained this rationalization:

> It was not inevitable that [Alcoa] should always anticipate increases in the demand for ingot and be prepared to supply them . . . before others entered the field. It insists that it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened.

That's right, Alcoa was convicted and broken apart for committing the crime of building an efficient company that gained and expanded its market share!

Some high-tech companies are now conspicuously successful. And, true to form, Washington's attack on Intel and Microsoft already has begun. The dreadful vagaries of the antitrust laws are most evident in the ongoing Microsoft trial. A single judge listens to the complaints of a few resentful competitors, reads a colorful memo from a Microsoft executive talking about "choking the air" out of some competitor, and then has the power to break apart the company founded and built by others over a decade, perhaps destroying billions of dollars of market capitalization in the process. In time, a verdict against Microsoft would read as poorly as does the Alcoa verdict now. If convicted, Microsoft would be guilty of this crime: continuously adding features to its software, while bringing the price per function of its software to an all-time record low, to the benefit of its millions of customers.

The Department of Justice once offered Microsoft a way out: agree to offer browser software from its competitor, Netscape. I respect Bill Gates for rejecting what might have been a relatively painless escape—a bribe, really—and for litigating the issue on principle. Unfortunately, Gates has been forced to build up a huge Washington lobbying office to avoid further political attack. But that was a defensive measure. The mystery is, Why would we ever voluntarily involve ourselves in the Washington morass?

Why Technet Is a Bad Idea

Technet is a new Silicon Valley lobbying organization. Its Web site shows a cartoon of a Silicon Valley nerd shaking hands with a Washington bureaucrat. Technet could be the unofficial embassy that normalizes our relationship with Washington. That would be a very big mistake.

When I asked my assistant, who runs that organization, she gave me a list of its directors, which included two venture capitalists who funded Cypress in 1983, two investment bankers who brought Cypress public in 1986, a former member of Cypress's board of directors, four CEOs of respected Silicon Valley chip companies, four CEOs of important Cypress customers, and the current chairman of Cypress's board of directors. At that point, I thought my criticism of Technet might best be done with diplomacy, but, unfortunately, I lack the diplomacy gene.

Technet was an extension of the anti-Proposition 211 initiative. After the victory over 211, there were leftover contributions in the kitty, and I was asked to leave in Cypress's share to fund other political endeavors, such as contributing to politicians who support Silicon Valley. I opposed Technet before its founding. My refusal letter read as follows:

> I am really speaking out against that pork-barrel system. Why else would I lobby against Sematech, a subsidy for my own industry? I also lobbied against the Department of Commerce—to abolish it—specifically because it is one primary vehicle of corporate welfare. Given that mindset, you can understand how I would never support a politician like Anna Eshoo [a Silicon Valley Democratic congresswoman]. She may agree with us on one or two technology issues to save her political butt, but she is a liberal-socialist who voted to increase taxes on all American corporations. She is the enemy, standing against everything I stand for. It is only an accident of political expediency that causes her ever to be on the same side of a given issue. Just as I wouldn't give money to PBS television, to be used to batter free markets and corporations, I don't give money to politicians to buy their vote on any given issue.

At least Technet is honest in its support of the pay-to-play Washington system. Here is an excerpt from a typical Technet e-mail:

> I would like to call your attention to two congressmen who have recently visited Silicon Valley and who have played a key role in our . . . success. Rep. Billy Tauzin . . . and Rep. Mike Oxley. . . . We'll be following up with phone calls and e-mails to ask for your financial support for these two friends. We hope you will consider making a $1,000 donation to each of them.

It seems that Technet agrees with Will Rogers' observation that America has the best Congress that money can buy.

In fairness to Technet, I should mention that its two current initiatives are K-12 education reform (emphasizing vouchers, not more spending) and the Unified National Standards Act. The latter is yet another law designed to eliminate frivolous shareholder lawsuits, one necessitated by the fact that securities lawyers now sue companies in both state and federal courts, under two sets of rules, making securities lawsuits even more painful and expensive.

Since Technet is not about to close up shop in response to my criticism, I hope it will at least follow this advice:

- Never lobby for pork-barrel measures.
- Never move headquarters to Washington (the demise of other lobbying orga-

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nizations).

- Never lobby for a narrow issue such as beating Microsoft at the expense of a fundamental issue such as government control over free markets.

John Doerr, Venture Capitalist

We should not normalize our relationship with Washington. To do so would be to turn our backs on capitalism and freedom.

John Doerr was a leader in the victory over Proposition 211 and is currently a Technet leader. The media have singled him out as the icon for the political greening of Silicon Valley. John has supported the current administration, and there is talk in the valley about Gore and Doerr in 2004. In addition, John is a general partner at Kleiner, Perkins, Caufield & Byers, one of the firms that funded Cypress. He served on Cypress's board of directors for 10 years. And he is a friend of mine.

Once, in a magazine interview, I stated that John would be better off if he stayed home and did his job as a venture capitalist. John read my remarks and reasonably misinterpreted them as criticism. He shot back, in another magazine article, that I was a "cowboy entrepreneur" who needed to think beyond the confines of Silicon Valley. After that, I called John to explain to him in detail what I meant by my statement. First, I got him to agree with my premise that the biggest success he could have at Technet would be to get the Unified National Standards litigation law passed quickly and efficiently. (Today, he would probably add improving K-12 education as a big goal.) Once we had established the definition of success for John at Technet, I reminded him of the success he had already achieved as a venture capitalist. What I said to him was a lighter-weight version of the following statement:

> John, in addition to starting Cypress, you and your firm also started eight other chip companies—including big winners like LSI Logic, VLSI Technology, and Xilinx—companies with $4.7 billion a year in revenue and 16,400 employees. By funding such companies as America Online and Netscape, you commercialized the Internet and then enriched it by funding companies like Amazon.com that put the bookstore online. In addition to that, I am aware of a dozen or more new companies Kleiner-Perkins has funded that will literally define the future of the Internet. You and your partners also launched the biotech industry by funding not only Genentech, but 20 more biotech and health care companies that fix vision with lasers, perform genetic engineering, create skin tissue to repair burns, make ultralow-dosage X-ray machines, and produce equipment for use in spinal surgery. One of your companies could literally cure cancer.
>
> And you and your partners, along with the network of Silicon Valley venture capitalists, have funded those amazing companies that have revolutionized our country—for less money than it takes to build a single warship.
>
> John, who is more valuable to us? John Doerr, the lobbyist who can get the Unified National Standards Act enacted, or John Doerr, the venture capitalist who has helped change the world?
>
> John, we can't afford to send you to Washington.

How could John respond to that? He said, "Well, when you put it like that. . . ."

John Doerr is a great example of the enhanced value of an individual in a capitalist society. The example also dramatically illustrates the efficiency of free-market investments, compared with the investments of collectivist organizations. With the money to buy one warship, the Soviet Politburo probably would have bought one more warship, later to be mothballed. Japanese and Korean collectivists probably would have added another unneeded semiconductor memory plant to exacerbate the current chip glut, which is so severe it has devastated the Japanese and Korean economies.

In Silicon Valley, with the same money, John and the network of venture capitalists built an economic battleship that generates wealth from the private property of ideas traded in a free market.

Washington builds battleships, battleship laws, and battleship bureaucracies. For that reason we should not normalize our relationship with it. To do so would be to turn our backs on capitalism and freedom. When we see the government attacking our successes, such as Microsoft and

Intel, we should stand together to counter that attack on free markets. And when we see the government seizing the assets of tobacco companies, we should not be quiet just because we may not like tobacco. The obscene spectacle of federal and state attorneys general lining up like plaintiffs' attorneys to confiscate the assets of a company will surely be repeated. Washington called the much-publicized Y2K problem a "chip problem." I will not waste your time on the technological absurdity of that position.

The point is that if we sit back while the government illegally seizes the assets of the tobacco companies, we may find the same carpetbagging attorneys suing to gain Silicon Valley's assets early in 2000.

Silicon Valley is an island of capitalism and freedom admired around the world. We must remember that free minds and free markets are the moral foundation that has made our success possible. We must never allow those freedoms to be diminished for any reason.

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Cato Institute

Founded in 1977, the Cato Institute is a public research foundation dedicated to broadening the parameters of policy debate to allow consideration of more options that are consistent with the traditional American principles of limited government, individual liberty, and peace. To that end, the Institute strives to achieve greater involvement of the intelligent, concerned lay public in questions of policy and the proper role of government.

The Institute is named for *Cato's Letters*, libertarian pamphlets that were widely read in the American Colonies in the early 18th century and played a major role in laying the philosophical foundation for the American Revolution.

Despite the achievement of the nation's Founders, today virtually no aspect of life is free from government encroachment. A pervasive intolerance for individual rights is shown by government's arbitrary intrusions into private economic transactions and its disregard for civil liberties.

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