

“The typical businessman’s attitude toward competition is like most people’s attitude toward exercise: It’s something that is good for other people.”

-George Stigler

Silicon Valley Paradox

Why is it hard to find genuine support
for the free market in the “ground
zero” of capitalism?

Agenda

- My perspective
- The paradox
- Some observations of behavior
- Two theories
- Now what?
- Discussion

My perspective:

- Practitioner, observer, more than scholar
- Free market bias
- Please allow me to generalize (a little)

The Paradox

What Silicon Valley
businesspeople say
they believe



What Silicon Valley
businesspeople actually
do (and say)

What Silicon Valley businesspeople say they believe:

- I am a hard core capitalist.
- I am an entrepreneur; I take risks and should be rewarded if I win.
- Business is about meritocracy.
- Free trade is good. The world is my market.
- Free capital markets are good.

- I don't want to be regulated or constrained in any way. Deregulation everywhere.
- Keep the government out of my face.
- Planned economies are inefficient.
- The free market should determine winners and losers.
- I stand for integrity; I tell it like it is; my interests are completely aligned with those of my shareholders.
- **This is the essence of the “New Economy.”**

But, what do you really hear at Silicon Valley cocktail parties?

- I hope FASB doesn't screw up stock options. I hope we can increase the pool without a shareholder vote.
- Do you think the R&D Tax Credit will finally be made permanent?
- Isn't rule FD a pain?

- I can't get DSL. My cable doesn't work. I had to lie to get local channels on my satellite TV. Deregulation isn't **fair**.
- Did you go to the Silicon Valley Charity Ball? My company gave more than your company.
- We can't let the San Jose Symphony go broke! The Ballet could be next!

- I am all for free trade, but it needs to be **fair**.
- The street only looks at the “pro forma” financials,” GAAP is too confusing to our investors. Everybody is doing it.

- “Glad we were able to distribute the stock in that dog before it crashed” -very important venture capitalist
- I guess that’s the end of “friends and family” allocations now that the SEC is all over “laddering.” No more quick flips.

“Did you join TechNet yet?”



ABOUT TECHNET

TechNet is a national network of senior executives of the nation's leading technology companies. TechNet's mission is to build bipartisan support for policies that strengthen America's leadership of the New Economy. TechNet nodes are located in California, Indiana, Massachusetts, and Texas.

“Has your company paid its dues to SVMG?”

- **SVMG**
- The Silicon Valley Manufacturing Group (SVMG) is organized to involve principal officers and senior managers of member companies in a cooperative effort with local, regional, state and federal government officials to address major public policy issues affecting the economic health and quality of life in Silicon Valley. Currently, SVMG addresses the following five core issues: affordable housing, comprehensive transportation, reliable energy, quality education and a sustainable environment.



And in the news:

From the WSJ January 18th, 2002:

Page One Feature

Tech Industry Lobbyists Seek Windfall From White House Broadband Strategy

By YOCHI DREAZEN and JIM VANDEHEI

Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- For months, the high-tech industry has been working behind the scenes here to push its remedy for the nation's economic ills: a national policy to promote high-speed Internet access.

Now the lobbying is paying off. Both President Bush and Senate Majority Leader Tom Daschle are preparing ambitious programs to give more Americans fast Web connections -- raising the prospect of a government-supported gusher of sales for computer and telecom companies. But the programs also raise questions about how the spoils will be divided, and whether the government can revive a sector that has already failed key tests in the market.

SBC Appoints William M. Daley President

San Antonio, Texas, November 19, 2001

SBC Communications Inc. (NYSE:SBC) today named William M. Daley president of the \$53 billion diversified telecommunications leader, which serves more than 60 million customers in 13 states. Daley, former U.S. Secretary of Commerce, will report directly to SBC's Chairman and CEO Edward E. Whitacre, Jr.

As president of SBC, Daley will be responsible for strategic planning, regulatory matters, governmental initiatives, external affairs and international affairs. Daley's appointment by SBC's Board of Directors will be effective Dec. 1, 2001.

Published Sunday, Jan. 13, 2002, in the San Jose Mercury News

Valley firms dig for federal
dollars

HOPED-FOR ANTI-TERRORISM FUNDS

DRAW HOST OF HIGH-TECH SUITORS

BY CHRIS O'BRIEN

Mercury News

Maybe they are driven by a sense of patriotic duty. Or maybe it's just the good old-fashioned need to make a buck. Whatever the motivation, Silicon Valley companies are ferociously pursuing the piles of federal money that have been promised after Sept. 11 to help fight terrorism and shore up security.

Former White House Press Secretary Joins Oracle Corp.

REDWOOD SHORES, Calif., Nov. 27, 2000 - (<http://www.oracle.com/tellmemore/?486800>) Today, Joe Lockhart, former White House press secretary, joined Oracle Corporation. Lockhart will be a member of the senior management team reporting directly to Larry Ellison, Oracle Chairman and CEO. Lockhart will initially focus on refining and communicating Oracle's business strategy.

Other curiosities:

(in terms of economic efficiency)

- Housing “policy” in Silicon Valley
- Sematech
- Public transportation
- Redevelopment agencies
- San Francisco Airport expansion (you don’t have to travel far to experience crony capitalism)
- Bill Gates in favor of estate taxes

So why, how?

Theory 1: The businessperson as zoo animal

- Darwinism at work
- Domesticated by institutions, government, business schools...

Implications:

- Could not survive in the wild
- Cannot reproduce or feed him/herself without the assistance of the zookeepers
- Do tricks to amuse the visitors, respond to offers of treats
- Make loud noises when the public wants to see something ferocious
- Fences keep out potentially dangerous enemies

- Cage layouts are neatly arranged by the zookeepers
- Offending animals are punished

The zookeepers:

- The business and popular press
- Highly concentrated media ownership
- PR firms and other spinmeisters
- Wall Street financial analysts
- Big investment funds
- Industry regulators
- Peers
- Big labor

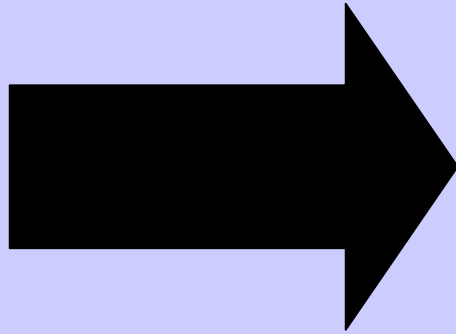
Cont.

- Big and small government
- Tax law complexity
- Trial lawyers and other extortionists
- Trade associations
- De facto industrial policy
- HR departments
- Charities, advocacy groups, and other “community leaders”

Cont.

- Your lobbyist to fight their lobbyist
- Your PAC versus their PAC
- Trade missions
- Government contracts and associated conditions, set asides
- Government-business revolving doors
- Govt. bailouts for banks, auto companies, airlines...

- We are bred to live in pleasant, safe, “ecosystems”
- Foreign organisms find it difficult to survive without mutating



The environment we have created has conditioned business people into this behavior.

Theory 2: The businessperson as the anointed

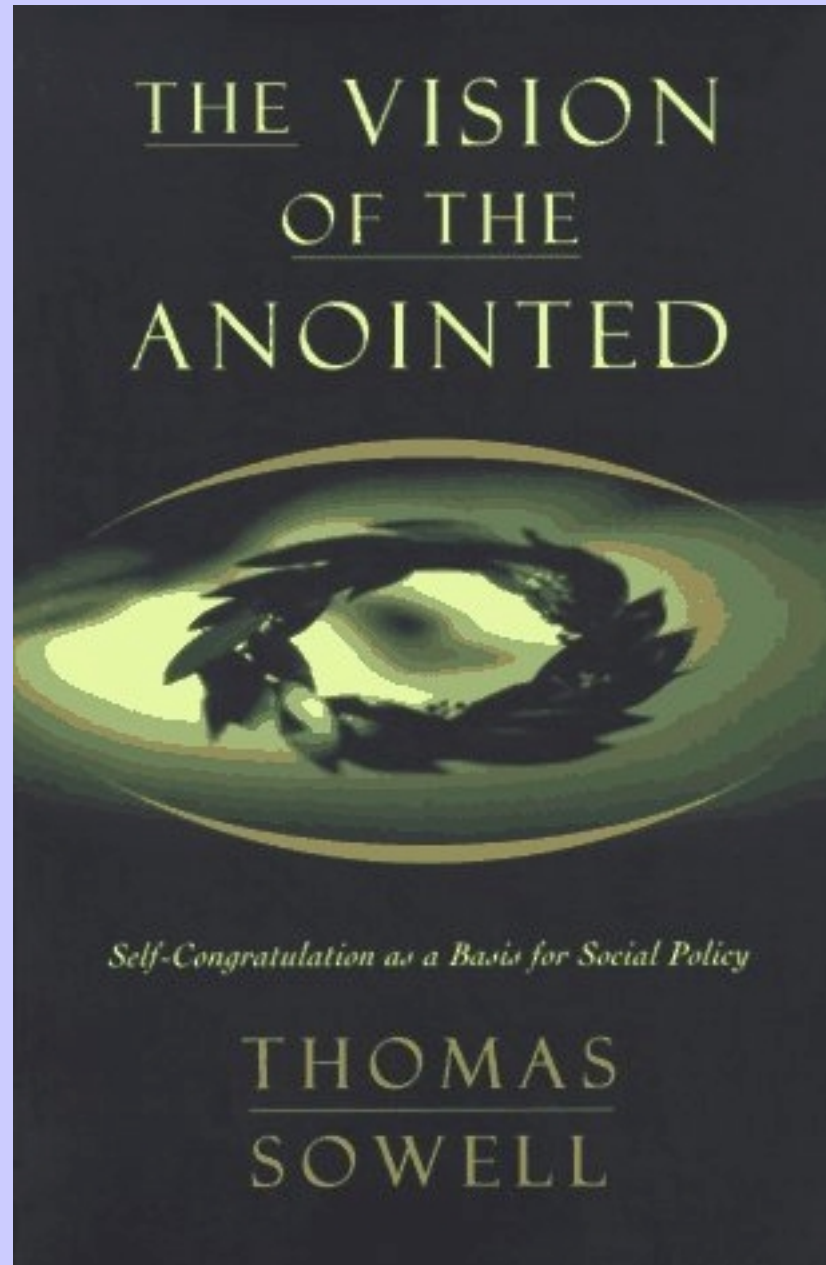
- We CEO's and other executives-in-training are certainly intellectually (if not morally) superior
- Markets are imperfect, you know and without enlightened people like us society might make the wrong choices with the wrong outcomes.

- The leaders of business and government should work together in harmony to ensure the common good. Of course we are sufficiently wise and righteous to define that common good.
- We need the power we have (and more) to do our good work and support our worthy causes.

“Private clubs” of the business anoointed:

- Big investment banks
- Big 5 accounting firms
- The Federal Reserve
- 3000 Sand Hill Road
- Big industry associations
- Top business schools

Refer you to:



Also, “Quest
for Cosmic
Justice,” by
Sowell

Syllogisms of the anointed:

- I'm rich; therefore I'm smart.
- I'm very rich; therefore I'm very smart.

- I am a professor and have a Ph.D.; therefore I am smart (though it's not fair that I am also poor, but at least I get to define what is fair).

Greatest fear of the CEO:

- Losing “anointed” status
- Being thrown out of the club(s)
- Having to grovel with commoners and be subject to the rules that govern them

- Silicon Valley hubris is one of the most extreme forms of this anointing.
- Non-free market rhetoric and actions help maintain club membership

There are exceptions:

- T.J. Rodgers, CEO of Cypress Semiconductor

So,

- How can a believer in free markets operate as a businessperson?

Finocchio's prescription for free market business behavior:

- Sole objective is to maximize the long term value of the firm (i.e. shareholder value)
- Be totally transparent, disclosing, honest. Feed the free market with information.
- Let the shareholders vote on “corporate citizenship” issues.
- Build a real business, based on substance, not dependent upon political currents, whims, fashions, who's in power...

- Don't violate the law (or the spirit of GAAP, SEC regs, etc.)
- Boards of Directors solely focused on their duties to the shareholders who elected them
- Avoid business/government “cooperation”
- Have the guts to take on the “zookeepers”
- Have self-confidence that is based on purpose, competence, and performance, not anointing
- Be courageous

But, there is some ambiguity:

- Should I do business with the government?
- Should I lobby the government for favorable treatment?
- Should I apply for a bail-out?

Duty to
shareholders



Personal conviction

How should the environment be changed?

- Smaller government, everywhere
- Simpler tax code, not a vehicle for public policy (and corruption)
- More tension between business and government
- Emphasis on property rights, rule of law
- Real free trade

- Free flow of information, transparency
- Rule of law, not rule of trial lawyers
Educated citizens
- Educated and free press
- Real debate at universities

Yea, but what about ENRON?

Final thoughts:

- “Capitalistic acts between consenting adults, ” Capitalism is not a necessary evil to be tamed, but the moral embodiment of how free and rational individuals should interact with each other. (Robert Nozick)
- Individual liberty must be the most basic element of the atomic structure of social justice. (Finocchio)

Discussion