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# Forget Wall Street – Silicon Valley is the new political power in Washington

It used to be banks, but now it is tech giants that dominate the US lobbying industry. Can money buy them what they want: less competition, less tax ... and more data?

by [Olivia Solon](#) in San Francisco and [Sabrina Siddiqui](#) in Washington

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The scholar Barry Lynn worked at the New America Foundation, a Washington thinktank, for 15 years studying the growing power of technology companies like Google and [Facebook](#). For 14 of them, everything was, he says, “great”.

This week, [he was fired](#). Why? He believes it’s because Google, one of the thinktank’s biggest funders, was unhappy with the direction of his research, which was increasingly calling for tech giants including Google, Facebook and Amazon to be regulated as monopolies.

Leaked emails suggest [the foundation was concerned that Lynn’s criticism could jeopardise future funding](#). In one of them, the organisation’s president, Anne-Marie Slaughter, wrote: “We are in the process of trying to expand our relationship with Google on some absolutely key points ... just think about how you are imperiling funding for others.”

Slaughter denies that Lynn was fired for his criticism of [Google](#). It’s a difficult story to swallow, given that Google’s parent company, Alphabet, along with its executive chairman Eric Schmidt, have donated \$21m to New America since 1999. Schmidt even chaired the thinktank for years and its main conference room is called the “Eric Schmidt Ideas Lab”.

## Scholar says Google criticism cost him job: 'People are waking up to its power'

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Funding thinktanks is just one of the ways that America’s most powerful industries exert their influence over policymakers. Much of the work takes place a quarter of a mile from the White House, in a lesser-known political power base: Washington’s K Street corridor, the epicenter of the lobbying industry.

In addition to thinktanks, K Street is packed with slick corporate representatives, hired guns, and advocacy groups. The lobbyists spend their days swarming over members of Congress to ensure their private interests are reflected in legislation and regulation.

While the big banks and pharma giants have flexed their economic muscle in the country's capital for decades, there's one relative newcomer that has leapfrogged them all: [Silicon Valley](#). Over the last 10 years, America's five largest tech firms have flooded Washington with lobbying money to the point where they now outspend Wall Street two to one.

Google, Facebook, Microsoft, Apple and [Amazon](#) spent \$49m on Washington lobbying last year, and there is a well-oiled revolving door of Silicon Valley executives to and from senior government positions.

Tech companies weren't always so cozy with Capitol Hill. During its 1990s heyday, Microsoft accumulated enormous wealth and market share. Despite being one of the world's largest companies, the PC software pioneer mostly kept away from Washington, spending just \$2m on lobbying in 1997.

However, the company's size and anticompetitive business practices attracted the scrutiny of regulators in Clinton's administration, whipped up by the lobbying of disgruntled competitors including Sun Microsystems, IBM and a company called Novell. The following year, the Department of Justice sued [Microsoft](#), accusing it of using a Windows operating system monopoly to push its Internet Explorer browser to the disadvantage of rivals.

After years of legal wrangling, Microsoft was forced to make it easier for competitors to integrate their software with windows. The lengthy lawsuit left Microsoft with deep battle scars, and [a more cautious, less aggressive approach](#) to business. Under these conditions, rivals like Apple and Google were able to thrive.

The landmark action taught Silicon Valley's tech titans a painful lesson: play the political game or Washington will make your life difficult.

That made a particularly profound impact on Eric Schmidt, who as CEO of Novell and former CEO of Sun Microsystems had a front-row seat to Microsoft's public neutering. He clung on to the cautionary tale when he was hired as CEO of Google in 2001. Under his leadership, Google vastly increased its investment in lobbying to make friends and influence policymakers in Capitol Hill.



The company spent just \$80,000 on lobbying in 2003. Today, its parent company, Alphabet, spends more on lobbying than any other corporation – \$9.5m in the first half of 2017 alone and \$15.4m the previous year. In 2013, the company signed a lease on a 55,000-square-foot office, roughly the same size as the White House, less than a mile away from the Capitol Building.

And it's not just Google. Facebook, Amazon, [Apple](#) and Microsoft – which was hamstrung by its lacklustre early efforts to court policymakers – have been pouring money into Washington.

“They are overwhelming Washington with money and lobbyists on both sides of the aisle,” said Robert McChesney, communications professor at the University of Illinois. “The Silicon Valley billionaires

and CEOs are libertarian, low-tax deregulation buddies of the Koch brothers when it comes to talking to Republicans, and dope-smoking, gay rights activist hipsters when they mix with the Democrats.”

The tech giants aren't spending this money just to get invited to the best parties in Washington – they're doing this to protect their oligopolies. Their main areas of concern include the threat of looming action over anti-competitive practices, anything that might lead to higher taxation, net neutrality and privacy.

Such concerns have led Schmidt, who was [heavily involved in the Obama campaign](#), to bend the knee to Donald Trump, despite saying in January that the president would do “evil things”. By June, he had changed his tune, crediting Trump's administration with fostering a [“huge explosion of new opportunities”](#).

“Politics is just a transaction to these people,” said Jonathan Taplin, author of the recently published *Move Fast Break Things: How Facebook, Google, and Amazon Cornered Culture and Undermined Democracy*.

## Soft power

Beyond the direct lobbying spend, which is publicly reported, Silicon Valley exerts influence on policymakers and citizens through opaque “soft power” techniques. These include funding thinktanks, research bodies and trade associations who lobby the government or influence civil society.

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“It's such a murky world,” said one Washington insider, who has worked for several Silicon Valley companies, including Microsoft and Facebook. “All of these thinktanks push out white papers about how regulations would kill the online marketplace.”

Other ways to curry favor and influence include multi-million dollar events such as the secretive three-day conference Google held in the south-west of Sicily in early August, where business leaders were flown in by private helicopter (or shuttled from their superyachts) to rub shoulders with Emma Watson, Sean Penn, Prince Harry and Sir Elton John. The event is designed to bring great minds together to discuss major global problems, policy and the future of the internet – in between wine tastings and spa treatments.

There's also a revolving door of Silicon Valley executives to and from senior government positions. Google alone employs 183 people who previously worked in the federal government under Barack Obama, while 58 Googlers have taken jobs in Washington, [according to the Campaign for Accountability](#),

## Warm and fuzzy brands

Somehow, despite their enormous power and influence, these companies have carefully crafted brands which centre on their warmth and cosiness – with mottos like “don’t be evil” (Google) and “we’re bringing the world closer together” (Facebook).



“There is a public relations effort to make people think of technology very differently than they do Wall Street,” said Jeff Hauser, executive director of the Revolving Door Project. “That’s how they maintain the illusion that they are cutting-edge nerds who are toiling for the good of humanity.”

The reality is these companies are run by some of the most hard-nosed business people in America.

“Ask the people at Snapchat about the Kumbaya stuff at Facebook,” said Taplin, referring to the relentless cloning and copycatting of the smaller competitor’s features to the point where it is now [financially struggling](#). “When they want to kill somebody, they kill them.”

The companies might have socially liberal views on gay rights, diversity and immigration, but many of their leaders and investors are [libertarians](#) and highly-skeptical of the influence of the state and government, said Taplin. “Their theory is that democracy is an impedance to capitalism so they need as little regulation as possible,” he said.

## Silicon Valley’s roots

During the 1990s, In the early days of the dotcom era, internet companies flourished in Silicon Valley by skirting the law, moving fast and breaking things. Such techno-libertarianism was founded on the belief that borderless cyberspace was separate from the physical realm and therefore not subject to the same rules. This sentiment was encapsulated by the Electronic Frontier Foundation’s 1996 “[A Declaration of the Independence of Cyberspace](#)”, which was scathing about any kind of government intervention:

“Governments of the Industrial World, you weary giants of flesh and steel, I come from Cyberspace, the new home of Mind. On behalf of the future, I ask you of the past to leave us alone. You are not welcome among us. You have no sovereignty where we gather,” wrote EFF founding member John Perry Barlow.

The technology companies’ growth was aided by Bill Clinton’s free-market ideology, which created a digital free-trade zone by loosening tax laws for internet companies.

With a hands-off government, [a new form of digital capitalism was born](#), enabling the rise of “winner takes all” businesses, which dominate entire continents within the digital economy: Google in search, Facebook in social networking, Amazon in online retail. As they made more money, they could invest in more proprietary infrastructure such as data centers, collect more customer data, hone their

algorithms and buy up or clone competitors. This in turn gave them more scale and competitive advantage to the point where nobody else could keep up.

The tech companies reject the idea that they are monopolies on the basis that customers are free to come and go as they please.

“Competition is just a click away,” said Michael Beckerman of the Internet Association, which represents Google, Amazon, Facebook and Twitter. “If you don’t like a particular service, switching is as easy as going to another website or app.”

Beckerman cited a Guardian article from 2007 titled [“Will MySpace ever lose its monopoly?”](#) as an example of how quickly the mighty can fall. However, [MySpace had about 100m users](#) at its peak. [Facebook is 20 times the size](#).

“That’s pure, unmitigated bullshit,” said McChesney. “I don’t think any credible economist who isn’t an Ayn Rand lunatic would accept that these are not monopolies.”

In recognition of the tech companies’ market-skewing capabilities, European regulators – historically less likely to be swayed by corporate lobbyists – have been clamping down on them through a series of legal actions, including investigating the tax arrangements of Apple and Amazon, [leaving Apple with a €13bn \(\\$14.5bn\) tax bill](#), and [fining Facebook for breaking data protection rules](#) in the way it handled customer data following its acquisition of WhatsApp.

In a landmark antitrust case that culminated in June, Google was [slapped with a record \\$2.7bn fine](#) from Europe for illegally favoring its own services in its search results.

In the US, an FTC investigation reached the same conclusions as Europe had, writing in [a 160-page report](#) that Google’s conduct resulted in “real harm to consumers and innovation in the online search and advertising markets”. Investigators urged politicians to launch an antitrust lawsuit, but politicians overrode their recommendations, allowing Google to make some voluntary updates to its search results while avoiding serious sanctions. How? It’s not clear, but it’s hard to ignore that the company had spent [\\$25m in lobbying Washington](#).

## **Regulation v innovation**

Plenty of people disagree with Taplin, viewing Europe’s clampdown on Silicon Valley as an example of [anti-American bias](#) and overbearing bureaucracy that has stifled Europe’s ability to innovate and produce its own tech titans.

Beckerman, for example, credits the astronomical success of Silicon Valley’s firms as being down to America’s light-touch regulation.

“There’s a reason that nearly all the successful internet companies we see today were founded in and grew in the US.”

The narrative is so ingrained that even Bill Gates said of PCs in 1998: “The amazing thing is that all this happened without any government involvement.”



However, Silicon Valley's tech leaders have a short memory: their companies were built on a foundation of government intervention and public monies. Google and the rest would never have happened without the intervention of the state.

From the 1960s, the Advanced Research Projects Agency (Arpa, now the Defense Advanced Research Projects Agency, or Darpa) funnelled funds into long-term research and development of breakthrough technologies relied on by the tech giants. This included funding the Stanford Research Institute as a centre of innovation and economic development in the region, credited with inventions including the first all-magnetic digital computer, the mouse and an early version of the internet.

Each of the core technologies in the iPhone – including GPS, cellular communications, the internet, microchips, Siri and touchscreens – came from research efforts and funding support by the US government and military. The development of Google's search engine algorithm was [supported by the National Science Foundation](#).

“The myth of the internet is always that it was invented by plucky entrepreneurs, but for decades it was entirely the creation of the federal government,” said McChesney.

The government also played a key role in breaking up monopolies in the tech industry with three seminal antitrust cases.

When IBM was dominating mainframe computing in the 1970s, for example, the government sued to try to separate the hardware and software parts of its business. IBM eventually agreed to allow other companies to create software that ran on IBM computers. This gave way to Microsoft, which eventually faced its own antitrust case, which created room for Google, which brings us back to Eric Schmidt.

“He knows how to play the game backwards. He knows that the one thing that can stop the music is a big antitrust case,” said a lobbyist for a small tech company, who did not want to be named.

## Tipping point

Although attempts by Washington to rein in the current generation of tech giants have been mostly toothless, that may soon change. Democrats have made antitrust a [core part of their agenda](#) over the next four years. In a [speech in May](#), Senator Elizabeth Warren said: “It is time to do what Teddy Roosevelt did: pick up the antitrust stick again.”

The words [echoed a speech Warren had delivered the previous June](#) at an event organized by New America's Barry Lynn, in which Google, Amazon and Facebook were described as platforms that could become tools to “snuff out competition”.

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Even Republicans have [mooted the idea of regulating Facebook and Google](#) like utilities, given that they have become necessities for daily life.

However, as Washington's appetite for action against Silicon Valley grows, some question what such action could achieve. After all, the huge fine in Europe hasn't changed Google's dominant position.

"Until you have a somewhat unilateral approach to regulating the internet, this is window dressing," said the Washington insider. "Does it slow down Google? Yeah. Does it give lawyers lots of money? Yeah. But it doesn't change the marketplace."

Nevertheless, the tide is also turning in the court of public opinion, with a heightened public awareness of problems like the spread of fake news, the exploitation of personal data, and the link between automation, job losses and tax avoidance.

"The immense amount of economic and political power these companies have will be increasingly difficult to sell at a time of economic stagnation and increased inequality," said McChesney, who said that the current state of the economy was intrinsically linked to these businesses. "As we see AI and robots replace jobs, enthusiasm for the new world will lessen."

"People with pitchforks will eventually come after them," added Hauser. "Even if they are using their smartphone to find out where the protest is."