The fantasy of Silicon Valley

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Silicon Valley is often held up as the pinnacle of American achievement and the core driver of this country's future economic success.

Silicon Valley "is probably the only big thing that has gone right in the American economy since the Great Recession," writes my colleague Jim Pethokoukis. "It is creating jobs and wealth, along with providing innovative products that consumers and business value."

There is obviously truth to this. But reality is more complicated than Silicon Valley's defenders often suggest. Yes, Silicon Valley's gadgets and services are innovative. Tech companies' market capitalizations are massive. But the benefits to the broader economy are often massively oversold.

One of the American economy's biggest ongoing mysteries is the slowdown in productivity growth — the rate at which the economy can produce more value with less labor and resources. Rising productivity increases living standards. And in the mid-century, productivity grew pretty fast. Then it collapsed around 1980 and has stayed low since, other than a brief burst of speed in the late 1990s and early 2000s, largely thanks to Silicon Valley. Following the Great Recession, productivity growth fell to all-new lows.

This has caused a lot of consternation among Silicon Valley's fans — and the industry's own entrepreneurs. If the tech sector is creating such amazing new advances and innovations, why aren't those advances showing up in productivity growth? A lot of theories have been put forward: We're measuring the data wrong, the shift from manufacturing to services inevitably slows down economies, technological innovation takes time to be integrated into mainstream American workplaces, or we went through a uniquely valuable and never-to-be-repeated burst of technological innovations in mid-century.

The first theory has been pretty convincingly disproven. The others could well contain valuable truths. But the simplest explanation is that we had a lot of policies in the mid-century that *forced* companies to be more innovative, and then those went away in the years before and after 1980. These policies created fierce competition, driving down the prices that companies could charge consumers. And it prevented them from juicing profits by depressing wages. The only way to maintain a profit was to continuously innovate new ways to do more with less. We used to have strong unions and extremely high marginal tax rates on the wealthy. We used to have a suite of fiscal and monetary policies that kept unemployment low and labor markets tight. We used to have aggressive antitrust policy that busted up companies before they gained even a fraction of the market power that Google and Facebook and the like now enjoy.

Since then, however, the power dynamics have reversed, giving businesses far more opportunity to conglomerate, and far more power to extract money from workers and customers through minimal effort.

Silicon Valley arguably stands close to the center of this shift. Like railroads and highways and water lines and telecommunication networks before them, Facebook and Google have pioneered arenas of human activity that just aren't naturally amenable to multiple players and competition. They've also enthusiastically jumped another big transition in the economy, where companies rely on contractors to perform everything that isn't a core function. That in turn has driven down wages for workers who perform everything other than those core functions.

This doesn't necessarily mean there's no innovative value in all the apps and tech and tools Silicon Valley has invented. But it does mean those creations don't appear to be spreading out to make the economy more productive. And if you pay workers less for the same work, that doesn't necessarily make you more productive: The work's contribution to the economy hasn't changed, it's just your profit margin that's gone up.

In this sense, Silicon Valley is the new information-age version of a very old problem in the economy.

Yes, the giants of Silicon Valley have created products and services where none existed before, and have revolutionized the way tens of millions of Americans live their lives. But their economic success has not led to widespread productivity growth — it has instead led simply to cool gadgets, large profits, and monopolist consolidation.

Something similar applies to Silicon Valley's vaunted institutional culture. Yes, Netflix and Facebook and Apple still want to see themselves as upstart disruptors (even though they've become the pre-eminent powers in the economy). But this attitude shouldn't be lionized in and of itself. Every business starts out as a small outsider in its industry, facing major competitors. Moralizing that situation — seeing yourself as fundamentally *better* because you're the upstart and the underdog — is a common human temptation. As is holding on to the self-justifying moral story long after circumstances have changed.

Every business, big or small, is fundamentally "an algorithm for making profit," as Hamilton Nolan put it. And those incentives apply to management, private investors, and public shareholders alike. Whether they make that profit in the "right" way — with a do-gooder maverick's scrappy spirit — or the "wrong" way — by disregarding Google's longheld "Don't be evil" mantra — may trouble individuals in the company, but it makes no difference to the institution as a whole. That's why Silicon Valley has reacted to its good monopolistic fortune the same way the railroad barons of old did. The "pirate" mentality to loot and pillage is universal and inherent among participants in capitalism.

Of course, the old establishment of "stodgy" corporations are no better. It's not a good thing that most companies have the power to unilaterally fire an employee for causing a heated political argument. And it's not a good thing that Wall Street enjoys such outsized control across many companies in all sectors. But it doesn't make Silicon Valley entrepreneurs a bunch of saints that, being defiant pirate-types, they've (sometimes) resisted these trends.

So please, let's all stop lionizing Silicon Valley. Sure, their tech can be fresh and exciting. But as economic actors, Silicon Valley companies are no different from more traditional companies in longstanding economic sectors. The pathologies of both groups are simply the pathologies that have bedeviled all of American capitalism for decades.