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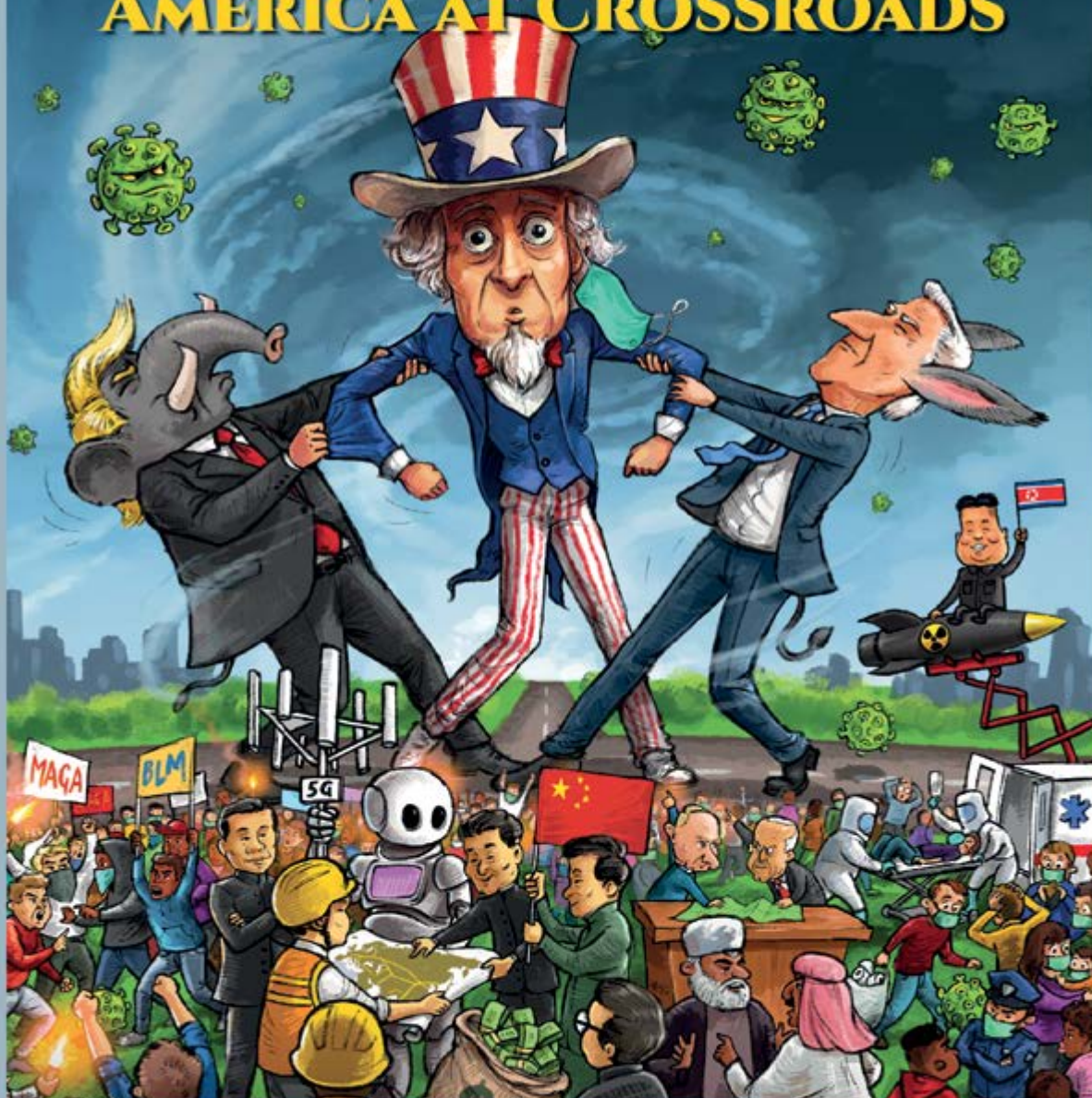
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HORIZONS

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AMERICA AT CROSSROADS



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THE SWINGING POLITICS OF AMERICAN CAPITALISM

Andy Kessler

POP quiz: who said that “in the grip of the world-wide recession, we must all stick to anti-inflationary, high-productivity policies that adapt new technology, retrain workers, and increase efficiency?” Donald Trump? Joe Biden? Angela Merkel? Emmanuel Macron? Nope, the answer is Ronald Reagan. Yup, that’s what Reagan said back in May 1983, speaking on the eve of the Williamsburg Economic Summit of Industrialized Nations.

Granted, Reagan didn’t have the COVID-19 pandemic to worry about back then: when he spoke of the “evil empire” in March of the same year he wasn’t referring to a deadly virus that was crippling the world’s economy, but the communist block led by the Soviet Union.

Still, might there be relevant similarities between 1983 and 2020? To find out, as few months ago I called up Larry

Kudlow, director of the White House National Economic Council. I asked him about the comparison and here’s what he said: then, as now, to get out of our economic doldrums, the “same principles apply. You want to reduce tax rates, generate incentives, reignite the animal spirits, and deregulate to remove business obstacles.”

Without Reagan’s principles, the capital investment and innovation since 1983 might still have happened, just more slowly. We’d be getting that original iPhone right about now, delaying improvements in everyone’s living standards. Wait, no Uber?

Since the onset of the coronavirus pandemic, nearly 60 million Americans have filed jobless claims. We still need jobs, badly. And aside from jobs, Kudlow insisted, “you must reignite growth—you must. Your car battery is dead because you haven’t used it

Andy Kessler writes the weekly Inside View column for the Wall Street Journal opinion page, focusing on technology and markets. He is a former chip designer, venture capitalist, hedge fund manager, and author. You may follow him on Twitter @andykessler.



Ronald Reagan recording a radio address on the eve of the Williamsburg Economic Summit of Industrialized Nations held in May 1983

in three months, so you have to pull out the jumper cables and reignite the battery, which is what we are trying to do with the economy.”

In 1983, the U.S. economy had just gone through the ravages of Paul Volcker’s inflation-slaying recessions. Now it’s zero inflation and lockdowns. As in 1983, so in 2020, Kudlow said: “the message is the same: growth, taxes, deregulation, trade.” He’s right, but has it resonated? Somewhat on this side of the “pond,” as it were, but certainly not in Europe. “Macron cut the corporate tax in France, unfortunately phased in. Germany has a pretty

deregulated labor market. Britain has relatively low tax and capital-gains rates. But there’s no Reagan figure, no Reagan model for the EU. There never was.” Will there ever be?

Who gets it? “BoJo,” he says, the UK’s Boris Johnson. “I have said to him, ‘I’m all for Brexit. It’s Magna Carta 2.0. You can liberate Britain, but you have to make Britain a great investment haven, like Singapore or Hong Kong before the Chinese took over, and you’ve got to cut your tax rates as much as possible to attract capital.’” It hasn’t happened yet, I point out. “So buy America,” Kudlow quickly adds.

But America can't do it by itself, I said. He disagreed: "I think we can do it ourselves. I think we always have done it ourselves. The U.S. drives the world economy; it doesn't drive us. In the Reagan years it was the same. Everyone said the rest of the world would drag us down. Not true. That's why we run trade deficits, which the president doesn't like, but it just means we're growing faster than they're growing. We're importing capital." I appreciate the eat-my-dust mentality, but we're all better off if the rest of the world participates.

"The best scenario," Kudlow explains, "would be that the U.S. [...] maintains the Reagan playbook: lower tax rates, lower regulation, steady currencies, supply-side incentives for future growth," and so on, he concluded.

Kudlow sure seems to have hit the nail on the head. After all, the stock market is way up off its coronavirus bottom and the S&P is up 7 percent on the year, confounding investors and CNBC anchors alike. It's obvious the market is assuming a robust recovery driven by synchronized global growth, but that doesn't happen magically. I think the world needs the Reagan playbook again, instead of crony industrial policy or boondoggle

infrastructure spending, else those market gains evaporate.

And yet, Bill Clinton's old slogan—"it's the economy, stupid"—doesn't seem to cut it anymore. Certainly not in America, which is gearing up for one of the most important elections in living memory.

This election, which is going to happen in just a few weeks, is taking place against a political backdrop that pretty much everyone seems to think has Uncle Sam

at the crossroads.

RESONANT FREQUENCY OF DESTRUCTION

It sure feels like politics in America are swinging out of control. Have we reached the resonant frequency of destruction? Oh, how we've swung—from the lefty Third Way of Clinton-Gore, to the righty foreign adventures of Bush-Cheney, to the progressive "Life of Julia" nanny state of Obama-Biden, to today's confused tariff and border-wall follies of Trump-Pence. No wonder we throw the bums out every four or eight years.

Physics students learn that everything has a resonant frequency, which can cause an object to vibrate with increased amplitude and eventually out

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of control. This is how opera singers can shatter glass.

One real-life example is "Galloping Gertie." In November 1940, a day with 55 kph winds, Washington state's Tacoma Narrows Bridge, then the world's third-longest suspension bridge (after the Golden Gate and George Washington) and just four months after completion, started to twist and swing out of control. Movie footage shows what seems like a wave of energy pulsing through the bridge until, after an hour, it collapsed. Apparently, it had hit its resonant frequency.

Has U.S. politics, always bouncing to the left and to the right, reached its own resonant frequency? Impeachment hearings, looting, fighting in the streets, burning cities, and the absurd response to the coronavirus sure feel out of control.

Our political system was brilliantly built to last. To the three branches of government, we added freedom of speech and the press as a fourth wall of checks and balances. The two-party system forces compromise and competition for the middle. The Senate and Electoral College counterbalance urban and rural needs. There's no question the system is flexible enough that, outside a few extreme modes—civil war, civil rights—it hasn't come close to its resonant frequency of collapse. Sure,

we get a racist George Wallace on one extreme and socialist Bernie Sanders on the other, but voters are smart enough to understand their danger and not get fooled again. American democracy is fragile but sturdy.

But that sturdiness has begun to twist and may well be swinging out of control.

Consider what happened around Memorial Day. The burning of police stations and riots in the wake of the horrific murder of George Floyd tested the system's limits. Nationwide unrest and the televised attack on the flimsy fence in front of the White House felt like a wave pounding the country, about to shatter it like glass.

Leadership failed on all sides. President Trump could have calmed nerves by giving a "healing" speech. He didn't. During a congressional debate over police tactics in June 2020, Speaker Nancy Pelosi told the *Washington Post's* Robert Costa, "I don't think the street will accept no action on this." The "street"? Is this 1789 Paris? The *Washington Post* reporter didn't even push back. Was the speaker really saying protesters threatening violence in the streets get a direct say in legislation? Sure sounded like it. This is ideology swinging too far.

For months, lawless enclaves in Seattle and outside City Hall in New York

kept pumping the wave, and continuing violence in Portland, Oregon, and elsewhere literally keeps the fires burning. Was Gertie galloping again? Is she still?

Okay, physics nerds are probably already smirking. It turns out that at the Tacoma Bridge one perspective of the filmed collapse often gets played back faster, at 24 frames per second vs. the camera's original 16. So what certainly looks like resonant frequency gone bad actually wasn't—it was only high wind and a poorly designed, cheaply built bridge. Physics teachers led generations of students astray.

But there was no excuse for the collapse. John Roebling and his son Washington figured out the solution in the 1860s and 1870s with their design and construction of the Brooklyn Bridge (which I happen to own, ahem). Counterintuitively, the trick to suspension bridges is to make the weight of the roadway as heavy as possible. Rather than a threat to the integrity of the bridge, more weight makes it sturdier in high winds. Yeats was wrong; the center can hold.

So too with democracy. It needs weight to add stability. The United

States used to have it: our Founders, solid education in Western civilization, a steady currency, a balanced press. Our current bridge is light without them.

We live in a time of massive change and upheaval, with retailers and malls closing, manufacturing outsourced or automated, and media outstreamed and creamed. And then COVID-19 piled it on by shuttering hotels, restaurants, theaters, concerts, and flights. Many lost jobs won't come back.

Yet we can withstand economic turbulence if our thinking remains

stable. Today's fashionable disaster-scenario complaints about climate change, victimhood, and inequality are so often overwrought, and have the effect of throwing a Molotov cocktail at America's problems rather than building constructive solutions. Maybe those good old-fashioned social anchors, like strong families and religion, values and principles, were there for a reason.

HAMMER TIME

This is the political context within which we can reflect on this past summer's grilling of CEOs before the House Judiciary Antitrust Subcommittee. Amazon's Jeff Bezos, Apple's Tim Cook, Facebook's Mark Zuckerberg and

Google's Sundar Pichai were the star attractions: the public faces of tech success stories versus lawyers and career politicians who probably have an aide print out their emails. Broadway is closed because of the pandemic, so this was must-see theater.

In such situations, the CEOs' task is to disarm, dissuade, and dissipate. No need to upstage congressmen, who are playing a weak hand. Antitrust is driven by consumer harm. Sure, there are screw-ups: Amazon favors its own products, Apple its own apps, Google its own YouTube videos; Facebook collects too much personal data. Yet none of these habits necessarily harm consumers and all could be easily fixed without decadeslong antitrust inquisitions. Lawyers are taught: "If you have facts on your side, hammer the facts. If you don't, hammer the table." And so we got loud table banging.

My advice would have been for Zuckerberg to play up consumer benefit: "Chairman [David] Cicilline, 85.7 percent of registered voters in your Rhode Island district use Facebook for over an hour every day." He should have gotten him thinking:

would they vote for Facebook over me? Instead, questions might have flown on about an advertiser boycott over "hate speech and divisive content"—remember: Disney recently joined Starbucks, Ford, Unilever, and Verizon. But branded advertising doesn't really work on Facebook, hence brands are saving

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money by boycotting. Even months later Zuck must still be thinking: we don't need these Mickey Mouse outfits.

Facebook is a small-business platform, and a critical one. Millions of companies rely on it to sell products locally and often nationally. Thus Zuckerberg could have asked the esteemed members of

the U.S. House of Representatives: "are you against small businesses? Is this an indictment of our entire American society? Well, you can do whatever you want to us, but I for one am not going to stand here and listen to you bad mouth the United States of America. Gentlemen!" That last part was Otter in "Animal House," but you get the point.

On the other hand, Amazon could have demanded praise—like when you ask the annoying Parisian waiter, "do you speak German?" and as he sputters "non" you say, "you're welcome."

After all, Bezos' job was simple: "Congressman, have you watched House of Cards?" (They all have.) "You're welcome. Netflix uses Amazon servers. So does Zoom. Did you get your next-day delivery of that 6-quart Instant Pot? You're welcome." Lock-downs would have been undoable without Amazon Prime.

Google and Apple could have talked about similar mobile lifelines to consumers, anonymized data tracking movement trends, and their work on contact tracing through smartphones. Google has heat maps for searches for "fever."

Again, the advice would have been to stick to facts—an obvious lesson, yet one that Jack Dorsey forget to apply a few years ago. During 2018 testimony, the Twitter CEO swore up and down that the site didn't "shadow ban," or stop certain users (mainly on the political right, as it happens) from trending or showing up in searches. Twitter's algorithms, he claimed, were merely tracking "behavioral signals."

Then—whoops—hackers recently accessed the accounts of Joe Biden, Elon Musk, Barack Obama, and others, and released screenshots showing a "secret admin panel." Twitter hasn't denied

the images were real and quickly took them down. The panel had buttons for "Trends Blacklist" and "Search Blacklist"—the definition of shadow banning. It made Dorsey's denials sound fact-challenged, at best. Maybe that's why he said he plans to work from Africa. So his fellow CEOs had Dorsey to thank for the commonsensical advice to stick with facts.

When asked about hate speech, just challenge Congress to define it and say you'd be happy to get rid of it.

As we look forward to the next series of hearings—and let's not kid ourselves, there will be a "next"

set of hearings—here's some advice for the tech CEOs fortunate enough to be called before Congress as they prepare for their grilling: Disarm. Check. Dissuade. Check. But how do you dissipate? Same easy advice I would have given to the tech CEOs in July: when asked about hate speech, just challenge Congress to define it and say you'd be happy to get rid of it. Maybe Congress will rise to the challenge, but the Supreme Court is likely—some would say inevitably—to rule that whatever they come up with violates the First Amendment.

Bottom line: tech companies are being beaten up for their size and success. That's just envy. Eventually competition—especially from each other—and the next wave of cool technology will topple them.

And it got me to remember how I thought, as I watched the July hearings, that had I listened very closely, I would have ended up hearing rumblings of the antitrust "theory of competitive harm." That theory abandons any hard proof of consumer harm and holds, for example, that Facebook can be broken up merely because its purchase of Instagram prevented a competitor from emerging. Even squishier is the "New Brandeis School" and, get this, "Hipster Antitrust," which say the purpose of antitrust is to help solve inequality and other social ills. That sure sounds like hammering the table, not facts.

UPGRADING HUMANITY

Since we're on the subject of hammering the table, I was reminded of the claim made in February by former Googler and podcaster Tristan (rhymes with "twist-on") Harris, director of the weirdly named Center for Humane Technology, that Big Tech was "downgrading humanity." Harris and many of his fellow tech skeptics describe humans as little different from pets, believing everyone who uses Facebook or an iPhone is a manipulatable idiot. He couldn't be more wrong.

Harris preaches about an "attention crisis." Okay, you have my attention. Testifying before the Senate in 2019, he said tech companies are in a "race to the bottom of the brain stem." He also claimed humans in the 21st century

still have "Paleolithic emotions." Basically, "we're chimpanzees with nukes." Wait, did he just call you a chimp?

Elsewhere he has claimed that social networks are delivering "outrage that works on the piano key of your nervous system." The man can certainly turn a phrase. He explains that "technology is getting better and better at hacking human weaknesses." And you'd better put down that glass, because "we're drinking from the Flint water supply of information."

Harris's most fevered claim is that social media has taken over politics. "We're not really in control of world history anymore," he says. "The technology companies that are shaping our information sense-making environment are in control of every major electoral outcome, and whether people believe conspiracy theories." And there it is. It isn't Hillary Clinton's fault she lost in 2016. It was maybe the Russians and certainly Big Bad Tech. Harris insists "one side is currently winning by there not being regulation." You can probably guess which one he means.

Harris believes "we've been manipulated into this multiyear-long hypnotic trance," and that "we need someone to snap their fingers and wake all of us up out of this." A savior, a messiah. Might that someone be Harris?

Alarmism can be a lucrative business.

In 2018 Harris received funding from eBay founder Pierre Omidyar. He also has a deal with the brother of climate scold Tom Steyer to spend \$7 million and use \$50 million of donated media from Comcast and DirecTV, which have their own bone to pick with Big Tech. Maybe that's why Harris insists that "human downgrading is the climate change of culture." Uh boy.

Earlier in 2020, Harris asked Congress to launch a massive public-awareness campaign—"an inoculation campaign"—similar to those run in the 1940s by the Committee for National Morale and the Institute for Propaganda Analysis. I'm not kidding.

Every generation goes through tremors when something new arrives. Elvis's hips. Pinball. TV. Rock 'n' roll. Videogames. For the most part, everyone turned out okay. Sure, we've all gone down the rabbit hole of hyperlinks and insect-fighting videos. So what? We're bored.

Harris is right to say we "need to upgrade human capacity," but the question is how. Social media, which he would kneecap through regulations like banning microtargeted ads, is actually doing that upgrading: training the next generation of knowledge

workers, teaching them how to multitask, think in several dimensions, click and swipe their way to information, and find knowledge and solutions in a noisy world. Free twenty-first-century training.

Most important, users of today's media platforms are getting used to identifying fake news. Sorry, but people aren't stupid. Our internal defenses against deceit and bias go up when inundated and irradiated with nonsense.

News flash: There are charlatans and hucksters in the real world—in "meat space"—too. President Trump used a sharpie to fudge hurricane paths. Susan Rice blamed a video for the murders in Benghazi, Libya. The *New York Times* recently said "mourners" stormed the U.S. Embassy in Iraq last year, much as "students" took over the U.S. Embassy in Iran in 1978. There are free-trade agreements that aren't free. And if you like your doctor...

Yes, those under the age of 16 need to limit their use of technology as their brains develop, but not cold turkey. Isn't that the job of parents rather than government or nonprofits? Remember when movies and TV were damaging our minds? Me neither. If anything, traditional media drives conformity, whereas social networks at least allow freedom of expression. Somehow that's now inhumane?

The cries of Harris and other aggravated social-media critics sound like demands to turn back the clock to simpler times. But there's no putting the toothpaste back in the tube. Only fools will try. For all its flaws, social networks and artificial intelligence keep delivering value and utility to users, training people for a world that moves in nanoseconds. Better to teach the next generation how to keep up. *That's humane.*

IBM YESTERDAY, APPLE TOMORROW?

Speaking of keeping Sup, months after Apple announced that it plans to replace Intel processors with its own, I still have flashbacks to 1993. Morgan Stanley's technology investment banker Frank Quattrone called me in New York: "John Sculley"—CEO of Apple—"wants to meet with you Friday," he said. It was Thursday morning. "About what?" I asked. "I don't know, do your virtual thing." I booked the 9pm flight to San Francisco and the redeye home.

Meanwhile, I was on the phone all day with the banking team to help create "the book." No investment banker worth his salt shows up without a spiral-bound pitch book put together by lowly associates pulling all-nighters, with strategy ideas and suggested transactions (investment bankers' payday!) to solve the company's future problems.

Back then I was intrigued by companies organized in horizontal layers attacking vertical behemoths. IBM was a vertical giant and did everything from soup to nuts: chips, hardware, operating system, software, applications, services. They had 50 percent of the computer industry's revenue but 90 percent of its profits. They used FUD—fear, uncertainty, and doubt—to freeze out competitors.

But IBM was vulnerable. A loose horizontal confederation threatened its power: Intel processors, Microsoft's operating system, Western Digital hard drives, and Compaq hardware, along with Lotus, Adobe, and Microsoft applications, added up to a "Virtual IBM" and eventually toppled the giant. The same thing happened in the late 1990s with AT&T. A horizontal internet of network equipment, browsers, and websites created a Virtual AT&T and toppled the vertically integrated telecom.

The team met with Sculley, along with his chief financial officer and general counsel, and I got to make the pitch. I recently dug up my dusty copy of that pitch book to remember what I said. Apple had "superior software and ergonomic hardware design" but needed to "focus on mobility as a natural offspring of smaller

If anything, traditional media drives conformity, whereas social networks at least allow freedom of expression. Somehow that's now inhumane?

form-factor computing.” Not bad, in hindsight, though a decade early.

But Apple’s stock, at 14 times earnings, was valued like commodity PC maker Compaq instead of software and platform company Microsoft, with its 26-times multiple.

So the strategy was to create—you guessed it—a “Virtual Microsoft.” I advised the execs to “neutralize Microsoft’s strengths” but then attack new markets (“mobile, digital media, TV, education and entertainment,” I wrote) by joining with—or, better yet, acquiring—companies in the horizontal layers. That included Cisco, Novell, Oracle, WordPerfect, Borland, Adobe, Autodesk, Silicon Graphics, and AOL. Remember, most of these were pretty small companies back then.

Apple was worth \$7 billion back then, and now it’s \$1.5 trillion, with close to a quarter trillion in sales and maybe \$70 billion in operating profits. Not quite half of industry revenues or 90 percent of profits, but powerful nonetheless. Apple’s FUD is fanboys’ universal desires.

Well, what goes around comes around. At the most recent Worldwide Developer Conference, Apple

announced Apple Silicon, its own line of processors. With that, Apple finally closed the loop. It already makes its own graphics chips, operating system, applications, app store (with a 15 to 30 percent cut), cloud storage, Siri voice interface, maps, even mediocre TV shows—soup to nuts. Its phones, tablets, and Macs are world-class compared with, say, Google Maps, Spotify music streaming, TikTok video clips, or Dropbox cloud storage. Apple has become IBM, it’s become AT&T—a vertical giant waiting for a future David to come along with a horizontal slingshot.

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If I were an investment banker today (Lord help me) I’d be running around pitching a Virtual Apple. Neutralize its strengths and then attack new markets. Apple is showing that it’s vulnerable by selling an iPhone SE for \$399, not \$999. Unit sales of iPhones and iPad peaked years ago. As the company runs out of new customers, growth is coming from adjacent markets like watches and earbuds, and from online services. And now the U.S. Justice Department is investigating its app store for abuse.

Will a Virtual Apple put together a collection of cloud services that capture the imagination of consumers? Or a robust social-media market—outside Facebook and Twitter

there are scores, from Fortnite to Nextdoor. Will the next-gen consumer platform be speech, augmented reality, home automation? I’d bet on a cloud-based intelligent service that simply knows what we want and does it.

Remember, IBM didn’t fail overnight—it took decades. But its growth rolled over and the stock market eventually figured that out and cut off access to cheap capital. Apple is a machine. Its devices are sleek. But new phone features—like “Wind Down Mode” to help you get to sleep on time, and a watch that scolds you if you don’t wash your hands long enough—leave me underwhelmed. A Virtual Apple might beat it at its own game.

HYPOCRATIC LIGHT

As the crazy year known as 2020 comes to a close, we can be sure of, well, more craziness ahead. Technology doesn’t slow down even if the world is locked down and everyone works from home. If anything, new ideas pop into quarantined minds to solve remote work, school-less education, and online healthcare.

Technology has become the engine of global growth, but that doesn’t mean it can’t be derailed, no matter who takes over leadership around the world. Political stability can be lacking, meaning strange new ideas for social engineering end up dominating laws and economic discussions. The guiding light of profits is under attack as greedy. Technology providers from Facebook to Twitter to Google are harassed for being too big, only to have the solutions to that “problem” provided by big bad government. You can cut the hypocrisy with a knife.

Fortunately in a world of free markets, which actually still exist just enough to squeeze out progress, competition keeps corporations honest. The next surprise—the next world changing invention—can emerge from anywhere. New ideas are the lifeblood of growth and increasing living standards, and will take down our current corporate giants just as they crushed their predecessors. Government’s role is not to meddle, but to set the rules and then get out of the way. And then the fun begins. ●