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**High-Tech Learns to Play the Washington Game,
or the Political Education of Bill Gates and Other Nerds**

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David M. Hart

Kennedy School of Government

Harvard University

david_hart@harvard.edu

<H1> Parallel Processing: Two Ways of Seeing Interest Group Politics

On March 3, 1998, William H. Gates, III, the founder and CEO of Microsoft, testified for the first time before a Congressional committee. The appearance of Gates, better known to friends and foes alike as Bill, occasioned front page coverage in the national press. *Congressional Quarterly Weekly Report* noted that Senators Slade Gorton (R-WA) and Patty Murray (D-WA) “struggled to keep up with the Microsoft chief as camera crews and a crowd of onlookers followed him out of the Hart Building.”¹ Inside the hearing room, Gates sparred with Senate Judiciary Chairman Orrin Hatch (R-UT) about whether his firm had employed tactics that violated the venerable Sherman Antitrust Act. Two of Gates’s fiercest rivals and most ardent critics, Scott McNealy, CEO of Sun Microsystems, and James Barksdale, CEO of Netscape Communications, were seated next to him at the witness table and joined in Hatch’s attack. While

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undoubtedly good theater, the hearing (like many on Capitol Hill) yielded no new legislation. Nonetheless, it served an important political purpose. It provided Joel Klein, the assistant attorney general in charge of the Justice Department's Antitrust Division, with (as he put it) "a real sense of comfort" in his dogged pursuit of Microsoft, which culminated in the filing of a major lawsuit against the firm some two months later.²

This brief episode, like many political events, can be understood in two apparently contradictory ways. From one vantage point, the one that dominated the press coverage, Gates's testimony was the result of personal ambitions and rivalries (verging on a crusade on the part of Microsoft's enemies in the eyes of some), tactical maneuvering, and matters of chance. Hatch just happened to represent a state in which two of Microsoft's lesser-known rivals, Novell and Word Perfect, were headquartered. In addition, the Senator from Utah was soon to declare his abortive candidacy for the 2000 Republican presidential nomination and sought headlines to advance that quest. Gates, for his part, was a computer nerd whose apparent lack of political savvy was the flip side of his technical virtuosity and single-minded dedication to his firm. The world's richest man had heretofore stood aloof from the messy business of politics, but had been forced by well-connected competitors to get his hands dirty.

From another vantage point, the one favored by most social scientists, Gates's testimony epitomized the inevitable encounter between the high-technology industry and the Federal government. Gates personified Microsoft, one of the best-known and fastest-growing companies in an industry that was transforming American society. High-tech products, especially Microsoft's market-leading Windows operating system and Office productivity suite for personal computers (PCs), touched on so many aspects of everyday

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life that they were bound to trigger concerns among people and organizations for whom a Microsoft-led information revolution was not an unmitigated blessing. The disgruntled, in turn, were bound to petition their government, as the Constitution permits, to take action against the perceived malefactors. Some elements of the government (in this case the Senate Judiciary Committee and the Antitrust Division) were bound to be responsive to some degree to these petitions, setting in motion the creation of a new policy domain in which these societal conflicts could be carried forward until information technology, like the railroads of centuries past, has run its historic course.

The apparent contradiction between the two perspectives lies in the way they relate any particular episode to larger processes of policy-making and political development. An extreme version of the journalistic perspective would claim that if things hadn't happened just the way they did, everything would be different. Given, say, a chairman of the Senate Judiciary Committee from a different state, the Microsoft suit would never have been filed, and high-tech's most powerful firm would not have evolved into the Washington powerhouse that it has become. An equally extreme social science interpretation would lead to the conclusion that this particular event didn't matter at all. Bill Gates and Joel Klein would have gotten the signals that they got from the hearing in some other way. Or, if they did not, other people in the high-tech industry and in the government would have, leading to the same outcome.

As the discerning reader surely suspects, less extreme, more measured versions of the two perspectives can be reconciled. The impersonal forces that captivate social scientists limit the range of possible outcomes. It *was* inevitable that the high-tech industry and its leading firm would become important players in policy-making and

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politics at some point. Even if Gates had never testified before Hatch, some important things would *not* have been any different. But the particularities of the process, which provide aspiring reporters with their scoops, nonetheless stamp outcomes indelibly. Gates's combative attitude in the face of the threat of government action set in motion processes that were not easily stopped and catalyzed alignments that were not easily undone. Some important things *are* different because of the events of March 3, 1998. These differences, in turn, will shape the still-unfolding experience of the high-tech industry on the Washington scene.

This chapter has this parallel processing of perspectives at its core. It tells the story of the high-tech industry's entry into interest group politics over the past three decades through a series of historical episodes. Each episode illustrates the workings of broad social processes that were bound in some way or other to shape that evolution. Each episode also illustrates how unpredictable and seemingly trivial matters of personality and timing had significant long-term consequences.

<H1> Red and White and (Big) Blue All Over: How IBM Came To Washington

The computer was invented just after World War II. It was seen at that time as useful only for esoteric tasks, like designing nuclear weapons. The International Business Machines Corporation (IBM) was largely responsible for popularizing its commercial applications over the next thirty years, much to the surprise of IBM's founder, Thomas Watson, Sr., who famously said in 1943 that five computers would be adequate to meet world demand. The firm's dominance became so complete that insiders described the nascent high-tech industry as "IBM and the Seven Dwarves." By the end of

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the 1960s, IBM's success had propelled it into the ranks of the world's largest and most profitable corporations. As such, it was a natural target for the left-leaning movements that were so important in American politics during that turbulent decade. Fortunately for IBM, the criticisms made by these movements proved to be less intense and ultimately less damaging than its own executives anticipated. Nonetheless, the threat motivated the firm to get involved in Washington in new ways. IBM (and the high-tech industry as a whole) reaped benefits from this involvement without suffering the burdens imposed on other industries that faced the full wrath of social critics.

Social science theory suggests that both opportunities and threats may motivate corporations to begin to lobby policy-makers, make campaign contributions, and otherwise behave like interest groups. In practice, threat seems to be the more powerful motive. Threat seizes the attention of executives more readily than opportunity, and they find it more acceptable, ideologically and socially, to take political action to fend off regulation than to claim their share of the pork barrel. Of course, pork still gets distributed; there is no shortage of claimants. But much of American politics is a cascade of threats and responses, a continual "expansion of the scope of conflict," as E.E. Schattschneider put it.³ The less powerful in society are threatened by more powerful. They take their case to the government, seeking to elicit a counter-threat. And the more powerful follow suit. Since corporations, especially big corporations, tend to be powerful social actors, they are often following suit in politics.

Political opportunity certainly beckoned "Big Blue" (IBM's most complimentary nickname) at the height of its power. Both the welfare state and the warfare state, from the Social Security Administration to the Atomic Energy Commission, made heavy use

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of computers. Yet, IBM's share of the Federal market was always far less than its share of the big business market. The firm rarely seems to have tried to exert political influence to sell more computers to the government, despite the close affiliation with national policy-makers, from the President on down, of Thomas Watson, Jr., who took over from his father as IBM's CEO in 1956, and his brother Dick, who was also an IBM executive.

IBM did react aggressively, however, to threats emanating from Washington. Social movements were the ultimate sources of most of these threats, and the immediate sources of many. In 1969, the Antitrust Division of the Department of Justice rocked IBM by filing a massive lawsuit against it. Antitrust policy-makers acted on behalf of what they perceived to be the public interest in curbing corporate power in market transactions, an idea originated by social movements decades earlier. In its defense, IBM eventually generated some 50,000 tons of documents.⁴ In the early 1970s, the labor unions, carrying forward the preeminent social movement of the 1930s, flexed their still-substantial muscle by pushing a bill to impose heavy taxes on multinational corporations. The proposal "touched a nerve" at IBM, which generated about half its revenues and profits outside the U.S.⁵

Most immediately, the "new social movements" of the 1960s, which coalesced into interest groups in the 1970s, went after IBM for its military contracts, its hiring policies, and its presence in South Africa. These threats did not strike at Big Blue's core business the way that the antitrust suit and tax bill did. One new social movement that might have posed such a threat was the consumer movement championed by Ralph Nader. Nader, IBM's top leadership worried, might fan public concern about the massive

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databases that IBM was building for its customers. In the worst-case scenario, the computers could be regulated the way that autos, Nader's first and most famous target, had been.⁶

IBM responded to this array of threats by creating a new corporate function to deal with public policy, which it located in Washington in 1975. In doing so, the firm was right in step with its peers. The *Fortune* 500 descended on the capital in droves during this era in order to cope with the newly expanded scope of conflict, just as Schattschneider might have foreseen.⁷ The high-tech industry was no longer an esoteric preserve of scientists in white lab coats; it -- above all, IBM -- was big business. Yet, while the opening of an IBM Washington office was predictable, its style of operation was a little unusual. The distinguishing features owed something to the personalities involved and something to the Nader threat that never materialized.

One key personality, even though he had retired before the office opened, was Thomas Watson, Jr. A lonely liberal Democrat in a sea of Republican CEOs, he proclaimed that public service was a corporate responsibility on a par with service to employees, customers, and shareholders. He disliked the way that most businesses did their work in Washington, telling his successor, Frank Cary, "that probably the worst way [to achieve policy goals] is to have a Washington office staffed with professional lobbyists."⁸ Although Cary chose to open a Washington office anyway, he saw to it that long-time IBM employees, rather than professional lobbyists, worked there. They helped to pioneer the "issue management" system, which focused on developing expertise rather than the back-slapping bonhomie that Watson found objectionable. IBM's corporate policy positions were conventional -- free trade, less regulation, and lower taxes -- but it

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did a better job than most other firms of articulating them. And, it was more pragmatic, refusing to "fight Vietnams" on minor issues in order to defend ideological principles or to secure special deals for itself.⁹

The issue management approach fit well with IBM's self-conception and public image as an organization comprised of rational actors. Nonetheless, the IBM Washington office might have stayed relatively small had it not been for the ability of its first director, Charles McKittrick, to cultivate a powerful constituency within the firm. All corporate public policy offices are vulnerable to internal politics, since they produce no revenue and their achievements are often arcane, even hidden.¹⁰ McKittrick brought to his job impeccable Big Blue credentials and familiarity with the firm's byzantine internal politics. He insisted on reporting directly to the CEO, but carefully maintained his horizontal network of contacts at IBM's Armonk, New York, headquarters. These contacts, combined with his issue managers' Washington policy networks, helped McKittrick to identify opportunities for his office to help "clients" (such as particular product divisions) within the firm. The reward for this spadework was sustained, steady growth; some one hundred professionals worked for IBM's governmental programs office at its peak in the late 1980s, making it one of the largest corporate offices in the capital.

IBM's immense policy capacity¹¹ allowed it to cover more issues and to cover them in greater depth than the vast majority of its peers. Some of the firm's main competitors simply crossed their fingers and let IBM do the talking for the whole high-tech industry, saving themselves the cost of a Washington office.¹² Firms with policy capacity comparable to IBM typically inhabited industries that faced much more serious threats. AT&T, for instance, had to cope with perpetual regulatory scrutiny, both before

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and after it was broken up in 1984. "Big Oil" worried about price controls, energy crises, and Middle East turmoil. Chemical and auto firms bore the brunt of the environmental movement. These companies confronted more skeptical audiences and had less freedom of action in Washington than IBM.

The experience of other firms weighed on the minds of IBM managers when they decided to build up the company's policy capacity. Conditions in the late 1960s and early 1970s were ripe for an attack on IBM comparable to that on General Motors or Dow Chemical. IBM was making it possible for government agencies and large corporations to collect unheard-of amounts of information about ordinary Americans. This information might be used, critics contended, to manipulate and control the public. A movement built around this issue might well have produced an entirely different, if equally large, IBM public policy organization, one that was much more defensive and constrained. Ralph Nader, however, never threw himself into this cause, and no other comparable movement leader emerged. Privacy never reached the top of the public agenda in this period. Only a few studies and minor changes in Federal law as it pertains to the private sector mark the public record on the issue in the 1960s and 1970s.¹³

IBM, then, emerged as an interest organization in a political environment surprisingly free of rancor. It could and did pursue an unusually wide range of policy issues. It could and did build a reputation as an organization of relatively unbiased policy experts. It could and did forge alliances that transcended the ideological and partisan divides that limit many companies and interest groups. These qualities emerged because of discrete choices made by actors who could have done things differently; they were not foreordained. Choices made by IBM in the 1960s and 1970s had long-term consequences

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for the high-tech industry as a whole, in part because for so long IBM virtually *was* the industry for Washington insiders. But the “white hat” aura and relative freedom from coalitional constraints were resources of great value to other firms as well in the 1980s and 1990s.

<H1> The “Fairchildren” Grow Up: High-Tech Supply Chain Politics

Although “IBM” and “high-tech” may have seemed synonymous within policy-making circles, outside the Beltway things were changing dramatically in the late 1970s and early 1980s. The PC revolution was getting underway, and IBM was scrambling to catch up. Of course, there had always been a high-tech industry beyond Big Blue. Indeed, the popular history of California's Silicon Valley neglects IBM altogether. The founding fathers in this tale are the “traitorous eight,” a group of scientists who left Shockley Semiconductor to found Fairchild Semiconductor in 1957. Fairchild then spawned an array of successful start-ups (known as the “Fairchildren”), including Intel.¹⁴ By the time the PC exploded onto the market – and in no small part because of that explosion – the Fairchildren and companies like them were beginning to develop distinctive policy interests. Collectively, they stepped out from IBM’s shadow, inventing an unusual style of engagement with Washington. Yet, in doing so, they built on the foundation laid by IBM.

Like that of IBM, the political mobilization of American semiconductor manufacturing companies was motivated primarily by threat. In this instance, the threat came from Japan, rather than from domestic critics. Japanese electronics firms, under the guidance of the powerful Ministry of International Trade and Industry (MITI), were

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rapidly overtaking their American competitors, particularly in the market for dynamic random access memory chips (DRAMs). Japanese competition, unlike a social movement critical of technological development, did not threaten the high-tech industry uniformly. Companies that bought DRAMs in order to assemble PCs, in fact, found it a boon, at least in the short run, since Japanese firms provided high-quality components at low prices. “Merchant”^{*} chip producers, like Fairchild and Intel, on the other hand, were driven near bankruptcy. Merchant producers supplied most of the energy and resources that made the Semiconductor Industry Association (SIA) into a force to be reckoned with in policy-making within a decade of its founding in 1977.

Social scientists would look upon this development as unsurprising, and not merely because threat played a crucial role. The growth and increasing complexity of the high-tech industry, they might argue, made it inevitable that this industry would be represented by an increasingly diverse set of interest organizations over time.¹⁵

Specialized suppliers of high-tech components, for instance, were bound to have different preferences on some issues than firms that assembled those components into computers. Vertically integrated “soup-to-nuts” companies that encompassed within themselves the entire high-tech “food chain” would have yet another set of views. Once any one of these groups became large enough or felt intensely enough about something, it would seek to voice its own unique positions. From this perspective, the rise of Japanese competition simply triggered a predetermined process.

To seek representation, of course, does not automatically mean that it will be found. Any “latent” interest group in society must overcome the collective action

^{*} “Merchant” producers sell their products on the open market, whereas “captive” producers are fully-owned subsidiaries that supply their sister divisions within a vertically integrated electronics company.

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problem, as Mancur Olson argued in 1965.¹⁶ Social science research since Olson suggests why semiconductor manufacturers had a relatively easy time in doing so in the late 1970s. Because of the small number of elite firms, their close proximity to one another in Silicon Valley, and the shared technical background of their leadership, they quickly established the trust needed to take collective action.¹⁷ Their counterparts in the PC manufacturing business had more trouble. These firms were scattered around the country, and many of their CEOs had never met one another. It was not until after a new trade policy advocated by SIA went into effect in 1986 and chip prices went up significantly¹⁸ that the PC makers managed to put together the Computer Systems Policy Project (CSPP) to serve as a counterweight to SIA in Washington.

SIA's effectiveness, however, was not due simply to its intrinsic advantages. It had the good fortune of good timing, too. By the time SIA hits its stride, Japanese competition had already swept through major sectors of American industry, such as autos and steel, setting off fierce political debates. The demise of these "sunset" industries could be understood as the natural working of the free market, moving labor-intensive production to places where labor was cheap. But this logic did not work for capital-intensive high-tech products. Even Ronald Reagan could rationalize government intervention in the semiconductor case. Beyond the merits of the case, Reagan's Administration was motivated by partisan competition. The "Atari Democrats"* were trying to use the semiconductor trade issue and others like it to undermine the Republican hold on the business community. High-tech was a particularly promising target for them, since (unlike autos and steel) it both symbolized the future and was unattached to any partisan camp.¹⁹

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SIA's tactical choices were as important as its timing. One was to build a coalition with vertically-integrated electronics firms, including IBM, Digital Equipment, and Hewlett-Packard, temporarily denying a similar coalition to semiconductor buyers one step down the food chain. The vertically integrated firms had ambiguous interests in the semiconductor trade issue. As producers of chips, they feared Japanese control of chip-making equipment, a vital input one step further up in the food chain. As buyers of chips, they welcomed the quality improvements and price cuts made by Japanese suppliers. Aggressive outreach by SIA helped to persuade these firms not merely to become members and to bring their corporate positions in line with SIA, but also to head off any opposition that might emerge from broader high-tech industry groups in which PC makers were represented. They "deprived us of a forum," in the view of the Washington representative of Compaq, a rapidly growing PC maker based in Houston, Texas.²⁰

Another tactical choice made by SIA was to locate its headquarters in Silicon Valley and not in Washington. This decision helped to perpetuate the perception among policy-makers that high-tech was not a Washington "special interest." While perhaps not entirely disinterested, high-tech (as represented by SIA) seemed to stand for the national interest in the face of the Japanese threat, just as General Motors once seemed to in the face of the Soviet threat.* That is not to say that SIA was out of touch with or unable to affect goings-on in the capital. It limited any loss of information or influence by making heavy use of the services of the well-connected and highly skilled Washington law firm of Dewey Ballantine.²¹ If there was a cost imposed by SIA's decision to locate 3000

* Atari was a pioneering manufacturer of video games.

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miles west of the Beltway, it was outweighed not only by the enhancement of high-tech's outsider reputation but also by the ease with which the association could mobilize and deploy its most vital assets, the CEOs of its member firms.

Direct participation of senior executives was SIA's signature tactic. CEOs personally founded the group, and they stayed involved.* As IBM's Watson, Jr., had contended, high-tech CEOs were often extremely effective lobbyists, able to get the support of policy-makers who might brush off professionals. Their commitment symbolized the importance of the policy issue at hand. Moreover, SIA's most effective lobbyists were not merely top managers; they were entrepreneurs who had built exceptional companies. Intel co-founder Robert Noyce was the leading example. Far from being a typical nerd, Noyce was socially graceful as well as technically brilliant. He commanded attention. Intel hired its first dedicated public policy staff person in 1983 largely to ensure that it and SIA realized Noyce's value in Washington. According to David Yoffie of the Harvard Business School, "Noyce spent 20% of his time during the early 1980s on political action." In 1988, with Intel's blessing, he became the first CEO of Sematech, a government-subsidized semiconductor R&D consortium that SIA advocated to complement the U.S.-Japan Semiconductor Trade Arrangement.²²

In trade and technology policy, then, SIA won big victories in the 1980s. It did so by making shrewd decisions that made the most of the tight-knit Silicon Valley community. It exploited and maintained high-tech's reputation as a public-spirited industry not beholden to an ideology or political party. SIA also contributed to the fragmentation of high-tech representation in Washington. This process was predestined;

* "[W]hat's good for the country is good for General Motors and vice-versa," its CEO famously stated during a Congressional hearing considering his appointment as Secretary of Defense in 1953.

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barriers to collective action among like-minded segments of the industry were bound to fall as long as the available resources continued to grow. SIA's tactics, however, provided a model that could be imitated and, for companies that disagreed with SIA's positions, motivation to take action. CSPP, the CEO forum formed by PC makers, illustrates the sincerest form of flattery at work in high-tech interest group politics.

<H1> Resistance Is Futile: Microsoft Adapts to Washington

At the beginning of the 1990s, high-tech was a discernible presence in American interest group politics. IBM's public policy office could throw a person at virtually any issue, and a growing array of high-tech companies like Apple and Oracle had opened their own small Washington shops. With the addition of SIA, CSPP, and several others during the 1980s, the list of high-tech trade associations merited being called an alphabet soup, albeit a small bowl by Federal standards. Many involved in the high-tech policy community, however, doubted that the industry's representation was keeping pace with its growing importance in the economy. The late Eben Tisdale, who ran Hewlett-Packard's Washington office, famously quipped that the industry had "deep pockets and short arms."²³

Microsoft, for example, did not open a Washington office until 1995, despite surpassing its rivals in the PC software business and joining the ranks of the Fortune 500 in 1988. Even then, the firm's apparent interest in Washington lagged far behind Washington's interest in it. Not until about the time of Bill Gates's appearance before Orrin Hatch in early 1998, some seven years after he first learned that antitrust prosecutors were investigating its practices, did Microsoft become serious, perhaps too

* In the case of captive producers, the head of the semiconductor division substituted for the CEO.

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serious, about putting its imprint on the capital. The lag between the external threat to the firm and its ultimately exaggerated reaction reflected both the barriers to political involvement that face any entrepreneurial company and the particularities of Gates and the company that he built.

The most familiar barrier that a typical start-up company must overcome before it will get involved in Washington is the collective action problem. Any small, young firm is extremely unlikely to determine the outcome of a policy debate or an election, so it has little incentive to take political action on its own.²⁴ Not surprisingly, Microsoft's initial forays into public policy, like those of the Fairchildren, came through trade associations that mustered industry-wide campaigns on vital issues. In 1988, for instance, just thirteen years after the firm was established and only two years after its initial public offering (IPO) of stock, Microsoft helped to found the Business Software Association (BSA) to combat software piracy, a problem that hit its bottom line directly.

Another barrier confronting start-ups thinking about entering the political marketplace is the fixed cost of Washington representation. A company that wants a representative independent of trade associations must hire and support professional staff or cover the retainer for an outside lobbying firm. While a modest \$100,000 government affairs budget might plant a firm's flag in the capital and lie unnoticed on its balance sheet, such an investment is unlikely to yield benefits beyond keeping the corporate leadership apprised of current events. A million dollar Washington office, on the other hand, would produce much greater visibility within the Beltway, but at the same time might be perceived at headquarters as a significant cost center in a firm with sales of, say, \$100 million per year in a highly competitive industry. Microsoft, though, surpassed

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\$100 million in sales before its 1986 IPO, and it reached the \$1 billion mark by 1990.

Cost alone seems unlikely to have stood in the way of the company had it wanted to make a distinctive mark in Washington before the late 1990s.

Lack of executive attention to politics and policy may have been a bigger obstacle to Microsoft's involvement than cost. Entrepreneurs may fail to engage in public policy debates not because they calculate that the costs of such engagement exceed the benefits, but rather because they are spending all their time and energy minding their business.

Gates's single-minded focus on building Microsoft is legendary. *Star Trek* fans among his adversaries portray Microsoft as the Borg, assimilating everything in its path.

Washington was for a long while just one of many potential distractions that Gates ignored while he laid waste to his corporate competition. At the time that his company first came under antitrust investigation in 1991, for instance, Gates viewed Apple's lawsuit alleging that Windows infringed on the Mac OS copyright as a much more serious external threat.²⁵ Microsoft won that case, relegated Apple to the margins of the high-tech industry, and continued its extraordinary growth in the following decade, surpassing \$5 billion in sales in 1995 on the way to over \$20 billion in 2000.

To say that Gates ignored public policy for many years is not to say that he was ignorant of it. His parents were both involved in public causes, and Gates himself served as a U.S. Senate page as a teenager. As policy issues increasingly intruded on his growing business as the 1990s wore on, he displayed a willingness to lend his name and his firm's name to efforts to address them. Gates and Microsoft took an interest in government control of encryption software as early as 1991, for instance, and in the privatization of the Internet two years later. He made personal contacts at the highest

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levels of the Federal government during the Clinton Administration, including the President himself, Vice President Al Gore, and Speaker of the House Newt Gingrich.²⁶

Yet, like IBM's Tom Watson, Jr., before him, Gates chose not to build much of an organizational structure to manage government affairs for Microsoft, even after his attention had been drawn to the topic. As late as October, 1997, *Roll Call*, the Capitol Hill newspaper, reported that "Gates still remains virtually invisible in Washington."²⁷ With only a tiny office in the capital to target and amplify Gates's modest personal involvement in the policy process -- and to attend to the myriad details below Gates's job description -- Microsoft remained a "Washington wimp."²⁸ The decision to minimize what Gates referred to as "some overhead" in a 1995 interview²⁹ was based at least in part on his interpretation of IBM's experience under Watson's successors. IBM had paid too much attention to Washington in Gates's view and not enough to the fast-moving business it was in. The effort that made the "Incredible Bunch of Morons" (as Microsoftees nicknamed IBM) successful inside the Beltway, Gates thought, contributed to its demise as the high-tech industry's dominant business.³⁰

To many policy-makers, though, Microsoft's aloofness implied that the firm "held Washington in disdain."³¹ Microsoft's competitors worked hard to deepen this perception. Fear and loathing of Microsoft and Gates fortified the business logic of investing in the capital for high-tech entrepreneurs like Sun's McNealy and Oracle's Larry Ellison. They hired high-profile figures not previously associated with the high-tech industry, like Supreme Court nominee Robert Bork and former Senate minority leader Robert Dole, to spread their message. Oracle even hired an investigator to go through the trash of Microsoft-friendly groups in 1999.³²

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This campaign made it more likely that powerful decision-makers would give "comfort" to Assistant Attorney General Joel Klein by endorsing his professional judgment about prosecuting Microsoft. Government investigations and filings in the early and mid-1990s had produced meager results, from the perspective of Microsoft's critics and competitors. The suit lodged in May, 1998 represented a major expansion in scope and objective, alleging a pattern of illegal practices aimed at maintaining and extending Microsoft's monopoly in PC operating systems.

In late 1997 and early 1998, with the threat of another antitrust case looming over his firm, Gates seems to have changed his mind and joined the political arms race with his competitors in earnest. Microsoft separated its public policy office from its Washington sales office in March, 1998 and increased its professional staff from two in 1997 to at least ten by early 1999. It dramatically expanded its list of consultants, thereby building its connections to both parties and most of the major presidential candidates. Reported lobbying expenditures rose from about \$2 million in 1997 to nearly \$4 million in 1998 and about \$5 million in 1999. Contributions to candidates by Microsoft's political action committee quadrupled between 1995-96 and 1997-98, and then did so again in 1999-2000. Soft money contributions from company funds zoomed from \$80,000 to \$800,000 to over \$900,000.³³ Microsoft pushed its policy proposals with advertising, supported existing interest groups and helped create new ones, conducted polls, made politically significant charitable contributions, and otherwise deployed the full panoply of instruments available to the sophisticated and well-funded Washington corporate player.³⁴

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The return that Microsoft received on this investment remains hotly debated. Some of its most heavy-handed moves backfired. The company lobbied to cut the Antitrust Division's appropriation and reaped criticism even from its allies. "That might have been the dumbest political move of the year,' said a senior [Congressional] leadership aide."³⁵ Members of prominent Republican Ralph Reed's political consulting firm lobbied Republican presidential candidate George W. Bush on Microsoft's behalf, forcing Reed, who consulted for Bush as well as Microsoft, to make a highly public statement of regret about the apparent conflict of interest. Blasted for its arrogance when it ignored Washington, the company went so far in the other direction that it received the same treatment. Among candidates and consultants, the firm was said to be something of a cash cow that heedlessly dumped money into the capital.³⁶

Slowly, though, the tenor of the discussion began to change. In April, 2000, for instance, the *New York Times* reported that Gates was "treated...as a national treasure" in his meetings with the leadership of both parties in both houses of Congress and the President.³⁷ The firm was increasingly viewed as an upstanding corporate citizen, taking its rightful place in discussions of policy issues of special concern to the high-tech industry, such as education and the digital divide. The election in 2000 of a new administration that was not wedded to Klein's policy raised the prospect that Microsoft might receive the biggest payoff of all: settlement of the antitrust suit on lenient terms and without a break-up of the company.* Should Microsoft realize such a success, it would not be because it had "assimilated" Washington as it had its adversaries in the

* I do not mean to imply that the facts and law of the case have no bearing on its outcome, only that political considerations are likely to play some role.

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business world. The reverse was closer to the truth. Bill Gates and his crew had adapted to Washington.

<H1> Instant Interest Groups: The New Economy Converges with the Old Politics

By the time *U.S. v. Microsoft* reached its climax, some tech-savvy pundits were arguing that the case was already irrelevant. The Windows-dependent PC was being supplanted, they claimed, by a multitude of Internet access devices. Even if Microsoft had merited government scrutiny for exercising monopoly power in the 1990s, the argument continued, at the end of the millennium technological tides were sweeping that power away. These claims are as yet far from proven; the irrelevance of Microsoft's business behavior to the twenty-first century economy remains speculative. The firm's political experience, along with that of IBM and the semiconductor industry before it, however, is undoubtedly highly relevant to twenty-first century politics. The "New Economy" of the Internet era has been joining the high-tech chorus in Washington at warp speed. Some of its leaders have drawn on the legacies and lessons of the past, while others have reenacted the learning processes of their forerunners, including Bill Gates.

These nascent experiences demonstrate once more the parallel importance of social science principles and quirks of personality and chance in understanding interest group politics. Two experiences in particular, those of the Technology Network (known as TechNet) and America Online (AOL), will stand in here for the sprawling and still unfinished story of "Washington Meets the New Economy." Both feature high-tech business celebrities, John Doerr and Steve Case, whose choices shaped organizations and

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events. Both also illustrate broader processes, beyond the control of any individual, at work.

As the reader might expect, threats mobilized both TechNet and AOL to take political action. In the case of TechNet, the threat manifested itself in the person of William Lerach, a San Diego trial lawyer made rich by suits against companies with volatile stock prices. In 1996, Lerach pressed a California ballot initiative (Proposition 211) that would have made such suits easier to win. Convened by Doerr, a venture capitalist specializing in often-volatile Internet start-ups, Prop 211's Silicon Valley opponents quickly raised some \$40 million to pay for an advertising blitz that sent the measure down to defeat.³⁸ AOL also faced a potential legal threat in 1996. Federal legislation was enacted that made Internet service providers (ISPs) like AOL liable for offensive content, such as pornography, passing through their networks. Case believed that this rule would thwart AOL's growth, and his firm joined the fight that eventually nullified it in the Supreme Court in 1997.

Two different general processes figured prominently in the next stage of development of these two New Economy interests. The law of supply and demand affected TechNet. Money was the commodity in question. Modern political campaigns demanded more and more of it, and the Prop 211 campaign suggested that the coffers of Silicon Valley, engorged by the Internet boom, might supply it. TechNet, as the anti-211 forces christened themselves in 1997, thus adopted as its primary function brokering donations from wealthy New Economy executives to candidates, along the way raising the latter's awareness of issues of importance to the former. Building on the industry's tradition, TechNet hosted members of both political parties. No longer seriously

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threatened by the trial lawyers, TechNet, like IBM in its heyday, was free to pursue any opportunities that presented themselves. The Achilles heel of this strategy, though, was TechNet's lack of clarity about which opportunities deserved highest priority and what it wanted to do about them. TechNet seems, like Microsoft, to have acquired a reputation as a fountain of cash that required few commitments from the recipients.³⁹

AOL's political development reflects the inevitable influence of government regulation. The core of its business was not the silicon, code, or computer systems of previous generations of high-tech companies; it was communication. The communications industry, including the postal system, telephony, broadcasting, and some forms of publishing – all of which paralleled activities facilitated electronically by AOL – is regulated* in the U.S. Regulated industries tend to be heavily represented in the policy process, since their profits depend on government decisions.⁴⁰ Even though the specific regulations that would apply to ISPs were unclear as AOL came to dominate the business in the late 1990s, the company understood that it would confront in some fashion the Federal Communications Commission (FCC) and the politically powerful industries that AOL's services threatened to supplant. By the time AOL reached *Fortune's* list of the 1000 largest firms in the U.S. in 1996, it had already opened a Washington office with at least four professional staff, with leadership drawn from the communications industry.⁴¹ Within a couple of years, AOL had moved from defense to offense, pushing initiatives across the country to force politically powerful local telephone and cable television monopolies to allow AOL's services to be offered through their networks at high speed. Cognates to AOL's "open access" campaign appeared in regulated industries from

* Or government-owned, in the case of the U.S. Post Office.

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financial services to retailing, as Internet-based start-ups attempted to crack the legal protections that benefited entrenched incumbents throughout the economy.⁴²

While AOL and TechNet did respond to forces that social science theory highlights, some aspects of their development were quite unpredictable, stemming in large part from their leadership. Doerr was essential to the formation and growth of TechNet. As the financial midwife to a string of successful high-tech start-ups, punctuated by the record-shattering IPO of Netscape in 1995, Doerr had unparalleled clout and an awesome reputation in Silicon Valley. His commitment to TechNet helped make political involvement fashionable among Internet entrepreneurs and that drew politicians from Vice-President Gore on down to TechNet like bees to honey. Yet, Doerr, like Bill Gates, did not want to adapt to the ways of Washington. He talked about radically reinventing politics and basked in the media limelight ("Gore-Doerr 2004" buttons were seen at some TechNet events), but his organization had little capacity to follow-through to enact policy changes and was reluctant to share credit with organizations that did. Journalist Sara Miles characterized TechNet's political strategy as "both wildly overambitious and strangely shapeless."⁴³ In catalyzing Silicon Valley's money and prestige, Doerr filled a major gap in the high-tech industry's Washington portfolio. Yet, TechNet also added a new dimension to the industry's political fragmentation.

Although Steve Case is as prominent in the New Economy as John Doerr and Bill Gates, his political style (and that of his firm) is very different. Case evinces little interest in ignoring, refashioning, or conquering Washington. He plays a "inside strategy," leaving AOL (in the estimation of Representative Billy Tauzin) ahead of the

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"Silicon Valley boys."⁴⁴ Although a video game enthusiast in his youth, Case never imbibed the ingrown culture of the computer nerd. He received a degree in political science and worked for consumer giants Procter and Gamble and Pizza Hut before joining AOL's precursor in 1983. His firm is headquartered just outside Washington, D.C.. All of these factors seem to make him more sensitive to political threat and opportunity than his west coast colleagues.

The same factors also seem to make him less of an idealist (or zealot, depending on one's point of view) than many in the high-tech industry, or (to put it another way) just as pragmatic as any other businessman. AOL's acquisition of Time Warner in 2000 provides a case in point. Time Warner operates many of the local cable television monopolies that AOL had been attacking in its open access campaign. AOL thus seemed to have acquired the opportunity to be the sole ISP on Time Warner's cable systems or to bargain with other large cable operators to exchange access and shut out all other competitors. Open access was no longer a business necessity. Although AOL denied media reports that it had changed its position on the issue in the wake of the merger, its critics claimed that it had dramatically scaled back its support for the campaign that it had once spearheaded.⁴⁵ As a condition for their approval of the merger, the FCC and the Federal Trade Commission required AOL Time Warner to open its cable systems to competing ISPs. But the devil in such matters is in the technological and financial details, and the newly merged firm has strong incentives to work these details in the opposite direction than the old AOL would have.

AOL and TechNet in 2001 point to diverging paths forward for the New Economy in Washington. AOL bought into the old politics of the Washington interest

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group system as soon as it could, far ahead of the rest of the New Economy. As AOL Time Warner, it has gone even further, leaving the New Economy behind and becoming a giant in the old politics. AOL Time Warner is an immense multimedia entertainment conglomerate. Along with Time Warner's cable systems, AOL acquired television networks, movie studios, magazines, and much more, including the fleets of lawyers and lobbyists that make such a firm tick. TechNet, by contrast, remains committed rhetorically to its motto "new politics for a new economy." CEOs of Silicon Valley start-ups still figure significantly on its membership list, and it still emphasizes personal outreach by its members to both Democrats and Republicans. In practice, though, the old politics is increasingly making itself felt. The organization named former Congressman Rick White (whose old district included Microsoft's headquarters in Redmond, Washington) as its fourth CEO in January, 2001 and its first from outside the high-tech industry. It beefed up its capacity to influence Congress by starting new chapters in high-tech hotspots around the country and hiring a larger staff of policy experts.

<H1> Critical Path: The Future of High-Tech Industry Politics

The high-tech industry in Washington today is a sprawling array of corporate offices, trade associations, coalitions, lobbying firms, and other entities. This representation reflects the continual expansion of the underlying industry. The industry's "arms" may still be a bit short, but they are "growing," as HP's Tisdale put it in 1997.⁴⁶ The enduring image of the industry as a collection of politically naive nerds, which still crops up regularly in the press, is largely obsolete. In some cases, like IBM's, it is decades out of date. A series of threats has catalyzed its involvement in national politics,

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and once involved, its Washington representatives have usually recognized new opportunities that justify maintaining their presence there. Indeed, some members of the high-tech interest group community are as sophisticated as any in the capital.

The fragmentation of this community also reflects the underlying industry. High-technology is an extremely complicated and highly turbulent business; its policy interests are diverse and sometimes transient. The threats that have emerged have more often divided the industry, accentuating its fragmentation, rather than uniting it against a common enemy. The lack of such an enemy has been a blessing, freeing high-technology from inflexible alliances, but also a curse, permitting undisciplined organizational proliferation.

These broad outlines of high-tech's political profile might have been predicted by a clever social scientist, but its particulars are highly contingent and very important. If the naivete of the industry is exaggerated, for instance, it nonetheless contains a kernel of truth. For every Steve Case who is willing to work the political system for all it is worth, there seems to be a Bill Gates who wishes it would just go away and then has to make up for lost time. Such differences in the perceptions of key decision-makers contribute to variation in the level and quality of representation across the industry and over time. Similar differences also perpetuate the diversity of the high-tech association scene. Members of the high-tech interest group community disagree not only about policy issues, but about tactics as well, such as the value of TechNet's fund-raising prowess. High-tech association start-ups have been common, and exits, whether by merger or disbandment, have been few.

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The high-tech industry has had the good fortune to come to political maturity in an era in which the Democratic Party sought a business constituency. Lacking unions and perceived as environmentally friendly, this industry was a prime candidate to become that constituency. It has effectively taken advantage of the partisan competition for its affections, which became especially ardent in the Internet boom years of the late 1990s, when it brought not only conventional political resources to its allies but a special magic. The image of the politically-naive nerd found an equally exaggerated counterpart in this period: high-tech as the "belle of the ball" or even "the new conquerers."⁴⁷

The boom has quickly passed into history, but its reverberations continue. The high-tech industry's interest groups and its image may well go through a shake-out comparable to the shake-out among the companies that make it up. The identity of the surviving organizations and the personalities of the key decision-makers within them will undoubtedly shape the industry's political development over the longer-term, but predicting these consequences is impossible. Social science is not going to put journalists out of business in this realm. What one can say for certain is that the growth and diversification of the industry will continue, despite occasional setbacks, and these attributes will be reflected, after a lag, in Washington. The industry's very dynamism will provoke threats that both unite and divide it. It will also provide opportunities for policy entrepreneurs to create new interest organizations and new issue domains and for partisans to construct new alignments of support. The disruptive force of the high-tech industry has only begun to be felt in interest group politics.

¹ Juliana Gruenwald, "Microsoft Hearing Explores Whether Antitrust Laws Need Upgrade," *Congressional Quarterly Weekly Report*, March 7, 1998, 558-559.

² John Heilemann, "The Truth, the Whole Truth, and Nothing But the Truth: The Untold Story of the Microsoft Case," *Wired*, November, 2000, 260-311, quote from 278.

³ E.E. Schattschneider, *The Semi-Sovereign People* (New York: Holt, Rinehart and Winston, 1960).

⁴ John Opel, speech to Outside Attorneys Dinner, March 23, 1982, John Opel papers, IBM Archives.

⁵ Leslie D. Simon, interview, May 14, 1999.

⁶ Frank Cary, SDD speech, March 11, 1970, Frank Cary papers, IBM Archives.

⁷ David Vogel, *Fluctuating Fortunes* (New York: Basic, 1989); Mark A. Smith, *American Business and Political Power: Public Opinion, Elections, and Democracy* (Chicago: University of Chicago Press, 2000).

⁸ Transcript, IBM Annual Meeting, April 27, 1970, IBM Archives, 10; Thomas J. Watson, Jr., and Peter Petre, *Father, Son, and Company* (New York: Bantam, 1990), 427.

⁹ Quote from Charles E. McKittrick, Jr., interview, February 10, 1999.

¹⁰ Rogan T. Kersh, "Corporate Lobbyists and Their Clients: Beyond Principal-Agent Theory," Annual Meeting of the Midwest Political Science Association, April, 2001.

¹¹ This term originates with Cathie Jo Martin, "Mandating Social Change: The Business Struggle Over National Health Reform," *Governance* 10:397-428 (1997).

¹² Bruce Holbein, interview, April 21, 1999.

¹³ Whitfield Diffie and Susan Landau, *Privacy on the Line: The Politics of Wiretapping and Encryption* (Cambridge: MIT Press, 1998), 125-137.

¹⁴ Gordon Moore (with Kevin Davis), "Learning the Silicon Valley Way," Center for Research on Employment and Economic Growth, Stanford University, July 28, 2000.

¹⁵ David Truman, *The Governmental Process: Political Interests and Public Opinion* (New York: Knopf, 1951) is the classic source of this "pluralist" perspective.

¹⁶ Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965). The term "latent" group is from Truman.

¹⁷ Philip A Mundo, "Semiconductor Industry Association," in *Interest Groups: Cases and Characteristics* (Chicago: Nelson-Hall, 1992), 41-66; Mark L. Busch and Eric Reinhardt, "Geography, Trade, and Political Mobilization in U.S. Industries," *American Journal of Political Science* 44:703-719 (2000).

¹⁸ Whether the policy shift caused the price rise is still a touchy subject. The issue is examined at length in Kenneth Flamm, *Mismanaged Trade?: Strategic Policy and the Semiconductor Industry* (Washington, D.C.: Brookings, 1996).

¹⁹ James E. Shoch, *Trading Blows: Party Competition and U.S. Trade Policy in a Globalizing Era* (Chapel Hill: University of North Carolina Press, 2001).

²⁰ David B. Yoffie, "How an Industry Builds Political Advantage," *Harvard Business Review*, May-June, 1988, 82-89; Douglas A. Irwin, "Trade Politics and the Semiconductor Industry," in Anne O. Krueger, ed., *The Political Economy of American Trade Policy* (Chicago: University of Chicago Press, 1996), 11-72; Joe Tasker, interview, December 1, 1999.

²¹ Andrew Procassini, *Competitors in Alliance* (Westport, CT: Quorum, 1995), 189.

²² Yoffie, *op. cit.*, 88; George Scalise, interview, July 14, 1998; Michael Maibach, interview, June 15, 2000.

²³ Eben Tisdale, interview, July 14, 1998. Tisdale had been using this line for years before this interview.

²⁴ Olson, *op. cit.*; Kevin W. Hula, *Lobbying Together: Interest Group Coalitions and Legislative Politics* (Washington, D.C.: Georgetown University Press, 1999); John de Figueiredo and Emerson H. Tiller, "Organizing and Engaging in Nonmarket Activity: A Transactional Analysis of Corporate Lobbying at the FCC," Annual Meeting of the American Political Science Association, September, 1999;

²⁵ Ken Auletta, *World War 3.0: Microsoft and Its Enemies* (New York: Random House, 2001), 150-151.

²⁶ See, for instance, Ruth Marcus, "Clintons Vacate Capital For Martha's Vineyard II; President Jogs 4 Miles, Golfs 18 Holes," *Washington Post*, August 28, 1994, A14.

²⁷ Juliet Eilperin, "High-Tech Lobbying: Microsoft Steps Up Effort," *Roll Call*, October 27, 1997.

²⁸ W. John Moore, "Ganging Up on Microsoft," *National Journal*, February 7, 1998, 301.

²⁹ "Mind Behind the Microsoft Miracle," *Washington Post*, December 3, 1995, H1.

³⁰ Heilemann, *op. cit.*, 273-274.

³¹ Ben Wildavsky and Neil Munro, "Culture Clash," *National Journal*, May 16, 1998, 1104. Senate Commerce Committee policy director Mark Buse is the source of the quote.

³² John Markoff and Matt Richtel, "Oracle Hired a Detective Agency to Investigate Microsoft's Allies," *New York Times*, June 28, 2000, A1. The details of Microsoft's opposition's campaign can be found in Heilemann, *op. cit.* and Wendy Goldman Rohm,

The Microsoft File: The Secret Case Against Bill Gates (New York: Times Books, 1998).

³³ These figures are drawn from the Center for Responsive Politics' database compiled from Federal Election Committee reports. CRP (*Capital Eye*, Winter, 2001, 5) reports that Microsoft and its employees contributed about \$4.3 million in soft money, PAC, and individual contributions in 1999-2000. My figures exclude individual contributions, since these may or may not be coordinated with the corporate strategy. Bill Gates has made very modest individual contributions.

³⁴ Front page stories in major newspapers that cover many of these points include Rajiv Chandrasekaran and John Mintz, "Microsoft's Window of Influence: Intensive Lobbying Aims to Neutralize Antitrust Efforts," *Washington Post*, May 7, 1999, A1; James V. Grimaldi, "Microsoft Mounting a Well-Funded Lobby Effort," *Washington Post*, May 17, 2000; and John M. Broder, "Microsoft Tries Another Court: Public Opinion," *New York Times*, June 12, 2000, A1.

³⁵ Jim Vandehei, "Microsoft Plans to Boost Lobbying Presence on Hill," *Roll Call*, November 11, 1999.

³⁶ Hanna Rosin, "Mining Microsoft," *The New Republic*, June 8, 1998, 12-13.

³⁷ Marc Lacey and Eric Schmitt, "Gates Keeps Washington Dates," *New York Times*, April 6, 2000, D1.

³⁸ Chris Watts, "Proposition 211," Stanford University, Graduate School of Business case S-P-23, October, 1997.

³⁹ Jeffrey H. Birnbaum, *The Money Men* (New York: Crown, 2000), 217.

⁴⁰ George Stigler and Claire Friedland, "What Can Regulators Regulate? The Case of Electricity," *Journal of Law and Economics* 5:1-16 (1962).

⁴¹ Graeme Browning, "Bill Burrington: Pushing Team Spirit in Cyberspace," *National Journal*, November 25, 1995, 2933.

⁴² Robert D. Atkinson, "Revenge of the Disintermediated: How the Middleman is Fighting E-Commerce and Hurting Consumers," Progressive Policy Institute, January 26, 2001.

⁴³ Sara Miles, *How To Hack a Party Line: The Democrats and Silicon Valley* (New York: Farrar, Straus, & Giroux, 2001), 70.

⁴⁴ Neil Munro, "Building a Case," *National Journal*, July 31, 1999, 2218-2225.

⁴⁵ Alec Klein, "Access Issue Isn't Open-and-Shut Case," *Washington Post*, September 20, 2000, G5.

⁴⁶ W. John Moore, "A Hard Drive in Washington," *National Journal*, September 27, 1997, 1906.

⁴⁷ Lizette Alvarez, "High-Tech Industry, Long Shy of Politics, Is Now the Belle of Ball," *New York Times*, December 26, 1999, A1; Neil Munro, "The New Conquerors," *National Journal*, October 2, 1999, 2796-2799.