

**Date:** August 12, 2020  
**To:** James Quirk, GOVT 322  
**From:** Indali Bora  
**Re:** How Did 21st Century Corporate Financial Power Shift Between Silicon Valley and Wall Street?

**Did Wall Street control politics from the corporate world, and if so, why?**

Wall Street was the primary corporate financial power that worked with the government. This relationship between Wall Street and Washington D.C. is clear from bailouts, lobbyist expenditures from Wall Street, and shared financial interests between both. In addition, Wall Street's experience in the financial sector made it a valuable industry to protect for the economy, in the process of doing which, the government provided significant power to Wall Street. However, the recent developments of technology have shifted the government focus in terms of corporate affairs and finances in a new direction, towards Silicon Valley.

**Factors:**

**Silicon Valley was founded on principles of government relations.**

A factor that ties into Silicon Valley's strong ties with the government traces back to its history, where the region received funding and support for building weapons for war in the late 20th century, which led to continued government support in recruiting new talent to the area in terms of technological developments and entrepreneurship. This flexibility for idea and growth was something unique to Silicon Valley that the established power in Wall Street lacked, and considering how the government was also closely monitoring and working with Silicon Valley, it allowed the region to reach new corporate heights within the span of a few years.

**A rise in digital technology and diverse businesses gave power to Silicon Valley.**

Through this growth in the region, Silicon Valley corporations started forming a special relation with people not just in the country, but globally too, in regards to digital media and access. This digital social contract that worked with privacy, information access, and algorithms, became integral to include the government in with the companies. This cyclical process of consumers going to these corporations, technology policies working with the government regulations, and the government using these corporations to advance political goals led to Silicon Valley's dominance when it came to the economy.

**Silicon Valley's new concentration of wealth dominates over the financial powerhouse of Wall Street.**

By this process, Silicon Valley's concentration of wealth became comparable to Wall Street, with billionaires and lobbyists from the area having more financial weight than what was traditionally held by Wall Street.

**Political figures recognize the control that Silicon Valley has over media and finances, leading the political power to lean towards Silicon Valley over Wall Street.**

Wall Street still holds influence, and these are only a few of many potential factors, but they still are indicative of how we can observe political and corporate relations. In the 21st century, the priorities of politics start to shift, and in order to be successful, political parties and figures must concentrate on sectors beyond just finances. As a result of these factors, Silicon Valley now holds much of the corporate political power, which could be predictive of corporate power in politics in the future.

## **An Analysis on How the Financial Corporate Power in 21st Century Politics Shifted Between Wall Street and Silicon Valley**

With the emergence of the internet and social media, the last few decades have seen the rise of powerful technology corporations who now rule various sectors of society, from media, business, and stocks, all the way to the elusive world of politics. The power of corporations and billionaires has always been a given in American politics. However, this power was notably dictated in the past few centuries by Wall Street firms and figures who retained financial power on both the economy and politics. But now, we can observe the rise in digital technology paving the way for CEOs of tech corporations and companies themselves to take this financial political power in their own hands, straight from Silicon Valley. This gradual shift in corporate political power between Wall Street and Silicon can be attributed to a few primary factors: the history of Silicon Valley, the role of technology and business in the 21st century, and the new concentration of wealth in Silicon Valley.

Before investigating further about this transition, it is important to outline the context of this topic. This question is guided by the general presumption that prior to Silicon Valley, Wall Street was the primary corporate financial force to build a significant relationship and platform with politics. When observing corporate-political relations, history has made it evident that Wall Street and the government have always backed each other. The government is responsible for holding corporations accountable by law<sup>1</sup>, but also, greatly depends on them, especially when considering the financial corporations under Wall Street. During the more recent 2008 recession, the government had been quick to issue \$700 billion for bailouts<sup>2</sup>. The reasoning for this was that Wall Street had become such an important part of the American economy that it was simply “too big to fail”<sup>3</sup>. Wall Street’s long-term presence and financial power dictates government policies too. Lobbyists, such as those who are associated with Wall Street, have been statistically proven to significantly impact the likelihood of legislators changing their votes on bills in favor of private firms, especially in cases of connections and networks<sup>4</sup>. Evidently, two things remain of importance that protect Wall Street’s relationship with the government: money and experience. But in recent years, Wall Street may no longer be the main financial powerhouse for the government when it comes to corporate affairs. As technology begins to dominate both citizen life and cybersecurity affairs, the government has started focusing more on technology products and corporations to protect national and international politics<sup>5</sup>.

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<sup>1</sup> Montague, Gilbert H. "More Government in Business - Does Wall Street Need It, or Main Street Want It?" *The Annals of the American Academy of Political and Social Science* 129 (1927): 138

<sup>2</sup> Korten, David. "How to Liberate America from Wall Street." *New Economy Working Group* (2011) p. 8

<sup>3</sup> Gilder, George. "The New Wall Street and the High Cost of Manipulating Money." *The Independent Review* 21, no. 4 (2017): p. 608

<sup>4</sup> Igan, Deniz, and Prachi Mishra. "Wall Street, Capitol Hill, and K Street: Political Influence and Financial Regulation." *The Journal of Law & Economics* 57, no. 4 (2014): 1081

<sup>5</sup> Segal, Adam. *Rebuilding Trust Between Silicon Valley and Washington*. Report. Council on Foreign Relations, 2017. 10-11.

There is a direct link between tech companies in Silicon Valley controlling a level of the political field, but the process for how that came to be is much more dimensional than just the role of current tech corporations and their CEOs. Rather, it traces back to the history of Silicon Valley, which from the start has been involved with the government. Until World War II, the area defined as Silicon Valley today was predominantly an agricultural valley<sup>6</sup>. However, with the rise of 20th century global conflict in the form of World War II and the Cold War, the Silicon Valley transitioned from agriculture to military weapon manufacturing<sup>7</sup>. In fact, by the time the Cold War had ended, “the region's [Silicon Valley] nine largest military contractors alone reported more than \$11 billion in defense contracts” from the government<sup>8</sup>.

Though Silicon Valley is commonly associated with entrepreneurship and digital media, it is undeniably that its technological corporation formations, though not solely, but still largely are attributed to the processing of military weapons which were controlled by the government. Its involvement with war weapons due to being on the West Coast paved a way for building a connection with the government from the very beginning<sup>9</sup>. Around the same time (post 1950s), Silicon Valley also saw a rise in the semiconductor industry, which led to avenues of different technological growth and business ventures. Underneath the rise in this industry, however, was the power and backing of the government after its established relation with the potential in the region<sup>10</sup>. One of the pioneers in the semiconductor industry, Fairchild, received funding from the Pentagon for his research<sup>11</sup>. The power and potential of the Silicon Valley attracted top firms and highly-educated professionals, which in turn led to a more popular image of the location<sup>12</sup>. As a result, by the start of the 21st century, before even the turn of digital media and the billionaires behind that whom we know today, Silicon Valley was already building a relationship with Washington DC that would soon challenge Wall Street, which due to its long-term establishment and structure, was more limited to growth and inaccessible to entrepreneurs<sup>13</sup>. The government support and entrepreneur-led venture capitalist funding contributed to the economic backing behind Silicon Valley's rapid growth within a few decades<sup>14</sup>. Essentially, Silicon Valley was indirectly built to be a location ideal to work directly with the government from the very start by new rising professionals and entrepreneurs of the 21st century.

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<sup>6</sup> Saxenian, Annalee. "The Genesis of Silicon Valley." *Built Environment (1978-)* 9, no. 1 (1983): p.8

<sup>7</sup> Heinrich, Thomas. "Cold War Armory: Military Contracting in Silicon Valley." *Enterprise & Society* 3, no. 2 (2002): p. 247

<sup>8</sup> Saxenian (1983) p. 10

<sup>9</sup> Harrison, B. "Concentrated Economic Power and Silicon Valley." *Environment and Planning A: Economy and Space* 26, no. 2 (February 1994): pp. 307–28.

<sup>10</sup> Saxenian (1983) p. 11

<sup>11</sup> Heinrich, Thomas (2002) p.268

<sup>12</sup> Saxenian (1983) p. 14

<sup>13</sup> Gilder (2017) p. 608

<sup>14</sup> Armour, John, and Douglas Cumming. "The Legislative Road to Silicon Valley." *Oxford Economic Papers*, New Series, 58, no. 4 (2006): p. 601

Even though Silicon Valley received strong support from the government, there still remains the question about how it grew to be so powerful in a government headquartered across the country, in a region with relatively different values and experiences. This surge in power in politics can be partially factored by the growth of digital media and diversity of business ventures, much of which is centered in Silicon Valley. The commercialization of the internet and online media content has become the primary means to spread information to masses of audiences around the country. The impact of this is visible now, where recently, Congress questioned a panel of top tech CEOs about privacy and antitrust-related concerns<sup>15</sup>. The links of these corporations with media bias and customized algorithms indicate that these companies have the power to control the flow of information to voters, and as a result, the involvement of the government in order to work with this power becomes very natural in terms of regulation. Formerly, it was observed that government policies greatly focused on economic policy and finances, which were controlled by Wall Street. But in the 21st century, while finances are still important, tech corporations from Silicon Valley started garnering the attention of the government for digital output. If a political party or figure wanted to get a message out, that power rested in the hands of these Silicon Valley-headquartered corporations. Moreso, Silicon Valley highlighted a new kind of social contract, one that is digital and works with the public. It has built a social contract around privacy and access to information that is necessary for the government to work with and prioritize in order to protect and connect with society<sup>16</sup>. This loop of the public tuning into the algorithm-based work of tech corporations, the government prioritizing the work of these companies and their policies to maintain public interest and government control, and continued spread of digital technology in politics and society, finally lets Silicon Valley collect a hold over what originally made Wall Street so powerful for all these years: the economy.

With the digital sector influencing consumer choice, and consequently the economy, the firms with the highest net worths became Silicon Valley companies, and naturally, Silicon Valley billionaires also approached what was historically controlled by Wall Street: concentration of wealth. Donors and lobbying are two very integral factors that impact not only elections, but also policies. If someone has the power over the finances and policies lobbied for, that corporation or sector has indirectly become an informal branch of government. Before the rise of tech corporations and their CEOs in government affairs, Wall Street maintained the upperhand in these areas, and still does to a great extent. For example, those who serve as Secretary of Treasury tend to either come from or go into a background of Wall Street firm experience, including those who held the role in the past like Han Paulson, Timothy Geithner, and Robert Rubin<sup>17</sup>. This remains as only one of the ways in which Wall Street policies

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<sup>15</sup> Brian Fung, "Congress Grilled the CEOs of Amazon, Apple, Facebook and Google. Here Are the Big Takeaways," CNN (Cable News Network, July 30, 2020)

<sup>16</sup> Ghosh, Dipayan. *Terms of Disservice: How Silicon Valley Is Destructive by Design*. Washington, D.C.: Brookings Institution Press, 2020. p.252

<sup>17</sup> Gautam Mukunda, "The Price of Wall Street's Power," Harvard Business Review, March 27, 2019

evidently align with government priorities because of their internal finances maintaining similar interests as the finance sector. Wall Street's power comes from the idea that society, and more specifically the government, is "twisted to serve the interests of its most powerful group, further increasing that group's power in a vicious cycle"<sup>18</sup>. Combatting Wall Street's growing power over politics is often cited to be curbed by only systematic means like taxing financial transactions or directing financial investments to Main Street<sup>19</sup>.

But, Silicon Valley with its history with the government and rise of entrepreneurship, relevant policies that impact voters, and growing concentration of wealth, was able to harness that financial power into its own grounds. With the rise of tech corporations in Silicon Valley, such as those like Google and Facebook, the country also noticed new names joining the ranks of corporate multi-millionaire and billionaires which historically, were typically Wall Street C-suite executives. In 2016, it was reported that Silicon Valley outspent Wall Street for lobbying, spending almost \$49 million from the top five tech firms in the country, in comparison to \$19.7 million from the top five highest-valued banks<sup>20</sup>. Around the same time, the government also introduced the role of Chief Technology Officer, indicating the importance of technology, and indirectly Silicon Valley expertise, in Washington D.C. and within the government. By outspending Wall Street when it comes to lobbying, Silicon Valley corporations prove their point: they have control over the economy. In addition, the billionaires from these tech corporations also started becoming more invested in the political process, incorporating their opinions into policies with the power of money<sup>21</sup>. The reason why Wall Street, as mentioned earlier, was so integrated with corporate politics is because for almost centuries, banks on Wall Street had the power to control the economy, so it was necessary for the government to work with them. As Phil Angelides, former Chair of the Financial Crisis Inquiry Commission stated in an interview, the financial industry works with a flawed ideology where private and public interest intersect, leading to such huge influence in regulation policies<sup>22</sup>. This same ideology still holds, but now, there was a new financial powerhouse, and one that still greatly affected politics in more means than just financial interest.

Wall Street still remains very relevant in politics, but the recent developments of Silicon Valley's influence in DC indicate that the financial powerhouse of politics is slowly changing due to a trajectory of growth, innovation, and renewed financial priorities. What was once the primary focus of political business with banks and bailouts may now be replaced with digital politics and protecting tech policies first. The simple answer to the question guiding this paper is

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<sup>18</sup> Gautam Mukunda, "The Price of Wall Street's Power," Harvard Business Review, March 27, 2019

<sup>19</sup> Korten (2011) p. 35

<sup>20</sup> Saleha Mohsin, "Silicon Valley Takes Washington, Outspending Wall Street 2-to-1," [chicagotribune.com](http://chicagotribune.com) (Chicago Tribune, August 22, 2019)

<sup>21</sup> Olivia Solon and Sabrina Siddiqui, "Forget Wall Street – Silicon Valley Is the New Political Power in Washington," The Guardian (Guardian News and Media, September 3, 2017),

<https://www.theguardian.com/technology/2017/sep/03/silicon-valley-politics-lobbying-washington>.

<sup>22</sup> "Wall Street Lobbying," PBS (Public Broadcasting Service),

<https://www.pbs.org/wgbh/pages/frontline/oral-history/financial-crisis/tags/wall-street-lobbying/>.

that the financial and digital power that Silicon Valley corporations and CEOs hold are comparable to the Wall Street power, hence this dynamic shift in corporate politics. But, the reasoning for that power runs much deeper, when considering the history, rise of technology, and concentration of wealth in Silicon Valley, which are yet only a few factors of potentially many others. If there is something that can be taken from this analysis of what factors have been related to this shift, it is the following: Silicon Valley and Wall Street both bring unique value to American politics and political parties, but considering Silicon Valley's growing importance in Washington D.C., the odds of political figures choosing Silicon Valley over Wall Street in the future may be more often than not.

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